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FOR DECISION MAKERS

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The *BC's* spring issue is devoted to the most acute present problems both for the Baltic States and that of the European Union. Thus, three main items have been chosen for the *BC's* Baltic section; this time we decided, first of all, to address logistics' issues, which have become so important for the regional business development

Then, second, the *BC* touches upon main changes in the regional transportation situation: this time we publish extensive interviews with the three Baltic States transport ministers concerning their views on the future of transport sector in the regional economy.

And the third core theme in this section is the Baltic Economic Review, the analysis we regularly produce for our readers, at least once a year.

Then, there is something else. We have noticed that various psychological aspects of business activity have recently attracted serious attention among entrepreneurs. Do businessmen really need psychologist's assistance? Read our comment on p. 38.

In the *BC's* European Union's section the fourth, and final, article on the Union's financial integration is published; this time the theme covers financial supervision and control in the EU.

The complicated discussions in the EU institutions and the member states on the directive's draft regulating free movement of services which are going during last two years since January 2004, have coincided with other "protective" measures taken by the old-EU member states. It has produced a strange reaction among the latter, called "economic patriotism". *BC's* comment on the phenomena is published on p.40.

The *BC* is going to keep readers informed both about the "basic freedoms" development in the EU and the reactions in the old and new EU member states towards these issues.



Eugene Eteris,
The *BC's* International Editor

BALTIC STATES ADOPTED ENERGY DEVELOPMENT DECLARATION



During international seminar of energy experts in Lithuanian capital Vilnius in January, a declaration on further development of the energy industry in the Baltic States has been adopted. A special item about the need to prepare and implement common EU energy policy was included in the document by Latvian representatives at the seminar.

On March 8 the Baltic energy companies' leaders signed in Lithuania a memorandum concerning common project on a construction of a new nuclear power plant in Ignalina. The document lists concrete steps to be taken to examine the feasibility of the project. Those steps are to be completed by the end of this year to clarify all aspects related to construction of a new nuclear plant.

NEW OIL TERMINAL IN RIGA PORT

New oil terminal for light oil products' reloading, *Naftimpeks* has been put into operation at Riga port in early March. The terminal will start operating cargoes' transport after settling down all necessary customs and other formalities. The terminal construction costs reached 15 mln US dollars with the capacity of reloading 1.5 mln t of cargos annually. The company co-owner **Armands Sadauskis** said that they will have no problems with getting cargos for the terminal as another *Naftimpeks* co-owner had guaranteed deliveries. The company has also planned to build second and third stages of the project but a more specific timetable would depend on results of the terminal's operations. The largest of *Naftimpeks* shareholders (with 26% of shares) is a Dutch-registered *Afak Verzekeringen B.V.* company. Latvian businessmen **Raimonds Kisiels** and **Armands Sadauskis** hold 22% of stakes each and the remaining part belongs to a number of companies and individuals.

REDUCED EU FUNDING FOR RAIL BALTICA

Latvia counts on private investors in financing fast-train line "Rail Baltica", the latter have already shown interest in the project, country's Transport Ministry's deputy state secretary, **Andulis Zidkovs** said in February.

Speaking about the reduction of the funding for trans-border sections of large European transport projects, the Transport Ministry's official confirmed that the EU funds may not exceed 30% of the total project costs, anyway. He agreed that funding cuts might affect implementation of the project but not during the preparatory phase.

Latvian MEP's **Roberts Zile** argued that the European Council's decision to decrease three times the financing for



trans-border sections of large transport projects would directly affect only one project in Latvia, "Rail Baltica". The EU TEN-T program funding for the project is expected at 30-50% of the total costs. Without additional EU funds Latvia won't be able to finance the project from her own resources or those from the EU's Cohesion Fund. The EU leaders adopted the decision to cut fundings at the Council's meeting in December last year.

The fast-train line "Rail Baltica" is expected to link Helsinki, Tallinn, Riga, Kaunas and Warsaw.

LITHUANIAN GOVERNMENT TO BUY MAZEIKIU NAFTA SHARES

Lithuanian Prime Minister **Algirdas Brazauskas** has officially confirmed that the government had decided to exercise its "first-hand" rights and acquire 53.7% stake in *Mazeikiu Nafta* (Mazeikiai Oil) currently held by Russia's *Yukos*. "The government plans to buy the shares, this question has already been settled, and (*Yukos*) response should be normal," said Lithuanian premier.

THE BALTIC TIMES' 10TH ANNIVERSARY



Since the merger of the *Baltic Independent* and the *Baltic Observer* in 1996 the present weekly, *The Baltic Times* is making contemporary information about the three Baltic States available to English speaking readers. It has successfully found a niche in the Baltic media and is continuing to provide a valuable service for its readers.

Over the years the weekly changed its look but the issues covered have been always extensive, i.e. from culture, development, politics, to changes in governments, life in the EU, etc.

As the number of English speaking people increases in the Baltic, the role of *The Baltic Times* also expands; the paper takes pride in helping connect countries and serving as a link to the events and developments in the Baltic region.

While constantly growing and actively responding to readers' interests, at the same time evolving over time, the weekly continues to be a reliable source of contemporary information needed for its enlarging audience.

During ten years the weekly continued to offer the news that has been relevant and interesting to readers. Of great advantage is the possibility to read the weekly in the net.

The *BC*'s editorial staff wishes *The Baltic Times* to keep pace with the news development for many years to come. Let it live in the most interesting time in European history!

WHO'LL BUY BELARUS' POTASSIUM?

“The agreements made on transshipment of Belarus potassium fertilizers through Kaliningrad, including the agreements made between Belarus President **Alexander Lukashenko** and Russian President **Vladimir Putin** in Zavidovo, have in fact been broken on the eve of the active phase in potassium fertilizer sales,” said **Andrey Krayny**, director of the federal state unitary enterprise (FGUP) *Kaliningrad Sea Fishing Port*.



He said that Belarus' intention was actually to sell fertilizers rather than reloading them. Belarus officials said that in case of refusal they would take their cargos to Ventspils port in Latvia where they had been offered free terminal's possibilities.

During controversies with the ports' officials in Klaipeda and Kaliningrad over fertilizers produced by *Belaruskaliy*, large Latvian transit business company *LSF Holdings* has shown its intentions to build a special reloading terminal at Ventspils port and hand it over absolutely free of charge to *Belaruskaliy*. In return, foreign partners are expected to give up cooperation with the competing ports.

Lithuanian loading companies' representatives said that the latest Latvian's offer may be their winning step in retaining the port's cargo turnover on the previous level. *Klaipeda Stevedoring Company (KLASCO)* deputy commercial director, **Mecislovas Vitkauskas** said that the agreement between the companies operating in the Klaipeda port and *Belaruskaliy* was not signed as they were still negotiating the loading amounts, reported *Lietuvos ziniuos* daily.

Belarus' export of potassium fertilizers amounts to an average of 6 mln tons a year which equals to one-third of the entire Latvian foreign trade. Up to now no more than 15% of this amount was sent to Klaipeda, and Kaliningrad got even smaller share. But the situation is changing in recent years as both Klaipeda and Kaliningrad ports started offering more favorable terms to Belarus, reported press agency, *Agenstvo Biznes Novostei*.

TO WORLD ICE-HOCKEY CHAMPIONSHIP IN RIGA BY FERRY



Riga free port' Board of Directors signed at the end of February an agreement with the Estonian shipping company *Tallink*, which plans to launch a ferry service between Riga and Stockholm this spring, said the port's spokesman **Karlis Leiskalns**. The preparations for ferry traffic opening between Latvian and Swedish capitals will take about six weeks, and the first ferry is likely to begin on Riga-Stockholm route already in April. *Tallink* is expected to put the second ferry on the route before the 2006 World Ice-hockey Championship that will take place in Riga. The agreement with *Tallink* has been signed for a period of five years. The Estonian shipping company plans to carry about 170,000 passengers between Riga and Stockholm this year and increase the number of passengers in the coming years. Earlier *Tallink* founded in a Latvia a subsidiary, *Tallink Latvija*, and said that it might transfer its vessels under the Latvian flag.

LONG-ROAD TRUCKS APPEAR IN ESTONIA

The Estonian Road Administration and the Estonian Logistics Association in February have made a trial run of long-road trucks that were much longer than currently used in the country. Logisticians think that such trucks would expand Estonian transit sector' possibilities.

The logistics association thinks that long-trucks would reduce national economy's dependence on oil as Estonia would then get a solid share of high-priced household appliances' goods being transported between the Western Europe, Russia and China, reported *ETV24*. The tested long-road truck was 25.25 meters long, or 6.5 meters longer than permitted in most European countries including Russia. Finland and Sweden have opened their roads to long-road trucks but they are still not allowed in Estonia, even if they have special permits. Exceptions are made only in case of goods, which cannot be split into smaller parts.

BIG MONEY'S KNOCKING

Lithuanian businessmen have shown considerable interest in cooperation with Belarus, Lithuanian Ambassador to Belarus, **Petras Vaitekunas**, told *BELTA*. “Big money is knocking on our door,” he said at the reception on Lithuanian Independence Day. Lithuanian diplomat said that his country saw investments in chemical industry and construction sector



as the most prospective areas for cooperation. He praised the potentials for trade and economic development between Lithuania and Belarus and described them as “pragmatic”. As to the number of companies organized in Belarus using foreign investments, Lithuania ranks among top ten investing countries. By results of Belarus trade with non-CIS countries on 2005, Lithuania was on the 7th place by turnover of goods, on the 6th place by exports and on the 10th place by imports.

The head of Belarus Foreign Ministry's information department, **Andrei Popov** said that Belarus intended to develop further cooperation with Lithuania in priority areas that meet interests and needs of the people in both countries. “Cooperation between Belarus and Lithuania develops on several levels and in a number of areas and it is aimed at mutually beneficial solution of existing problems, e.g. transit, border checkpoints, transportation of Belarus cargos through Lithuanian territory, in particular its sea ports. These cooperation areas we regard as priority spheres in development of our dialogue with Lithuania. This is the policy we intend to follow in future as well,” said Belarus Foreign Ministry's official representative.

BALTICA-TRANSIT: RETURN TRIP TO KAZAKHSTAN



Participants of the regional meeting of the heads of the Baltic railway companies, which took place in Latvian capital Riga this February, expressed willingness to develop further the “Baltica-Transit” container train project, arranging return cargo transportation from Kazakhstan.

Latvian railway company *Latvijas dzelzceļš* board chairman **Ugis Magonis** told the press after the meeting that the first results of this work could be expected at the end of this year and “consolidated trains” will be transporting cargos also from China and other Asian countries.

Vyacheslav Manukhin, head of the *Transsibirskiy Intremodalniy Servis (Transsiberian Intermodal Service)*, which is the official forwarder of transit and export-import container cargos alongside Trans-Siberian Railway, said that “Baltica-Transit” would carry consumer goods and electronic appliances from China, cotton, tobacco, nuts and dried fruits from Central Asia and electric equipment from Kazakhstan.

At present “Baltica-Transit” container train makes two weekly runs on the route Kaliningrad-Lithuania-Latvia-Russia-Kazakhstan and further on, ensuring stable container cargo transportation from the Baltic Sea ports to the Central Asian countries. Last year the container train carried to Kazakhstan 7,000 containers, which is a 59% growth from the year before.

SEB BUYS A ST. PETERSBURG'S BANK

Swedish banking group *SEB* with the daughter banks in all three Baltic States, has signed an acquisition agreement about with Russian bank *Petroenergobank* based in St. Petersburg. On top of that, *SEB* has a representation office in Moscow and a leasing company, *SEB Russian Leasing* based in St. Petersburg.

GRINDEX WILL DOUBLE OUTPUT

Latvia's largest pharmaceutical company *Grindex* will carry out major production upgrading project in the near future. The company expects to double its output after investing over 7 mln euros in new production facilities' construction and installation of modern equipment.

Grindex will begin construction of new production facilities for “per-oral drugs” in the second quarter of this year. The company will also buy new pharmaceutical equipment. The new plant's production facilities would allow for production of more than two bln tablets and capsules a year.



In 2005 *Grindex's* profits reached 6.4 mln euros, which is 81% increase as to 2004; its turnover has increased by 30% to 32.221 mln lats. *Grindex* sells its products to 37 world countries.

LATVIA'S PAREX SELLS ITS INSURANCE BUSINESS

Norwegian company *Gjensidige Forsikring* has bought Latvian insurance company *Parex Apdrošināšanas Kompanija (Parex AK)*. *Parex Bank* owners **Valery Kargin** and **Viktor Krasovitsky** sold their shares in *Parex AK* to Norwegians for 23 mln euros.

Gjensidige Forsikring is the largest non-life insurance company in Norway and belongs to *DnB NOR Group*, which was created in 2003 after a merger of two largest Norwegian banks.

Norwegians have entered Latvian banking sector as well, e.g. last year they began merger negotiations with Germany's *Norddeutsche Landesbank* which automatically made them co-owners of *NORD/LB Latvia* bank.

“RUSSIAN VIEW” ON EUROPEAN NEWS



New Russian-language Internet portal *www.lenta.info* has been launched, offering European news in Russia. Its principal activity is based on the motto that being aware of certain logical patterns can compensate for not knowing some facts. Latvian non-governmental organization Russian Club president, **Alexander Gaponenko**, said that the project had originated from the absence of a common mass-media for 20 mln Russian-speaking people across Europe and the lack of “Russian view” on global and European events that is different from those perceived by residents in Russia.

The portal's technical consultant, **Andrey Shmakov** said that at least 5,000 hits are expected daily during the initial project stages. The portal has a special feature, i.e. at one click a user can receive information from several sources at once. The authors of the project hope that this feature will help them to compete with other information sites. The target audience is Russian-speaking people in the Baltic States, Belarus and Ukraine; entry to the Western and Eastern European countries is planned in future. “Our main goals, Mr. Gaponenko said, have been, e.g. to expand information exchange between Russian-speaking people in Europe, to provide unbiased coverage of major events in Europe and in the world, to supply constantly updated latest information. We think that such a public mass-medium should ensure communication between Russian speaking population in Europe, and with people in Russia.”

RIGA BLACK BALSAM IS A HIT IN MOSCOW

Riga Black Balsam, Latvian herbal bitter has been awarded Grand Prix at the international fair “Prodexpo 2006” that took place in Moscow in February. “During its 254 years' production history, Riga Black Balsam has received quite a number of different prizes and each award is special for us”, said **Inese Eglite**, marketing director of the Latvian bitter producer, *Latvijas Balzams*.



Riga Carriage Building Plant



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Competition becomes a



AINARS SLESERS: Ex-minister of Transport, Latvia.



PETRAS CESNA: Minister of Transport and Communications, Lithuania.

By Olga Pavuk

Three ministers responsible for transport industry in the Baltic states, i.e. **Ainars Slesers (A.S.)** of Latvia (recently resigned), **Petras Cesna (P.C.)** of Lithuania and **Edgar Savisaar (E.S.)** of Estonia are certain that business activity will remain in the future the main driving force behind competition among transport companies. In the interviews to the *BC* they revealed their views on transport development in the Baltics.

BC: How do you assess transport industry development in your countries during last 15 years?

A.S.: We have succeeded in achieving recently modest growth in total transit although the structure of transit cargos has greatly changed. Under these conditions Latvia must look for other transit freight markets and offer additional services. When looking for new markets, emphasis should be put on cargos originating in Asian countries, and providing new services in logistics.

P.C.: I regard it as the time of successful modernization. Every year we can witness positive changes in the industry; but if you look back at the last 15 year, you can surely see qualitatively new stages in transport development. Multi-modal and inter-modal transportation, container and combination of truck caravans, information technologies, swift and quality service, competitiveness on the European and world markets — these are only some of the modern methods employed in Lithuanian transport sector.

Hundreds of millions of litas are spent on transport system modernization annually, and, as a result, its technical level is rising, gradually approaching the parameters of the leading European countries. All in all, the transport industry contributes about 10% to the country's GDP which is double

the Western European average, while employing only 6% of the Lithuanian labor force. These figures reflect dynamic sector's growth and its role in the country's economic development in general.

Here are some more interesting figures. The amount of cargo transported by the Lithuanian railways has doubled in the last decade; cargo turnover at the Klaipeda port has increased 1.7 times, and the number of passengers in the country's international airports has grown nearly 3.4 times. Road haulage keeps growing all the time accounting for 50% of all cargos in Lithuania. Railway cargo transfer accounts for 49% of all cargos, contesting the truckers. This situation is quite different from Western Europe where railway freight transportation is much weaker than road haulage.

E.S.: Transport sector's development has been closely connected to traffic safety and security, environmental protection, global competition and many other significant circumstances. Thus this field of activity has been more regulated than other sectors of the economy. As a result major work has been carried out in Estonia in harmonization of the transport-related legislation with the EU legal and institutional framework and *acquis communautaire*. The latter was the main condition in acceding to the European Union and we successfully coped with it. Many other legislative acts have been adopted for each type of transport, for roads safety and traffic control.

Stable national support system was established for the development of transport infrastructure network and its further integration into the EU TEN-T network, the basis of which is fair and transparent fiscal transportation policy. The latter guarantees the allocation of money from the state budget to priority infrastructure projects, including those with financial support from the EU. The restructuring of

fair play



EDGAR SAVISAAR: Minister of Economic Affairs and Communications, Estonia.

transport sector, development of transport corridors crossing Estonia and belonging to the trans-European network, raising the quality of the whole transport infrastructure, development of safe and non waste, ensuring order and legality in the whole traffic and transport process have been under constant control in Estonia.

To sum up, the key steps for business in previous years were the unification of the access terms and rules to the transport market, increase of traffic safety, improvement of transport regulation and unification with EU norms and standards, systematic improvement of transport infrastructure through modernization and construction works. As a result our transport system has integrated into the EU which is satisfactory in general. At the same time the development has not stopped; situation changes, requirements for the transport sector are increasing regarding traffic safety, security and environmental impacts. These issues are currently resolving in the EU through cooperation; and we have to keep in mind that Estonian transport should maintain its competitiveness.

BC: Could you mention some of the biggest projects carried out in the transport industry over the period?

Liepaja port's advantages:

Strategic geographic position

- Well-developed transport infrastructure
- Ice-free port
- Diversified port services
- Vacant areas for the future port development

Being one of the few ice-free ports on the Baltic Sea east coast, Liepaja port provides effective access to the markets in the Baltic region and CIS countries. The port is part of Liepaja Special Economic Zone, which gives it the status of a free port and enables to compete successfully with other ports in the region.

Companies operating in the Liepaja port offer full range of port services and cargo transportation, providing full transit cargo services on Latvian territory. Technical facilities at the Liepaja port make it possible to reload any bulk, liquid or general cargoes, serving vessels with deadweight capacity of up to 40,000 tons.

Liepaja Special Economic Zone administration

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LIEPAJA SPECIAL ECONOMIC ZONE



PORT OF LIEPAJA



A.S.: In the transport industry large funds are being invested in port and railway infrastructure projects: rail tracks have been renovated, old rails replaced and a new railway-transit station Rezekne-2 was built. The biggest EU-funded project worth 48 million euros has been implemented, upgrading the automated system for rail traffic control in the East-West railway corridor.

P.C.: Fifteen years ago Lithuania set for its transport industry the complicated task of establishing economic relations with the West, maintaining the traditional links with the East, building over a comparatively short time transportation system that would compete on the international market. It is obvious that only modern, fast means of transport can provide swift and quality services in freight and passenger transportation, effectively ensuring traffic safety.

To achieve those objectives, the National Program for Transport Development was established with adequate investment plans. The biggest project under this plan was "Via Baltica" highway crosses Lithuania from the North to the South, linking Warsaw, Kaunas, Riga and Tallinn. Transit goods' flow on this highway is grows constantly and has reached 3,000 trailer trucks a day.

Another interesting and fruitful project was the shuttle freight train "Viking" launched between Klaipeda and Odessa as a result of international cooperation between Lithuania, Belarus and Ukraine. The "Viking" train carries containers' freight and delivery is performed from the station of shipment destination right to the door of the consignee. This project significantly contributed to growth of cargo flow in the North-South direction. The groundwork laid in approving technical documentation for the "Viking" facilitated the birth of another multi-modal shuttle railway project "Mercury", which is running on the route Kaliningrad-Klaipeda-Minsk-Moscow.

E.S.: It is extremely difficult to point out the most significant projects as all types of transport have achieved significant results and it is impossible to distinguish one among the many. In line with the rationalization of works in the ports the state control and development of vessel traffic services' structure have been the major achievements in maritime sector. Then, Estonia joined the European Common Aviation Area on 1 January 2003 and became the full member of the European Joint Aviation Authorities; it was a major achievement aviation sector. The rapid development of ports and the establishing of new ports should not be forgotten either.

At the same time the completion of "Via Baltica" highway produced a positive effect on all three Baltic States (and probably considerably more our visitors); as a result the car travel from Tallinn to Iklā and from Tallinn to Narva is now much more pleasant than for example 10 years ago.

Some mistakes have been made as well, for example in privatization of railway infrastructure. It would have been better if we had used similar experience in England. But these are mistakes we usually learn from.

BC: How is the coordination being done for cargoes sent to ports and airports by various means of transport?

A.S.: Latvia's EU membership offers broad opportunities for the logistics and distribution business. Latvia's geographic position and EU member state status gives our country both the opportunities to provide transit service and possibilities of transporting/distributing Asian and Chinese

goods in Europe. The Chinese have confirmed their interest in building a railway corridor through Russia and Kazakhstan. Such corridor will help to cut delivery time to Europe down to two weeks as compared to sea transport. For Latvia it would mean new and profitable multilateral business contacts and projects that could facilitate bilateral relations between Latvia and Russia.

The Russian side has made the commitment to eliminate the discriminatory railway freight tariffs within two or three years. It would be a major step towards improving Latvian-Russian economic relations and would also increase Latvian ports' competitive ability. Cargo turnover at Latvian ports can be expected to grow by up to 20% a year.

E.S.: The issue remains somewhat unclear: if you refer to so-called modal shift, with the help of which the EU pursues to decrease the traffic jams on roads by directing goods' transit to the less-loaded rail and seaways, then national regulations could be of particular use. But this problem is not so much acute in less-populated Estonia as it is in the Western European countries.

About 10,000 t of goods moved through Estonian airports, 99% of which in Tallinn Airport. As this is so small cargo quantity, this does not need special coordination. Only the streets and roads with the traffic regulation are leading to the airports.

Oil and oil products transported by railway tanks make the major share of the goods moving through seaports. Coal, fertilizers etc. goods make the smaller part. The flow of these goods is regulated by multilateral economic contracts between trade owners, railway, port operators, marine companies etc. Provided these contracts are concluded in accordance with the valid legislation and national regulations, the intervention of the state is unnecessary. It might be economically reasonable to transport oil and coal by airplanes, although it is too expensive. At the same time it is profitable for example to transport mobile phones' parts by avia-parcel post, as other types of transport are too slow for that purpose. The main coordinating factor is still the strict profit accounts.

BC: Along which types of cargoes your country is ready to compete in the Baltics with Russian ports?

P.C.: Klaipeda port in Lithuania is ready to receive any kind of cargoes, except coal. After modernization of infrastructure this Lithuanian port can accept vessels with deadweight of 60-70 th t and draught of up to 13.5 m. The port terminals have been equipped with the most advanced technology and are fully computerized with a reliable security system.

As to competition with Russian ports, I can assure you that the equipment and potential advantages of our port outdo the facilities in the neighboring Kaliningrad port. Even Russian Transport Minister, **Igor Levitin** had to agree with the point during his visit to Klaipeda.

Business activity at Kaliningrad port is artificially increased by the Russian government's protectionist policy, i.e. setting such railway tariffs that carrying freight to Kaliningrad is two times cheaper than taking the same cargo to Klaipeda port. Let us compete without such artificial barriers so that consignors would be able to choose for themselves which of the routes is most profitable. Then we will see which port is able to attract the largest amount of cargoes.

As the competition between the ports on the Baltic Sea's east coast is very tough, every single ton of freight

matters to Klaipeda. The port responds swiftly and flexibly to any changes on the market and quickly adjusts to its requirements. Lately China and other Southeast Asian countries have shown interest in shipping their goods through the eastern Baltic ports. The Klaipeda port is willing to make concessions to potential clients. In 2005 we signed the “2K” project with the Russian Federation but the main condition of this agreement — reducing the difference in railway freight rates and leveling them out — has not been so far implemented.

E.S.: In free competition climate Estonian ports are able to compete with Russian ports regarding all types of goods. Only the Danish straits, which provide natural limit to vessels destined for our ports (not more than 18 m dead-weight), have made negative impact on the competitiveness of our ports. Differently, for example, from the port of Murmansk where major ocean ships could be therefore serviced. Otherwise, we have equal conditions at all other ports of the Baltic Sea and Gulf of Finland, including the Russian’s ports.

We should consider three things: the optimum price of the service that we offer, its high quality and reliability. If these parameters are better than in the Russian ports, we

have a competitive advantage and goods’ owner would choose our ports.

In recent years we have witnessed the trend that investments coming from Russia increased together with the flow of goods. That provided the guarantee that the goods transport through the Estonian ports has had some long-term perspective.

The state is to see that none of the abovementioned factors deteriorate and if needed, the tax policy is to be used to stimulate infrastructure development or improving ice-breaking, as the ordinary port’s operations depend greatly on the winter navigation terms.

Today major part of the cheaper products’ transit flowing through the ports are oil products, coal, fertilizers etc. The share of so-called more expensive goods is still relatively small. We would be much more satisfied if the value added logistics, e.g. container-transport, transit of consumer and electronic goods, transit of cars both to the east and west would develop faster. These shipments would be more advantageous regarding the quality of service and reliability. The work in this field is going on.

BC: What are your forecasts for the industry development in the next 5-10 years?

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A.S.: There will be steady growth in transit freight from the countries in the Far East and Asia in the next few years. At least one regular freight railway route will be set up between China and Latvia. In 2013 the freight turnover by rail will increase to 100 mln t a year. New logistics parks and distribution centers for cargos from Europe as well as from the CIS countries and the Far East will be set up near the major Latvian transit hubs, i.e. Riga, Ventspils and Liepaja ports and railway junctions in Rezekne and Daugavpils.

Territories in the Riga port, which remained vacant so far, will be developed and the necessary infrastructure will be built. Ventspils and Liepaja ports will also implement new solutions for freight transportation in relation to the port operations, new vehicle and railway's access roads will be built. All major public highways will be renovated by 2013 and the construction of the highway along the East-West transport corridor will start.

P.C.: We hope that freight and passenger transport will continue to grow in future, production processes will be upgraded to a greater degree, working conditions will improve and transport safety will be ensured.

We count on the investments from the EU structural funds for specific improvements in Lithuanian transport system. Over 1.3 bln euros will be spent on transport infrastructure improvements during the next seven years (2007-2013). It is big investment for a country with a population of about three million.

We expect to start building already in 2008 the "Rail Baltica" European-gauge railway from the Lithuanian-Polish border to Kaunas. We plan to upgrade the Kaunas-Vilnius railway stretch so that trains could develop speed of up to 160 km/h.

We would like to renovate by 2015 the sea port in Sventoje that could be used by yachts and other leisure boats. We also plan to build a new deep-water port on the artificial island not far from Klaipeda.

Vilnius international airport will be completely renovated in a couple of years and the number of passengers using this airport will reach 2 mln by 2013. The airport in Kaunas will acquire a new strategic position and its capacity will grow over 1 mln passengers by 2013. The international airport in Palanga will also change radically after the modernization. And it is not all as Lithuanian transport sector has ambitious plans. I hope that they all will be implemented successfully.

E.S.: Most forecasts are often hopeless; but they might be necessary in order to work out the possible prospects. Otherwise all measures and activities could be dispersed and the development of the whole field became chaotic. Our vision of the Estonian transport's future is the following: the transport system meets the needs of people and goods, thus being effective, safe and environmentally-friendly. On the basis of this vision we work out the transport development plan for the years 2006-2013. In order to achieve the objectives attention has been paid to the numerous sub-aims. Hereby I provide some of the most significant:

- Transport policy planning, application and enhancement of supervision system.
- Modernization of state-owned infrastructure.
- Decrease of transport sector's negative environmental impacts.

- Changing the use of public and city-transport making it more comfortable and popular.
- Making transport networks as safe and secure as possible.
- Making more efficient operations on the transport market and increasing international competitiveness of the Estonian transport companies.

These activities within the coming 5-10 years should guarantee that our transport system meets our needs.

Due to Estonian's small territory and population road transport remains the main type of transportation for internal needs. Cross-roads' construction on intensive traffic conjunctions will go on. Thus, road transport repairs on the root Johvi-Tartu-Valga have started with four counties' participation. As the member of the European Union Estonia is to follow international passenger and goods transport rules and develop increasingly within the TEN-T network its ports, airports, railway infrastructure etc. The border crossing between Russia and Estonia, which has become an eastern border of EU, will be significantly simplified regarding rail and road transport.

Negative external impacts can affect consumption of transport services. The model of external transport sector expenses assessment is being developed providing adequate information for the decision makers on different external types of transportation. The national policy favours the use of transport services with lower negative external expenses, considering "the user pays" principle. National programs are launched to support the working out of low- and non-waste transport technologies.

Public transport service is considerably based on quality. Regular electronic information and ticket sales systems will be installed for mainland public transport. The system of public transport planning will be created using the same operational standards all over Estonia and efficient cooperation is to be developed between different types of transport.

We plan to relaunch passenger train traffic functional in the suburbs of Tallinn on the routes Tallinn-Tartu and Tallinn-Narva. By 2016 the Rail Baltica railway connection in line with the EU standards will hopefully be completed which would enable to travel from Estonia by express railway to Western Europe.

We are going to improve transport system training and education to further increase traffic safety. More attention is to be paid to traffic safety and security in line with increased infrastructure investments. The state's investments into railway infrastructure are also mainly orientated to transport safety. Special attention is paid to solving problems on dangerous railway-road crossings.

Navigation and communication equipment in aviation and maritime sector will be developed to the level which ensures the transport service with high level of safety and security. Also the supervision over the infrastructure and rolling stock will be considerably improved. Major part of hazardous loads will be directed around heavily populated districts.

More honest competition rules will prevail in transport services' market. Both legal background and supervision of executing transportation rules will be strengthened.

The main drive for competitiveness among transport companies in future will be business activity. But the government, at the same time, observes the situation in maritime sector, analyses the impacts of old merchant ships on economy and employment. •

Rezekne railway junction: new opportunities

State Joint Stock Company's *Latvijas dzelzceļi* (Latvian Railway), Chairman of the Board, Mr. Uģis Magonis (U.M.), has told our magazine about the issues to be solved in order to make container train "Baltika-Tranzit" fully operational, as well as about other Latvian Railway's projects.

BC: How is the container train "Baltika-Tranzit" project advancing?

U.M.: Railway companies of the three Baltic countries are participating in the project. Their responsible officials discussed perspective developments of the "Baltika-Tranzit" project in Riga this February. Our strategic task is not only to transport goods from Latvia to Kazakhstan, but further on as well, e.g. to China, Iran, and Afghanistan. Russian company *Transsiberian Intermodal Service* is providing train operator's functions.

In 2003, when the project was still in its developing stage, there was quite a number of sceptics regarding the project's validity. Now we can see however, that we have made the right choice and container traffic has brilliant perspectives; the results of the previous year's work fully prove that. Amount of transported goods has risen by 59%, which in real terms means 7 thousand containers. The profit for the Latvian Railway's participation in the project is obvious, as container transportation is valued several times higher than other cheap loads as coal or fertilizers.

Main project's aim is to offer our clients convenient and reliable services. Therefore the principle of train organization and management is the following: goods are collected in Ventspils, Riga, Klaipeda, Tallinn and Muuga ports and then are loaded on train, which is formed in Rezekne, the closest point to the Russian boarders. Further on the goods are transported, having priority in moving, with the speed of 1000 km/day or 40 km/hour (against common 200-250 km/day or 8-10 km/hour) to the Central Asian countries. Thus the trip to Kazakhstan takes 4.5 days.

Then the load is delivered to the client/recipient's warehouse. The major part of containers is delivered to Kazakhstan: more than 70% of the total number, 12% is destined for Uzbekistan, 10% — to Kyrgyzstan and 2% — to Tajikistan.

The containers' goods mostly originated in North America (around 70%), 10% — in South America and Africa, remaining 20% are from European countries. Containers from various parts of the globe are delivered to the Rezekne junction through Baltic coun-

tries' ports. Latvian ports' share is 67% of the train's capacity, Estonian ports provide 29% and Klaipeda a small share of about 4 per cent.

BC: What is to be solved for full load of a container train?

U.M.: Our major concern is that container train on its way back is almost empty. Therefore the main task today is to make the goods turnover "both-sided". We think that this is quite a realistic task as the interest in transit goods development between Baltic and Asian countries has been upheld at the governmental levels (during top-level visits to China, Kazakhstan and other countries in the Middle Asia) and in a number of intergovernmental agreements. The activity of the Latvian Railway's logistics department must be mentioned as well; its representatives are already working in these countries. As we have predicted, containers could begin returning back fully loaded already by the end of this year.

BC: Today the container train runs twice a week. What can be done in order to establish daily transportation?

U.M.: The problem is that Middle Asian countries do not have much to offer for container transportation besides cotton, textile goods and tobacco. Of course, we take into consideration growing development in China; some agreements between *Transsiberian Intermodal Service* and Chinese transport authorities have already been made.

Although railway transportation is more expensive than the sea routes; by the latter most Chinese goods are transported. But the "Baltika-Tranzit" has a certain advantage, i.e. that of speed. Various experts have pointed out that inefficient delivery was the main drawback in cooperation with the Chinese manufacturers. It is especially relevant regarding clothing or other fashionable and so-called seasonal goods.

Our colleagues from Russia have assured us that from technical point of view everything is ready for the train to run daily.

BC: The first freight train from Russia arrived at the new Rezekne II reception yard this March. Can you tell us about the particulars of this project?

U.M.: It was an event highly significant both for railway operators' activity and con-



sequently for the whole Latvian economic development. Putting this transport junction unit into operation has widened our transit opportunities. Railway junction in Rezekne is remarkable for being a part of the East-West transport corridor (as the trains from Russia to Latvian ports proceed along that way) and the North-South transport corridor (e.g. trains from St. Petersburg to Vilnius and further on to Warsaw, Lvov and other European cities). As soon as trains at this junction cross the EU border, apart from a regular technical control customs' inspections and other documentation and paperwork registration is performed. And only after that the train-cars are being coupled to the locomotives and sent to destination addresses.

The new reception yard consists first of all of almost 9 km of rails, with six tracks receiving trains and cars with various goods. On top of this, we have offices for various technical services including modern equipment for checking wheel pairs and carriages. It is very important that the length of these railway-tracks allows for receiving trains with lengths of up to 74 carriages. Before the new reception yard was built in Latvia, these long-type trains could not be handled.

The reception yard's construction has been accomplished in less than two years and the costs exceeded 10 mln euros with about 75% of all expenses covered by European funds and the rest by *Latvijas dzelzceļi*' own investments. It can be firmly confirmed that the implementation of such a large-scale project has been an important step in the direction of improving Latvian transit transportation's competitiveness advantages towards improving economic efficiency of the EU's eastern border transport connections. •

Latvia: turning Russian cargoes towards the EU border

By Olga Pavuk

The term "transport logistics" is frequently being used in Latvia in its narrow sense, i.e. concerning mostly freight and goods' movement. From the point of transport infrastructure and logistics potential, Latvia has all the means to become a major distribution center between the EU and the CIS. The political will is all it would take to make Russian partners interested in transporting cargoes through Latvian territory.

LATVIAN "COMPANY HOUSE" CONFIRMS

With the traditional *LURSOFT's* assistance to our magazine, the *BC* was able to take a look at the Latvian transport industry from the viewpoint of the companies involved. *LURSOFT* is the company which runs the Latvian Business Register database ("Company House"). The figures quoted in the article have been taken from companies' records in 2002-2004.

According to Latvian "Company House's" confirmation, over 3,000 companies are actively working in transportation sector and related fields. Their total turnover in 2004 was over 551 million lats. During the period from 1991 to 2004, about 200-300 companies entered the market annually (e.g. 194 — in 2003, and 232 — in 2004). According to official records, the transport industry employs presently more than 27,000 people.

The biggest number of Latvian companies (2,200) is involved in the road haulage transport, 13 companies in railway-freight, 35 companies — in water transport and 4 companies work in the air carriage. About 900 companies are involved in "related to transport" activities, e.g. operation of terminals, warehousing, cargo clearance, etc.

Quite notable that turnover of motor-trucking companies in 2004 (reached about 283 million lats) was higher than the turnover of railway companies (171.7 million lats). At the same time, the number of people employed in the road transport business (over 9,000 people) is 1.5 times less than those employed in railway transport (14,300 people). These figures are without auxiliary business-service in ground transport, the latter has generated additional 18.1 mln lats in turnover and a work force of more than 2,000 people.

Yet, the official statistics has failed to depict a real situation. One shall take into

account also the shadow transportation which according to various estimates cover from 20% to 60% of turnover in Latvia. In a survey carried out by Finnish reseachers in the Baltic States in 2003, more than one-fifth of those working in the transport sector admitted that they received their wages in cash, i.e. "in envelopes" without any taxes' payments. The survey also showed that every tenth employee in Latvia worked without an employment contract, and the trend was growing. The situation is typical, in particular, to small and medium-size businesses, which prevail in the transport industry.

ACCORDING TO OFFICIAL DATA

During nine months's period in 2005, about 44.4 million tons of cargoes have been carried by rail in Latvia, which was 5.1% increase as to 2004. Most of the cargoes, i.e. 38.9 million tons were international ones (5.3% growth on a year-to-year basis), and 78.3% of all international cargoes or 29.8 million tons were delivered to the

Latvian ports. The amount of cargoes removed from ports by rail was 800,000 tons, a decrease by 13.9% from nine months in 2004. In 2005 about 47% of the total cargo turnover by the state-owned railway company *Latvijas dzelzceļš* consisted of Russian cargoes and 34% of Belarus cargoes, the latter mostly oil products and mineral fertilizers. About 54% of all cargoes delivered to Latvian ports by rail were destined to Ventspils, 41% to Riga and 5% to Liepaja port.

Freight transportation by road carriers reached 37.2 million tons in nine months of 2005, growing 9.7% from the respective period in 2004. International road haulage amounted to 3.5 million tons (about 32.5% growth). The biggest growth, i.e. by 2.2 times to 800,000 tons, has been observed for freight trucks with foreign registration. Export cargoes increased 10.8% to 1.5 million tons.

MAIN QUESTIONS OF LOGISTICS

Aivars Taurins, Latvian Association of Logistics and Customs Brokers' Board chairman, assisted the *BC* in better understand the transport logistics' situation in Latvia. Mr. Aivars Taurins' analysis is of great help in finding answers to main issues in the "logistics' chain": (I) which way the cargoes are transported; (II) what kind of transportation means the cargo is carried

TRANSPORT LOGISTICS SEGMENTS

(IV) Cargo flow management

- System (concept)
- Network

(III) Freight delivery logistics

- Forwarding
- Brokers

(II) Transportation of cargoes and goods

- Transportation means
- Warehouses

(I) Infrastructure

- Motor roads and railroads
- Sea ports and airports
- Warehouses, terminals

by; (III) what is the cargoes' destination; (IV) how the cargo flows are managed.

According to Mr. Taurins, the term "transport logistics" is frequently being used in Latvia in its narrow sense, i.e. concerning mostly freight and goods' movement. "I think that logistics is the guiding principle by which you carry the "right goods" to the right place in the right time. All three factors are absolutely mandatory," he said.

Discussing the logistics from the perspective of the abovementioned scheme Mr. Taurins said that transport infrastructure definitely existed in Latvia, notwithstanding poor condition of roads and problems at the sea ports. The carriers (motor, railway and air) have quite an adequate fleet of modern transport. According to "Latvijas Auto", Latvian association of road carriers, the truck fleet in Latvia increased steeply by 25 percent in 2005, reaching 8,000 trucks at the end of the year, which is by 1,000 trucks more than in 1998, the best year in Latvian international road haulage history. And 86% of this fleet is ecological vehicles with engines meeting the Euro-1 and higher EU standards.

Mr. Taurins thinks that problems appear in the third phase of the logistics chain: "Today it is easier to deliver a cargo to Estonia than to clear transportation papers for import to Latvia". Another problem is related to Russian import: the paradox lies in the fact that zero VAT rate applies to goods circulated within the EU countries; therefore, as soon as it is easier to clear papers for Estonia, so the latter clear the import papers from Russia in Latvia and then Latvian truckers transport imported cargoes (this time without VAT) through Estonian customs. "Our lawmakers fail to see the loss that is thus inflicted on Latvian business and State Treasury," says Mr. Taurins with resentment.

As one of the Latvian road carriers told the *BC*, it is, in general quite easy to work in Estonia than in Latvia. The controlling authorities in the Estonian customs operate more flexibly and with greater tolerance than Latvian tax people.

LACK OF SERIOUS CUSTOMERS

Many truckers, forwarders and brokers feel discomforted by increasing activity in Latvia on part of large companies operating within the complete logistics chain. There aren't more than ten of them in the country. "To create such modern logistics chains, one needs quite big human and financial resources," says Mr. Taurins, who represents not only the association of logis-

tics' experts, but also *Schenker* company. Yet he thinks that smaller businesses should not fear working with larger companies: "We are open for cooperation with foreign forwarders and brokers alongside our logistics chain to mutual benefit".

There is a lot of deliberations concerning shortages of large logistics centers in Latvia. Mr. Taurins thinks that "there is no such vacuum in the country at the moment." Almost all large companies are building logistics centers but their projects are based

on the amounts they are prepared to handle for the customers. The national plans for transportation sector's development have not been taken into account in creating logistic centers; in fact, there are no such plans. There is only the Latvian Transport Ministry Action Plan for 2007-2013 that still needs to be approved by the Council of Ministers. Mr. Taurins said that politicians are afraid to take the responsibility for development of the sector which is so important for Latvian economy. Still, there

CARGO IMPORT-EXPORT SHARE AT LATVIAN PORTS, TH T

	2004	2005	% to 2004
All ports total			
Outgoing cargoes, total	54,100.8	55,890.3	103.3
Including:			
Oil and oil products	21,634.2	20,517.3	94.8
Coal	13,357.8	15,343.1	114.9
Incoming cargoes, total	3,299.5	4,151.6	125.8
Including:			
Containers	861.7	972.9	112.9
Roll-on/roll-off cargoes	699.1	790.9	113.1
Ventspils port			
Outgoing cargoes, total	27,111.8	29,034.2	107.1
Including:			
Oil and oil products	16,657.3	16,787.4	100.8
Mineral fertilizers	4,472.5	5,138.0	114.9
Incoming cargoes, total	693.5	828.8	119.5
Including:			
Oil products	16.1	297.3	18.5 times
Roll-on/roll-off cargoes	154.7	264.9	171.2
Riga port			
Outgoing cargoes, total	22,157.9	22,045.6	99.5
Including:			
Coal	9,414.4	10,713.7	113.8
Timber	4,370.4	3,832.8	87.7
Incoming cargoes, total	1,833.4	2,383.5	130.0
Including:			
Containers	835.7	950.5	113.7
Construction materials	108.4	533.9	4.9 times
Liepaja port			
Outgoing cargoes, total	3,792.3	3,766.4	99.3
Including:			
Grain and grain products	324.5	748.9	2.3 times
Timber	781.9	729.5	93.3
Incoming cargoes, total	681.8	742.0	108.8
Including:			
Roll-on/roll-off cargoes	331.3	223.3	67.4
Grain and grain products	167.9	262.9	156.6
Small ports			
Outgoing cargoes, total	1,038.8	1,044.1	100.5
Including:			
Timber	791.3	743.2	93.9
Wood chips	177.5	198.9	112.1
Incoming cargoes, total	90.8	197.3	2.2 times
Including:			
Bulk cargoes	43.2	171.6	4 times
Fish	27.3	22.7	83.3

Source: Central Statistical Bureau of Latvia.

is an example worth emulating, i.e. Riga airport that has started to function in its full capacity after reducing transport duties; new terminals and access roads are being built around the airport and much of it is to the credit of country's Transport Ex-minister **Ainars Slesers**.

As to the state's participation in transport development, Mr. Taurins said: "Regretfully, only one-third of all the necessary things have been done so far; the government could have done three times more." It is not enough to write down a strategy or organize "Green Corridors" on the border with Russia. It is necessary to ensure that there is a sufficient amount of cargos for processing as currently there isn't enough work for ports, railway, or truckers. "There are enough cargoes for local transportation but what we badly need is major big customers. Thus, for example, a contract with a big Chinese company would amount to a half of the aggregate turnover by all Latvian logistics companies," said Mr. Taurins. "Latvia does not have a network that would be able to handle new significant cargo flows. What can be done about it? It is not enough to raise money and invest it in a large logistics center. We need the state to define a strong stand in the development of ports and transport infrastructure. But first of all we need tax brakes that will stimulate freight traffic to us. It will take political power to turn Russian cargos towards Latvian borders that today have become the EU borders?"

ON "RUSSIAN-EU" BORDER

Latvian press frequently mentions land development stories at borders' in which both well-known ordinary people have been involved. Some bought the land for speculative purposes, some were willing to make use of it to their personal and pub-

lic benefits, as well. But so far no worthwhile logistics projects have been carried out. At the end of last year *Parex Brokeru Sistema* (Parex Broker System) began *Austrumu kravu terminālu* construction at the Eastern Freight Terminal that acquired 5 hectares of land adjacent to the Terekhovo border checkpoint. The facility would have a parking lot for 125-130 trucks, a hotel, a customs warehouses and a small vehicle service station. The construction works had to be suspended because of winter frost but **Janis Kavarskis**, one of the three co-owners of the would-be terminal, said that the facil-



AIVARS TAURINS: One shouldn't fear Russian money, what we need is simple reviews ensuring mutual benefits.

ity would be put into operation in the end of 2006 or early 2007. Construction of the first stage (without access roads) would cost about 3 million lats and is financed by Parex Bank. Support from the EU funds is also expected.

An interesting solution for development of border area territory, i.e. organization of the *Terekhovo* logistics center with

participation of the local government has been suggested by *Latgales Finansu un investiciju kompanija* (Latgale Finance and Investment Company) president, **Alexander Grishulenok**, who also owns a plot of land near the border checkpoint. Other land owners in the border area were not unwilling to comment on the landuse.

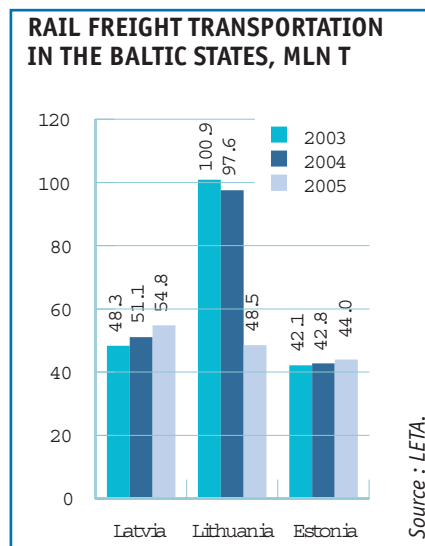
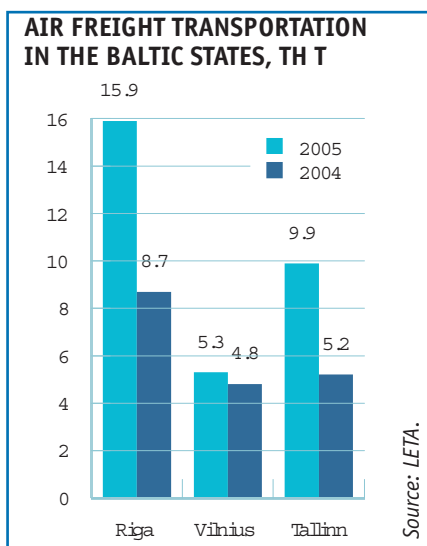
THERE ARE PLANS...

Mr. Taurins suggested several ideas for using the border territories. For example, organization of assembly plants in the EU territory would be advantageous as customs duties on spare parts imported from Russia are lower than the duty on finished products. Or a packaging line for various goods, according to the EU standards could be arranged in Latvia; or a plant for assembling furniture (or other products) imported from different Russian regions as well as organizing storage and distribution of products according to the orders from the EU customers. The same operations could be performed for goods and products aimed for export from the EU to Russia. **Raimonds Toms**, director for foreign relations at the Latvian National Association of Freight Forwarders (LAF) and secretary general of the National Association of Latvian Shipbrokers and Shipping Agents (NALSA), added to this list of ideas another one, i.e. construction of hotels, parking lots, service centers, etc. In case of a good-quality project, business people can count on receiving money from the EU structural funds for infrastructure development.

Mr. Taurins thinks that removing VAT imposts' barriers might be the first step towards implementation of all these ideas: "Local customs clearance system in Latvia is very good and Latvian customs' brokers are best in Europe. We have to make the Russian side be interested dealing with us, to create opportunities for Russian capital working in Latvia. One shouldn't fear Russian money, what we need is simple reviews ensuring mutual benefits?"

A CERTIFICATE FOR EACH FORWARDER

Speaking about problems encountered by forwarders, Mr. Toms said that Latvia was one of few European countries where forwarders were being certified and where the certificates were issued by on the level of Council of Ministers. The practice had showed that the certification was necessary to protect customers against lack of professionalism and forwarders against dishonest civil servants.



Mr. Toms pointed out several problems that had to be “fought” recently. The year 2004 brought large loss of veterinary cargos, which were diverted instead to Klaipeda port because of slow actions from authorities; it is not that easy to bring back these cargoes to the Riga port’s routs. The year 2005 was marked by the debate on issue of visas and migration. It is absurd but up to now one has to spend ten days in getting Latvian visa in Moscow while a Schengen visa is issued in two days. In 2006 another problem common to all business people, including forwarders and logisticians, needs to be solved. “We are waiting for the government to say its word and bring the personal income tax rate down to 15 per cent, which is the level of present corporate income tax”, said Mr. Toms. “It will create an impetus for increased competitiveness and enable the transport industry to attract more services by the outsourcing principle. We would like to see more cargos with high added value shipped through our ports”.

WHO WANTS TO BE A LOGISTICIAN?

There are three higher education facilities in Latvia that prepare logistics experts. All curriculums for higher education in logistics are for so-called professional training. The Institute of Transportation and Communications educates future specialists in transport and business

logistics. It is the only private university offering PhD-level studies in Engineering Science for telematics and logistics. Riga Institute of Aeronavigation trains economic managers for work in transport industry (professional grade “Organization of International Transportation”) which actually means transport logistics. Bachelor studies at Riga Technical University start with a two-year-Level-1 professional education program; but to get a higher professional education students have to complete two more years in the specialty of Economics with majors in Business Logistics and Transport Economics.

Logistician’s professional wages in Latvia are much lower than in the West, so a starting salary at a small local company could be at the minimum wage. Logisticians in an international company can get much more, e.g. about 200-300 lats up to 1,000 lats and more a month. Logistics’ education in Latvian higher education establishments has been accredited not so long ago, therefore at present posts of logisticians are occupied mostly by people without special education but prior legal, economic or technical training is required. International businesses in Latvia are expanding and it needs good specialists. The main requirements are work experience and Latvian, Russian and English language skills. Logistics is the sphere where one cannot do without prac-

tical knowledge, therefore in order to fit for a new appointment it is better “to look around” while still studying.

“TRANSIT” MILLIONAIRES

About 50 people on the list of Latvian millionaires earned their millions in the transportation and transit business. The list includes popular names that presently represent or used to represent the oil-transit business, such as businessmen connected to Ventspils port, i.e. **Aivars Lembergs, Janis Blazevics, Mamerts Vaivads, Igor Skok, Vladimir Solomatin, Oleg Stepanov, Gennady Shevtsov**, fuel dealers **Alevtina Moroz, Viktor Shkuratov** and many others. Among the ranks on this “business elite” list is Transport Minister Ainars Slesers, the most “popular in the press” millionaire. •

ROAD HAULAGE IN LATVIA

Year	Number of trucks in international road haulage	Number of trucking companies working on the international market
1990	220	32
1991	560	70
1992	920	89
1993	1,800	163
1994	3,200	261
1995	4,900	443
1996	7,004	2,641
1997	7,039	3,119
1998	7,328	3,484
1999	5,366	2,623
2000	5,345	2,051
2001	5,413	2,002
2002	5,314	1,960
2003	5,558	1,732
2004	6,392	1,557
2005	7,956	1,990

Source: Latvian association of road carrier "Latvijas Auto".

FREIGHT BREAKDOWN FOR LATVIAN RAILWAY

	2005, mln t	% to 2004
Total	54.8	+7.4
Oil and oil products	21.2	+0.8
Coal	2.5	+37.3
Ferrous metals	1.8	+6.6
Timber	1.6	+6.2
Chemical products	1.2	+4.9

Source: LETA.

10 LARGEST TRANSIT COMPANIES IN LATVIA

By net turnover in 2004, LVL mln

Rank on Top 500*	Company	Type of business	Turnover	% to 2003	Profit	Number of employees
6	Latvijas dzelzceļš	railway transport	136.95	+4.53	1.845	12,976
27	Ekoimpeks	oil product export	55.96	+148.93	0.723	n/a
38	LSF Trans	bulk cargo transportation	41.26	+91.31	6.560	17
40	Alpa Centurms	freight forwarding	39.19	-7.39	0.328	38
44	Ventbunkers logistika	freight transloading	35.71	+56.39	17.439	n/a
73	Ventbunkers	transit services	22.64	+17.99	8.571	381
97	LatTransRail	freight forwarding	19.26	-19.13	0.052	15
111	Est-West Transit	transportation agency	18.08	+48.05	0.166	52
123	Agentura Baltreiss	transportation agency	16.43	+1378.39	0.009	n/a
132	Ventspils nafta termināls	freight transloading	16.01	+341.85	0.699	611

* Rank among 500 largest Latvian companies.

Source: LURSOFT/Dienas bizness.

Lithuania: first steps from a warehouse to logistic centers have been made

By Tatyana Komorskaya
Lithuania

There have been four so-called public logistics centers (PLC) in the state's transport development strategy. The Klaipeda PLC, which at its inaugural period about three-and-half years ago was deemed "unique in the Baltic States", has returned to the initial stage after a period of research and "attracting investors". The Vilnius PLC's development is still at zero-point level; though leading sectoral associations in the country voiced recently their active planned involvement in both centers. The same situation is with the Kaunas PLC; the fourth, Panevezhis PLC's development has not even started at all. Now for all non-governmental structures the main question is: do we have to start all over again after completely wasted 3 years?

Fundamental original PLC's creation ideas seemed quite serious; in fact something even started to happen. Theoretical reflections worked in the following way: in the enlarging European Union all previously established logistics' lines and schemes were changing — with the main transport policy and intermodality emphasis on modern logistic centers. Common opinion supported the idea that quite good opportunities for such centers existed in the Baltic States.

Thus, *Klaipeda PLC*, which has been most elaborate "on paper", was supposed to attract about 130-300 mln USD of foreign investments uniting about 180 companies directly or indirectly connected to transportation and logistics. Another advantage was that the center has been planned in Klaipeda free economic zone.

The project even received financial support from the EC's Phare-program according to which in 2002 Danish-Lithuanian venture *Klaipeda PLC* was created. The latter was aimed at assisting creating an infrastructure of international carriers which would "centrally-use" all logistics' services thanks to the nearest Klaipeda seaport and Palanga airport. At the plan's final stage local center would be tight up with 75 similar European centers.

Main ground for disappointment, it has been argued, was the issue of adequate piece of land, or better a lack of appropriate land. Both private and public "structures" wanted to acquire some cheap plots next to main roads and railways, with the possibility of further enlargement. In optimal solution, an airport and a seaport would be an advantage. Needless to say that the whole inception of such an idea

was hopeless. For example, besides governmental structures some 7 "associated" structures had been involved in establishing Vilnius PLC; they could not find adequate plots of land either.

It's difficult to believe that the lack of land was the main reason behind the failure in all four PLCs, as they were initiated at the main cities' territories. Most



ARVYDAS VAITKUS: Public logistic centers are an integral part of the national infrastructure; to manage these centers is an important function of the state.

adequate reason behind the failure seemed grounded in a half-year's back discussion on PLC's nature: whether they were to be private, public or public-private partnerships, and who's going to manage these centers? Debates are still going on; it seems that the government has lost interest in the idea though the country's leaders constantly acknowledged the need to use its favorable geopo-

litical contacts and geographical advantages for transit goods' processing.

Recently a permanent commission has been created to deal with PLC issues headed by Transport Ministry's secretary **Arvydas Vaitkus** who believes that PLCs are a modern phenomenon. He points to Germany where logistics started to develop only about 25 years ago and today the sector is quite elaborate.

Lithuania as a transit country is very much interested in big PLCs acquiring under one roof many companies. The advantages are not only in the "united" intermodality center and a warehouse but as well in other services, such as processing travel documents, etc. The price level is going to be competitive as well. According to Ministry's secretary, such centers are going to assist SMS's companies entering transport sector market.

A. Vaitkus acknowledges that "PLCs are integral part of national infrastructure; therefore it's obvious that managing these centers becomes an important state function providing guaranteed equal conditions for development for all business structures, not just some of them". To secretary's opinion, the idea is quite viable for the private sector's stable development, as well. He recognized the importance of the EU funds "to be explored in the public sector" underlining specific conditions of their usage.

The secretary argues that a proper PLC can not function without an intermodal terminal. In this regard, the best PLC example could be that of Klaipeda seaport where the land belongs to the state and is administered by a public entity and is leased to private companies. The port can process all kind of cargoes; the range of cargoes did not change greatly recently: dominating are crude-oil products, chemicals and Ro-Ro cargoes. Quite successful is cruise terminal, although, as A. Vaitkus reminds, the skeptics used to say that such investments were doomed.

PRIVATE SECTOR DOUBTS, CREATING SOMETHING OF ITS OWN

The *BC's* correspondent interviewed some non-governmental logistic development representatives in order to find out their attitude to PLC. Thus

Algimantas Kondrusjavichus, president of the Lithuanian national carriers' association voiced his opinion on the PLCs status in the way that "a public entity" could be the best solution for such centers, although the public management is not flexible enough. He thinks that PLCs' creation is "an urgent problem" as the PLC network would assist in attracting cargoes and increase Lithuanian prestige as a transit country.

It has to be admitted that although PLCs have not been quite popular, private logistic centers are developing successfully; though there are just a few really efficient ones. None of the existing private warehouses have been registered as a logistic center, though it's almost impossible to tell the one from another. Among the leading private companies are: *Girtekos*, *Vinges terminalas*, *AdRem*, *DFDS*, *Svorys* and *Trumina*.

Ad Rem group's general director, **Stanislovas Kozelas** admits that main difference is that "public/state institutions command while private business operates." There are already several private logistic centers in Lithuania and they function perfectly well. Thus, for example, he adds, "our company provides all kind of logistic services, including 3PL-types (three partners' logistics) which is a novelty in the country: we have, at first, to create adequate infrastructure for logistic centers and only then invite investors; otherwise they would not come".

He underlines, at the same time, that for the logistic center to develop efficiently there have to be strict rules, adequate management separated by sectors of activities, investments and developmental perspectives. State projects in this regard are not as efficient as private ones. "I do not see, he argues, solid and real perspectives for PLC development in Lithuania; decisions are very slow in implementation, i.e. it takes about five years from an initial stage to a final one".

Mr. **Darus Kazlauskas**, another private logistic center's director, *Autosabina*, admits: "it's quite clear that private management is by definition more effective than the public or mixed; it has been apparent to me while heading the logistic center. But at the same time, I approach PLCs as a positive step in the right direction, although PLC's management and administration shall be in the private hands".

There are, as usual, some people that do not want the appearance of competitors especially those assisted by the

state. Some warehouses and logistic centers' owners openly admitted in press that a growing number of centers (some of them without a clear functioning concept and proper tenants) could lead to sector's deterioration in the market. In particular at present, when logistic centers have to compete on price levels.

At the same time, the market needs complex logistic centers which would include such services as providing needed warehouses' temperatures and other technical parameters, quick and efficient operations, including paper-work, licenses, certificates and travel permits to the EU countries and Russia; these services are slowly getting pace.

Thus, *Girteka's* head, **Darus Krukus**, admits that "our refrigerator-warehouse would soon be enlarged to a multimodal warehouse, a unique one in the Baltics with wide range of services and existing potentials. There would be warehouses with all temperatures needed for special conservation of goods; we'd keep cargoes on both customs territory and the free functioning warehouses, including 3PL-type services".

Some figures are wellworth mentioning: it has been regarded a privilege in the past to have at warehouses customs authorities; resembling the EU practice, Lithuanian customs people abandon such practices. Lithuanian Customs Department revealed that

there are presently 139 warehouses, 21 cargo terminals, and one "free warehouse" in the country and customs authorities are present now at 111 warehouses and 11 terminals.

Director of "Lineka" carriers' operator association, **Vytautas Levitskas** argues that Lithuania is lagging behind other countries in creating PLCs by about 3 years. He is not very optimistic about a newly created commission, as there are, he admits, "no business-structures present, e.g. our association is not represented there".

But still the cargo routs have made their way to the country, though the EU funds are not actually working here. And the whole process of private logistic centers' creation has not been transparent enough.

Most distinct trend which presently carriers' operators are facing with is evident: the cargoes are getting smaller in size. Customers can not fill in the whole carload at once; the cargo's capacity is divided by 9-10 clients. Another trend — all goods are transported "in-bulk" and afterwards the goods are sorted out in the centers. As V. Levitskas admits, "the volume of goods is increasing; re-packaging is growing as well as that of cargoes' directions". It seems that a country is becoming a center for re-packaging cargoes due, in fact, to private capital's intentions in the first place. •

MAIN CARGO TRANSPORTATION DATA IN LITHUANIA, TH T

	2004	2005	% to 2004
Total cargo transport	102,363.3	111,537.8*	+9.0
By rail:	45,554.8	49,287.3	+8.2
Internal network	11,806.6	14,363.9	+21.7
International	33,748.2	34,923.4	+3.5
Including: Exported	11,589.9	10,249.2	-11.6
Imported	5,001.9	5,480.2	+9.6
Transit	17,156.4	19,194.0	+11.9
Road transport	51,456.1	56,500.0*	+9.8
Internal water transport	621.0	672.9	+8.4
Sea transport	4,724.8	5,070.0*	+7.3
Air transport	6.6	7.6	+15.2
Klaipeda port and Butinge terminal	27,477.7	27,892.8	+1.5
Including oil products	13,671.4	11,909.9	-12.9
Other goods	13,806.3	15,982.9	+15.8
Klaipeda port	20,235.1	21,765.9	+7.6
Road transport moved through the port, numbers	149,089.0	165,800.0	+11.1
Including TEU containers	174,241.0	214,307.0	+23.0

* Preliminary data.

About 56.5 mln t cargoes have been transported in 2005 by road haulage in Lithuania, which is about 19 per cent more than in 2004. Road carriages transport about 49 per cent of all cargoes within the country's territory. Lithuania has concluded road transport agreements with 34 countries in Europe and Asia. In the beginning of 2005 road operators in Lithuania have had 3,770 various licenses; the park of transport means exceeded 17 th cars and trucks.

Source: Lithuanian Transport Ministry.

Logistics parks in Estonia are on the rise

By Olga Pavuk

The countries that joined the EU recently, have seen certain changes taking place in logistics and other business sectors. Prices for logistics services are falling as competition increases.

One could get some ideas about transport industry's importance in Estonian economy from information about main participants in the transport logistics' market, members in a number of industry's associations in the country. The Estonian Freight Forwarders Association now lists already 70 member-companies. Over 80 companies offer logistics services on the website log.ee. The Estonian Association of Port Operators has 24 members and 7 partners; the Estonian Logistics Association has almost 400 members; the Estonian Association of International Road Carriers (ERAA) with more than 400 members is the most powerful of those organizations. All in all, almost 1,000 companies are engaged in freight transportation and international road haulage in Estonia.

CUSTOMS PROCEDURES TO BE SIMPLIFIED IN THE EU

In December 2005 Estonian capital Tallinn hosted 5th international conference "Transport and Logistics in International Trade". Participants from 11 countries, i.e. from the Baltics, Scandinavia, Europe and Asia discussed vital issues of trade, transport and logistics and usage of information technologies in these sectors. The conference concluded that logistics has become a global business.

Michael Lux, Head of Customs Legislation Unit in the Directorate General for Taxation and Customs Union, European Commission, presented at the Tallinn conference new requirements to trade operations, transportation, warehousing and customs procedures in the enlarged Europe and main changes in the EU laws governing activities in these fields.

DG's Unit head said that the European Commission was working on a new customs code in order to simplify trade and customs procedures. According to that document which is going to take effect in 2009, such initiatives as IT project "Single Window" and One-Stop Shop will be launched.

Single Window will enable customs and other authorities controlling movement of goods across the EU borders to exchange information on the Internet while international traders will submit electronic data on transportation only once. One-Stop Shop means that all control procedures required by different authorities and agencies involved in customs transactions are performed simultaneously at one place (or using one Internet portal).

NEW OPPORTUNITIES

Removal of internal borders after the last EU accession opened new opportunities for Estonian businessmen working on international market. Thus, disappearance of one of the logistics' chains has cut the time of cargo in transit; there is no more customs clearance procedures, neither unwarranted keeping of goods at warehouses. Transportation time has been reduced by 1-2 days on average and logistics costs reduced by 5%.

Tough competition still remains one of the decisive factors in formation of service's prices. Small courier companies entered the market after the EU accession specializing in delivery to neighboring countries, within the Baltic States, for example. While large courier companies sending all packages destined to Europe through one or two main transshipment terminals (regardless of the destination — whether it's Riga or Lisbon) make delivery in one to three days, small businesses will bring deliveries straight to Riga or Vilnius in just 8-15 hours. This is their advantage over big companies.

On the other hand, increased competition on the market and expansion of new companies to the Baltic states have prompted large and medium-sized logistics companies to merge as it would allow them to compete more successfully. Each company has its advantages, foreign partners, own network and specialization. Such companies can carry out large logistics projects which smaller companies won't be able to perform.

The steep growth of fuel prices on the world market has raised the issue of

adjusting the price of logistics services. In Lithuania, for example, many logistics companies have introduced a fuel base tax of about 2,9 euro for each package. Outsourcing, successful marketing and pricing policy — these factors increase competition on the market. Thus, *Lex System* restructured all its affiliated companies in the Baltic States and moved them to Germany. As a result, it can now offer clients additional discounts because under the new law on value-added tax (VAT) all services and goods bought in the EU member states are subject to a zero VAT rate. It means that all bills sent by the company to clients would include zero VAT. Corresponding VAT a customer has to declare only in his own country, e.g. 18 per cent VAT in Latvia.

It has to be noted that outsourcing is not yet popular in Estonian logistics sector. For most part companies perform transportation and distribution of goods themselves. *Lex System* experts think it is not the best way from the client's point of view, at least.

TO RESTORE NARVA' FORMER GLORY

Narva has traditionally been recognized as an international trade hub ever since the Viking time. Narva and the entire Ida-Virumaa county's geographical advantages for transportation survived centuries' press.

Mr. Illimar Paul, Estonian Logistics Association, member of the Board, is certain that operations of the Sillamae port will bring to Ida-Virumaa a new flow of transit cargos, mostly consumer goods destined for Russia, including transit shipments of passenger cars and household electronics.

"By a classic scenario the transit route for these high-priced goods goes through Finland. New container terminals and millions of square meters of transit warehouse space were built on the northern coast of the Gulf of Finland in the last five years. Thousands of jobs were created in transportation, re-loading, warehousing and customs clearance.

Cheap labor in Estonia is its main advantage over Finland. For a while Russian importers would still prefer to keep their stocks of goods worth of millions of euro outside Russia but in a location offering logistics advantages, e.g. as close to its borders as possible being able

to receive containers both by sea and through Trans-Siberian Railway.

In such logistics parks complex warehouse facilities are built where containers would be reloaded and shipments consolidated for daily delivery by trucks straight to the Russian shopping centers. By importing a rather small shipment during one trip (a special truck for carrying electronic appliances has a cargo space of up to 182 cubic meters), importers minimize their trade risks determined by comparatively unstable economic environment in Russia. Also, various tax optimization methods are possible while importing goods through a transit country. "This is Estonia's chance, i.e. to challenge Finland's dominant position in servicing transit shipments of high-priced goods," said Mr. Paul.

Estonia has become a country with liberal and stable market economy; its taxation policy is favorable for foreign capital investments. Zero corporate income tax (if companies invest profits in the country) and sovereign private property status — these are extra motivations that help to constantly increase investments into Estonian economy transit sector.

SILLAMAE PORT AS A TRANSIT CATALYSEUR

During last three years Russian capital has managed to seriously reinforce its interests, too. Suffice it to mention such companies as *Severstal*, *Eurosib* and *Transgrupp Invest* (formerly *Worldwide Invest*). Russian capital owns 50% of Sillamae port assets; the port started operations in mid-October 2005. Mr. Paul thinks that it is Sillamae port which most certainly will become the catalyst for the new "transit era" in the region and stimulus for general welfare increase in Estonia; and first of all in the Ida-Virumaa county. The port's main advantage lies in the fact that it is a deep-water port in immediately vicinity of the Russian border (Sillamae is the most closest to Russian the EU port). This fact can have a direct effect both on the amount of investments and steep growth in people's income. As a result, local governments would also receive more in taxes and the whole living environment would flourish.

FORECASTS BY ESTONIAN LOGISTICIAN

"There is a reason to believe, said Mr. Paul, that the current upswing in Narva's economic growth will have the same, or maybe even more significant impact, in the region as it happened in

Narva in Middle Ages and during Swedish rule. Thus, if during last 15 years there has been constant high unemployment rate igniting serious social problems in the Ida-Virumaa county, there is solid ground to believe that around 2008 we might even see deficit of labor force. It means that the new transit business and the investments related to it will soon create up to 10,000 new jobs in Ida-Virumaa?"

The Sillamae port alone expects to create up to 2,000 new jobs in the nearest future. It is good news for the local population as they would be find employment close to their homes. Many of those, who are currently working in Tallinn and other distant cities, would get decent jobs without going away from their families. It is



ILLIMAR PAUL: The new transit business and the related investments would soon create up to 10,000 new jobs in the Ida-Virumaa county.

very likely that, in addition to Ida-Virumaa residents, more labor force would be needed, e.g. from Ivangorod-city which is just across the border with Russia. We hope that visa and work permit procedures will be simplified as that time draws nearer"

RRK'S BUSINESS MODEL

Alongside with the Sillamae port and the surrounding free zone covering 600 hectares, Narva would also become a significant transit hub. If Sillamae has the abovementioned port and the free zone at its advantage, Narva has the privilege of being located right on the border between two powerful economic "unions"; i.e. the EU and the CIS and having an industrial area with developed infrastructure (electric power, natural gas and water supply, a network of roads).

Serious efforts to create a favorable investment climate and good conditions for transit have already produced first pos-

itive results in Narva. Besides, Narva as the largest city in the Ida-Virumaa county has all the prerequisites for becoming a significant business center. It has all the services and facilities required for international business. The number of trucks crossing the border at Narva is several times higher than at the adjacent Koidula and Luhamaa checkpoints. This success is partly due to the optimal logistics solution at the *Transservice-N* transit area, which has made the long and troublesome border-crossing procedure more comfortable for truck drivers.

The first technology park in Narva has been successfully launched recently at the territory of *Nakro* region; another, much larger parks are on the way. *RRK* — Estonia's largest warehouse operator and developer of logistics parks, has shown interest in investing into Ida-Virumaa county and first of all into Narva's industrial area. At present *RRK* operates 150,000 square meters of rental warehousing space in Tallinn, Maardu and Tapa. By 2008 the company intends to build another 125,000 square meters of quality warehouses, up to two-thirds of which will be located in Ida-Virumaa. Apart from building and leasing out warehouses, *RRK* also very actively supports Estonian transit sector development. At "TransEstonia 2005" conference dedicated specifically to this subject, *RRK* announced a support program worth 3 mln kroons aimed at reviving transit business and creating new jobs for servicing 40,000 square meters of covered warehouses in the logistics park in Tapa, which is also the main railway junction in Estonia.

RRK's business model is aimed at facilitating transit warehouses' creation in other transport hubs of logistics importance to the country rather than building those in existing port territories. This approach can help businessmen working with container goods cut their expenses for cargo warehousing, reloading and consolidation because port fees, as a rule, are higher than average and usually are applied to short-term storage. There are strong hopes that *RRK* can turn new Narva logistics park into a major employer; according to the calculations, there could be up to 10 service-staff per 1,000 sq m of a transit warehouse. Thus, the warehousing space of 100,000 square meters would mean about 1,000 new jobs. Narva and Sillamae areas have good potentials for development of at least one million square meters of covered warehouse space and logistics parks. •

Retail logistics puzzle in Baltics



By Kristine Kolosovska, Marius Pilibas
Bridge Capital, Riga-Vilnius

With the aim to reduce transportation and warehousing expenses and make supply chains efficient and cheap, the world has built 100 billion third party logistics (3PL) industry. According to *McKinsey Quarterly*, in Western Europe about quarter of all shipments is handled by 3PL operators. Companies operating in retail outsource almost all parts of their supply chain activities. Allegedly, the 3PL providers have helped to reduce logistics costs by 15% for their clients. However in Baltics, 3PL services have just initiated its development. Although the local logistics market is totally tenant driven, there is a significant shortage of facilities for those tenants. The situation seems to be paradox for such region as Baltics, where retail plays the key role in economic growth.

GROWING DEMAND FOR 3PL

Multinationals with local presence and need for product distribution are often considered to be key 3PL service clients. Such international giants as *P&G*, and *Unilever* and others employ outsourcing is a part of global strategy. Leading distributors as *Sanitex*, *Avers Centrs*, *Karsten Latvian* represent these types of clients locally. However, local market players' demand for external logistics is in many cases limited to plain national or international transportation services. That is why significant retailers, e.g. *RIMI* operate their own distribution centers. Major local manufactures tend to run their own logistics as well. The locals, who realize the need for supply outsourcing, were some retailers, e.g. *VP Market*, *HoReCa* sector, oil products retailers, e.g. *Statoil*, and convenience stores, e.g. *Narvesen*.

NEED FOR INFRASTRUCTURE DEVELOPMENT AND VALUE ADDED

Domestic retail logistics market in Baltics is dominated by local companies. International logistics operators such as *FM Logistics* and *Kuhne & Nagel* focus on servicing of international traffic and do not enter retail logistics segment. But for instance, in Lithuania, companies as *Ad Rem*, *Girteka*, *DFDS Transport* are about to launch new logistics centers aiming integrate local movement of goods into the EU system for the clients.

There are just some major companies in Baltics that provide full scale of integrated logistics service on a regular basis. With their efforts, for several years now, the most significant logistic and warehousing facilities were launches in Baltics. These companies were able to create the added value via reduced storage and transportation costs, reduced investments into vehicles and their maintenance for their clients. That means that sooner or later the locals will realize that lack of qualified personnel and the growing costs should be expected to be the main driver behind full 3PL services outsourcing — understanding of an idle professional being just as costly as an idle truck, if not more. As potential local customers grow in scale and require new logistics facilities, high costs associated with development of new warehouses can be the factor that directs them to a spe-

cialised warehousing, logistics and distribution service provider who can minimise such investments and costs.

INTERNATIONAL INVESTORS ARE INTERESTED

Looking at investment opportunities in logistics infrastructure segment, Baltics may offer quite attractive projects. The yields are more attractive in comparison to mature European markets. While in Baltics the yields reach 9-10%, similar projects in Western Europe are traded at just 6-8%. That is why the segment is of high interest to international investors, both strategic and financial.

SECTOR INVESTMENT PROFILE

Parameter	Value	Trend	EU-25 average
Sector development stage	Innitial development	up	Mature
Rental rates, per year per m ²	36-84	up	60-150
Stock per 1000 inhabitants	< 100 m ²	up	500-800 m ²
Yields	9-10%	down	6-8%

Contrary to local developers, large international institutional investors have the ability to attract cheap and “long” money, but they are looking at very specific range of projects: with good location, and reputable, preferable international, tenants. As a rule, the transaction structure takes the form of sale and leaseback. In this scheme, investors owns the logistics centre, 3PL provider, preferably with local expertise, runs the centre, and the tenant focuses on its core business. This not only reduces uncertainty related to warehouse developer investments, but also commits a future tenant to certain cash flows, necessary to attract bank financing of the construction. Such custom tailored solutions are easily adaptable to future tenants business and expansion needs at a lower cost than in an already existing facility. In some cases, e.g. *YIT Kausta's Kaunas FEZ logistics centre* in Lithuania or *Avers Centrs* warehouses in Latvia, such practice determines that larger warehouse complexes are developed in stages, as prospective tenants pile in. Fully developed new warehousing projects rarely exceed 20,000-25,000 sq. m. that corresponds to allocation of 15-25 million per project. The lease contracts in such transaction are concluded for 10-15 years that allow all counterparties to operate in a stable and predictable environment.

CHALLENGES TO MEET

Although there is a clear interest from large institutional real estate investors, the region has still to overcome the problem of scope. Undoubtedly, further retail market consolidation will induce development pan-Baltics projects. Furthermore, entrance of new international retailers, e.g. *Lidl* and *SOK*, will form the critical mass for effective demand for 3PL. The future development of local logistics infrastructure depends on the pace of market education and realization of outsourcing necessity as a way to optimise company's cash flows.

Finally, great role is attributed to 3PL providers. Much depends on their ability to meet the existing competitive threats and meet cost base of major retailing operators. It is extremely important for logistics/distribution companies accumulate the experience and facilities, improve IT technologies and ensure adequate personnel training. •

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Logistic operator

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AVE TRANS GROUP

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- All sorts of supplementing service provision, i.e. financial, legal, insurance, accountancy, repair etc.

Our policy and purpose:

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- **Customs terminal service**:
- **Custom clearinghouses and custom brokers** licensed to processing necessary documents and holding all kind of goods including food-stuff and excise goods; provision of all kind of brokers' services and guarantees
 - All sorts of custom documents for internal and transit goods with respect to goods' "individual specifics"
 - Provision of all sorts and sizes of heated and non-heated clearing-houses, as well as open parking lots
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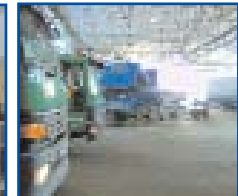
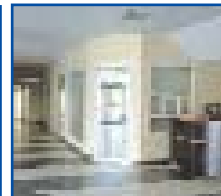
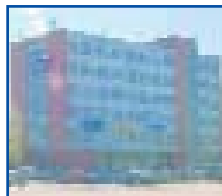
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It is not so difficult to imagine how Latvian territory adjacent to the Terekhovo border checkpoint will look like when the logistic-center project is completed. Instead of half-tilled forest's strips and no "infrastructure" a modern logistics and distribution center will be built to serve freight flows between the EU member states and Russia, Kazakhstan, other CIS countries and faraway China. There will be a location for processing cargos and facilities for changing their country of origin as well as facilities for storing, distributing and assembling consignments. Camping sites, truck parking lots, service facilities and all the modern service areas required for trucks and drivers' rest will spring up along the border lines.

The narrow motor road which is today packed up to the neck with trucks waiting in lines stretching for several kilometers will turn into a modern multi-lane highway in the coming years. Riga-Moscow railway line will be modernized as well.

POLITICS: IS IT LATVIA-RUSSIA OR EU-RUSSIA?

Regretfully a constructive dialogue between Latvian and Russian political elite does not exist presently. Yet, Latvia's EU membership provides some encouragements and the EU-Russian relations are developing at a dynamic pace. The future of these relations looks very optimistic. The EU has recognized the Ventspils-Riga-Moscow transport corridor as a vital spot in economic interaction with Russia.

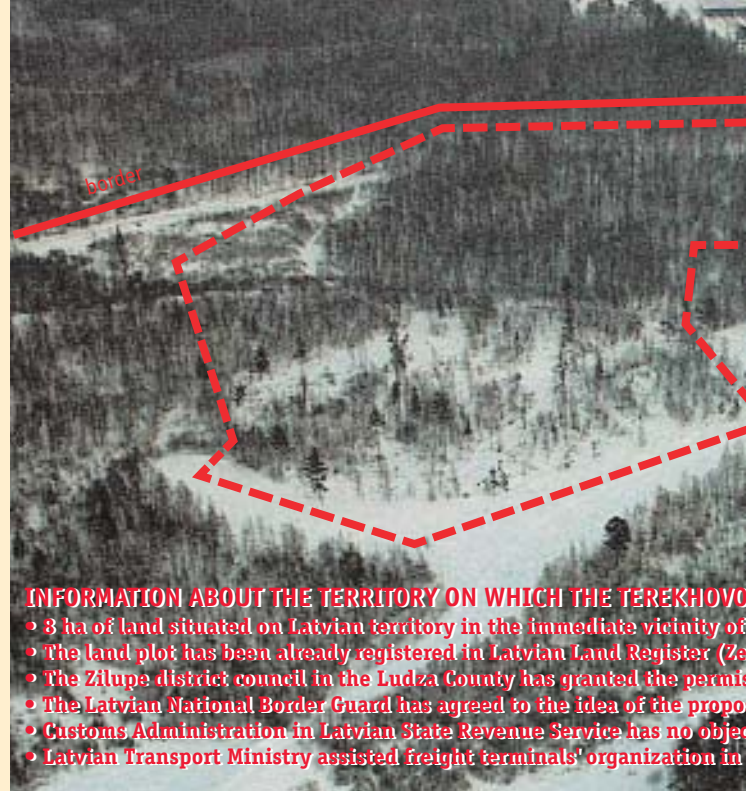
The current distribution of transit freight among the three Baltic States already places Latvia in the lead with about 45% share while Lithuanian and Estonian shares are 35% and 19%, respectively. The number of trucks entering Russia through the Terekhovo-Burachki checkpoint increased at the end of 2005 to 600 transport units per day and it is likely to grow to 1,000 vehicles in the near future.

Therefore the proposed Terekhovo logistics' Center is to be regarded as one of the vital components in the development program for areas along the EU-Russian border.

RUSSIAN INITIATIVES

According to information received by the BC from Russian Embassy in Latvia, Russian Federal Customs Service has elaborated the issue of co-financing certain works connected to upgrading the crossing points and conducting some experiments at Burachki customs checkpoint to be supported by the European Commission under the EU Tacis program. Also, a tender has been held for renovation of the international vehicle checkpoint Burachki by building an inspection-and-search facility financed by loan from the International Bank for Reconstruction and Development.

Proposals have been drafted for building offices and staff quarters for deploying state controlling authorities (other than bor-



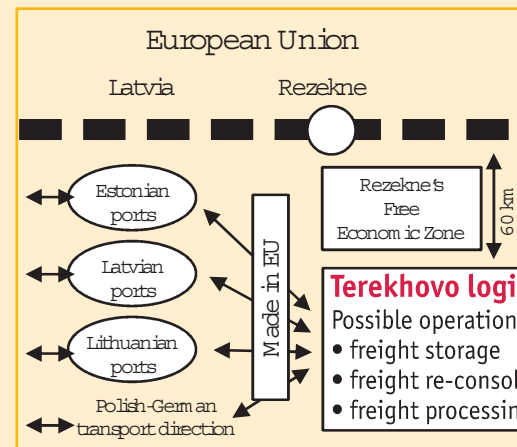
- INFORMATION ABOUT THE TERRITORY ON WHICH THE TEREKHOVO**
- 3 ha of land situated on Latvian territory in the immediate vicinity of
 - The land plot has been already registered in Latvian Land Register (Zemkopības ministrija)
 - The Zilupe district council in the Ludza County has granted the permit
 - The Latvian National Border Guard has agreed to the idea of the propo
 - Customs Administration in Latvian State Revenue Service has no objec
 - Latvian Transport Ministry assisted freight terminals' organization in

Logistics center

There are many plots of land near Terekhovo border checkp... Latvian businessmen. One of those plots' owners, Alexander Grishul... (Investment Company) president offers his vision for the developme

der guards and customs officers) outside the Burachki vehicle checkpoint territory. A task force has been set up for phased introduction of an integrated automated system for freight-carrying vehicles control at the border checkpoint.

The Russian Ministry for Economic Development and Trade Board Council met in February this year to discuss the draft concept for development of customs authorities in the period of up to 2010, which reflected all issues and problems to be dealt with at the Russian Federation western borders. The program has been updated and finally submitted to the Ministry for Economic Development and Trade and the Ministry of Finance for approval by March 1 this year. Starting with 2007, allocations from the federal budget will be set aside for the specific programs. The total amount of funding for phased development of the customs authorities till 2010 will reach about 90 billion rubles.





ALEXANDER GRISHULENOK

LOGISTICS CENTER MIGHT BE BUILT
 the Moscow-Riga highway,
 (masgramata).
 sion to use the land for commercial purposes.
 ed project.
 tions to implementation of the project.
 the areas along the border with Russia.

er Terekhovo

point on the EU-Russian border that have been already acquired by
 enok *Latgales Finansu un investiciju kompanija* (Latgale Finance and
 nt of the border areas.

REZEKNE IS THE CLOSEST POINT TO RUSSIA

The would-be Terekhovo logistics center is situated just 60 km from the international transit junction, the city of Rezekne.

A container train Baltica-Transit departs Rezekne twice a week presently. Its strategic objective is to carry freight not only from the Baltic States to Kazakhstan but also to China, Iran, Afghanistan, and back. About 70% of cargo transits come from North America, 10% from South America and Africa and the remaining 20% from Europe. Containers from different parts of the world arrive through the Baltic ports and are taken to Rezekne, the city most close to the Russian border. Shipments from Latvian ports fill 67% of the train capacity; Estonian ports contribute 29% and freight from Lithuania's Klaipeda port makes up to an insignificant 4%.

Rezekne has one more advantage, i.e. it has a Special Economic Zone (SEZ), which is situated in the territory with a well-developed industrial infrastructure and offers companies which

have received the SEZ's status, a number of taxation and other allowances.

Another main idea behind Terekhovo-center is to attract foreign experts. There is no doubt that international experts in import-export transactions and logistics shall be involved in order to develop the Terekhovo logistics center's model concept. Part of consulting fees could be covered by the EU structural funds.

THE STATE WOULD NOT GET IN THE WAY

The project falls into competence of local authorities, as well as business people and investors from Latvian and Russia rather than country's presidents and ministers.

The ideas to develop border areas are hanging in the air. They need to be put down and produced to the public for discussion. Private companies are interested in cooperation with the state agencies within the general program for border areas' development. Success of the project is guaranteed by the fact that both countries have already de facto liberal market economies therefore not all depends on politicians and civil servants.

SOCIAL EFFECT

Development projects in the border areas are important both for Latvia and Russia; but most important they are for the eastern Latvian region of Latgale. This region has the highest unemployment rate in the country at 26-28% coped with the lowest living standards in Europe. Creation of new jobs in modern production facilities and development of infrastructure in border areas will keep at home young people, who currently are forced to go abroad for work, e.g. in Ireland and other countries. It will also create conditions for solving social issues.

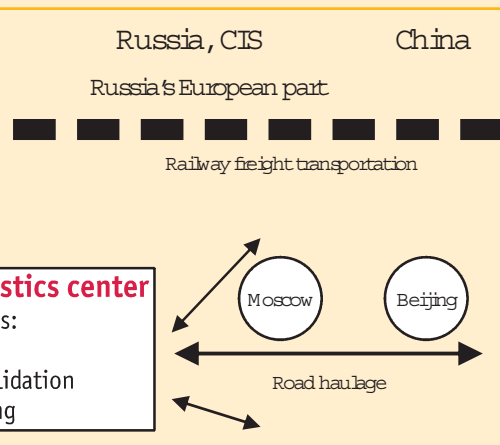
FOR INVESTORS' FILES

Today the market value of the center's land plot is valued on the basis of land price for 100 sq m, i.e. around 1,000 US dollars. With the development of border areas, the land price will definitely grow therefore taking part in the project could be a profitable investment.

The project can be financed through Latvian banks' cheap loans or from the EU structural funds.

LOOKING FOR RUSSIAN PARTNER

Mr. Grishulenok is certain that the proposed project will be successful only under one condition, i.e. participation of the Russian capital with its business experience and contacts. •



THE LAND PLOT IS ON THE LEFT SIDE FROM THE RIGA-MOSCOW HIGHWAY.

Prodex Line: we know the right way to Russia

Prodex Line is an active player on the multimodal transportation market. The company's main business is in international forwarding and logistics, warehousing and distribution, as well as customs clearance in Russia. The responsible staff will advise clients on any questions they might have about transportation, forwarding and customs. **Sergey Bogdanov**, *Prodex Line* commercial director describes company's operations.

Prodex Line was founded in 1995. In the course of its business line the company explores systematic approach to handling foreign economic transactions. The company experts have worked out optimum routes for cargo delivery, taking into account potential risks and minimization of costs. Close partnership relations with various companies involved in cargo's transportation, insurance, guarding and escorting, in cargo certification together with high professionalism, impeccable reputation among customs authorities and knowledge of the market guarantee swift and high-quality assignments' performance.

The company specializes in a number of fields. We can arrange all sorts of multimodal, container, ferry and railway transportation including freight from Europe and China, which is reloaded onto Russian freight and flatbed cars, road haulage and air freight transportation, complex-cargo-group shipments with consolidation done in warehouses in Europe and Russia. Due to large cargo turnover our price policy is very competitive. Broad network of representation offices and multitude of partners in Europe, Russia

and other regions help to provide high-quality customer service. The company offers all kinds of freight transportation including tent, refrigerated, dangerous substances (ADR), etc.

Railway transportation is one of the main directions of our business. We specialize in transportation of large-size and bulky cargos, e.g. from microchips to drilling rigs throughout the Russian territory and occupy a significant place in this market segment in Russia.

We also offer comprehensive warehousing and cargo consolidation services, which includes sorting and warehousing of any cargos at border warehouses, packaging and distribution. Small batches of cargoes can be consolidated for further transportation, as well.

Prodex Line has set up a special unit that deals exclusively with customs clearance of various cargos' groups. The company strives to complete all customs procedures in one day and represents interests of clients before the Russian Federation customs authorities. *Prodex Line* guarantees swift progress through all phases of cargo customs clearance from obtaining certificates of compliance, to hygiene certificates, to veterinary permits.

Our experts provide professional consultations on any subjects related to foreign economic activities, i.e. from classification of goods to calculation of customs duties and drawing up foreign trade contracts and other legal documents.

Prodex Line offers full range of transportation and forwarding services, guaranteeing door-to-door delivery always on time. The company's staff constantly monitors movement of the goods and can answer any questions about the transportation schedule and the time of delivery to the consignee at any time. The operations built on simple and clear principles allow for significant reduction in operational costs, speedy delivery which is, consequently, in clients' favours.

The company employs not only transportation experts but also professionals in customs clearance, international trade law, people, who can constantly update modern developments in freight transportation services' market and changing world of freight rates. Flexible attitude to clients, efficiency, optimum price-to-quality ratio, reliability, stability and guaranteed results are the major attributes of the company' style.

Today *Prodex Line* successfully performs import freight shipments to Russia in the amount of up to 10,000 tons monthly, and it is not the upper limit of company's potential capacity.

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Penta Maritime Agencies Ltd: silk road for your cargoes

Latvian company *Penta Maritime Agencies Ltd* specializes in container shipments; it can also provide shipagency and freight forwarding services, offering door-to-door delivery by inter-modal transport.

Penta Maritime Agencies Ltd has been successfully developing its business in various directions since 1998. All the agency staff used to work for *Latvijas Kugnieciba* (Latvian Shipping Company) before. The company has been reorganized since and it has chosen as its main goal provision of comprehensive freight transportation services.

We offer warehousing, assortment services, pre-sale processing and customs clearance services in addition to ship agency services, forwarding, chartering and multi-modal services in container cargo transportation. This allows our clients to save their money and very precious time.

Penta Maritime Agencies Ltd processes cargoes that are sent through the Baltic ports from Southeast Asia, China and the US to Europe and vice versa. The agency's forwarders work in a flexible and swift manner while its clients quietly wait for the cargoes to be delivered.

The cargo is under constant control during all forwarding stages, i.e. from delivery at the port, loading and departure of the vessel up to monitoring through border crossings and settlement of customs formalities.

We offer reliable service in export services as well as in import and transit of cargoes through the ports in the region. As a liner agent, our company offers its clients a comprehensive and well-balanced service; in cooperation with Latvian banks and insurers we provide credit and insurance facilities for cargo transportation. •



VITALY MARZHIN: Penta Maritime Agencies Ltd, Director.

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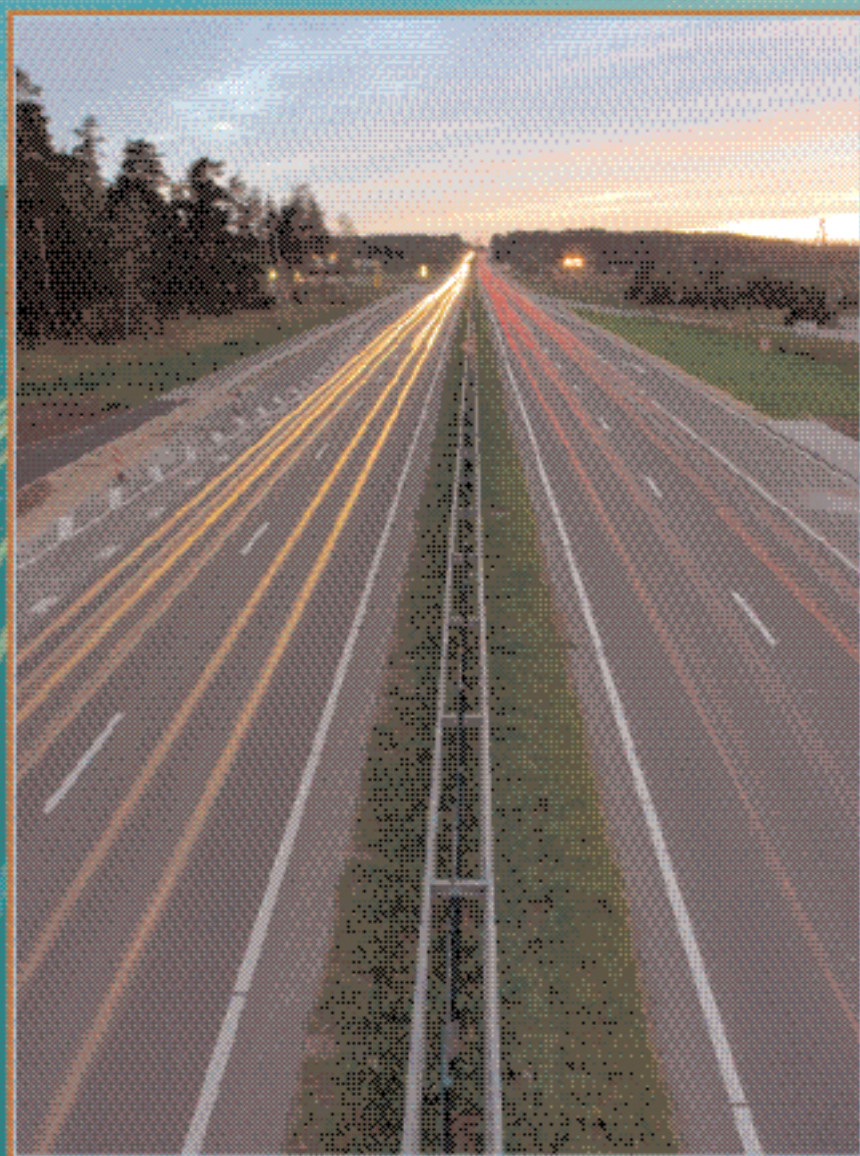


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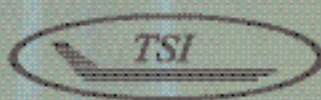
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OF TRANSIT BUSINESS

Our motto: all goods and cargoes are delivered in time!

TRIS V AGENTURA (TVA Group INTERNATIONAL TRANSPORT & FORWARDING) is one of leading companies in Latvia, which specializes in forwarding and transportation services. Assisted by numerous representation offices and partners in Russia and Europe, the company provides both high-quality and commercially profitable services. TRIS V AGENTURA's director, Viktor Vasilyev shared with the BC his experience and opinions about modern logistics.

Last year the company celebrated its 10th anniversary. During this period we have accumulated practical experience and developed systemic approach to servicing foreign economic transactions, says Mr. Vasilyev. We have succeeded in building a well-developed, reliable system of freight transportation, distinguished for its exceptional accuracy and safety.

TRIS V AGENTURA main business directions are road haulage from Europe to Russia, delivery of containers on the Riga-Moscow route and freight transportation in Europe. Every months we carry about 150-200 containers on the Riga-Moscow route, make around 200 trailer trips from Europe to Russia and about the same number of intra-European runs. Every week 3-4 trucks also set out from Riga to Moscow with complex-group freights. At the client's request we can deliver bulky cargoes; in this market segment we make up to 25 transport runs monthly.

The company's turnover last year reached about 8 million lats, which is a 25% growth from 2004. Considering the market trends, we plan similar growth this year too.

OWN TRUCK FLEET

Logistics is a rather broad notion in general. As we understand it, it means offering the optimum delivery scheme using the types of transportation best suited for the client, arranging warehousing tasks, storage facilities, etc. Our own large truck fleet is a distinctive feature of the company which allows us to guarantee reliable door-to-door delivery, which is very important in Russian territory, in particular. *TRIS V AGENTURA* has 90 trailer and container transport units for haulage in its fleet, about 20 of them are having Russian registration plates, which can help in solving problems concerning trucking permits and can also speed up the border crossing and customs clearance procedures.

It should be noted that lately the greatest demand in the transportation services segment has been that of con-

tainer haulage from Riga port to Russia. A shortage of trucks has been observed in the related services which happened due to the situation then tracks and vehicles possessed by various Latvian and Russian companies have become outdated and lost their transportation licenses. We had to work recently in a very tight schedule reaching a decision to expand our container fleet by buying new vehicles.

PROFESSIONAL ASSISTANCE

TRIS V AGENTURA's priorities lie in combination of price, quality, timely delivery and reliability. Customs clearance is only one the many problems facing many importers and exporters' companies, e.g. in addition to signing a foreign trade contract it's necessary to arrange road haulage and/or railway transportation, get the goods certified or obtain various permits from other control authorities, to find customs' broker, port's forwarder and to discuss removal of the cargo from the port with trucking companies. In other words, an import-export company will have to be involved in all kind of problems related to delivery or dispatch of freight in question.

TRIS V AGENTURA experts are willing to assist in solving these problems on a professional level. The main tasks of the company are to release the cargo in



VIKTOR VASILYEV: Our priorities lie in combination of price, quality, timely delivery and reliability.

free circulation (clear the customs) in Russia and Latvia, to remove cargo from the port, "to build the logistics process" in the manner that would ensure transportation, reloading and further processing of the cargo right on time and at minimum cost while guaranteeing maximum reliability in delivering the consignment to the client's warehouse.

TRIS V AGENTURA clients include Russian forwarders and brokers, importers and exporters. Wherever the company's cargoes are and wherever they have to be delivered to, all transportation, storage, repackaging and customs clearance operations will be arranged by *TRIS V AGENTURA* in time and with quality guaranteed. •



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Baltic States decided to build a new nuclear power plant

Europe is worried about Russia's gas dependency

By Tatyana Bogdanovich
Visaginas, Lithuania

Global energy security initiative has become, without exaggeration, the year 2006 key political event. Gas conflict between Russia and Ukraine has made the EU leaders to think about energy dependency of their countries on Russia. Such dependence is particularly acute for Lithuania as its energy consumption will become fully dependent on Russian oil and gas deliveries after the only nuclear power plant in Lithuania is shut down. As a possible way out and a solution Latvian, Lithuanian and Estonian governments see construction of a new type of nuclear power unit in Lithuania.

Other EU member states also have something to think about; at present the EU's 25 member states import from Russia about 50 percent of their total gas consumption. The European Commission report on European energy supply strategy published in 2000 warned that dependency on external energy supplies would be even bigger by 2020. Experts predict double EU gas consumption growth in the EU during next decade. The European situation is aggravated by the possibility of Russian gas supply break-out at any moment.

In March 2006 an agreement was signed in Beijing between the Russian natural gas supplier, *Gazprom Company* and the Chinese energy utility *CNPC*. Now Russia has to make up whether it is more beneficial to cooperate with Europe or with China on energy issues.

The greatest energy security risks experience those European countries which presently carry out programs for

curtailing nuclear energy supplies and planning to replace, at least partially, nuclear energy with gas-fuelled power plants. Natural gas supplies' problems have made European countries find viable alternatives to increasingly costly "blue fuel." Governments in Latvia, Lithuania and Estonia see construction of a power unit with a new type of reactor in Lithuania as a way out of problematic situation. The fact that global production of nuclear fuel is currently higher than its consumption has been behind such decision.

NO ALTERNATIVE TO NUCLEAR POWER

Baltic States' heads of governments: **Aivars Kalvitis**, Latvia, **Algirdas Brazauskas**, Lithuania and **Andrus Ansip**, Estonia signed a joint energy strategy communique on 27 February 2006. Heads of the Baltic energy companies *Latvenergo* (Latvia), *Lietuvos energija* (Lithuania) and *Eesti energija* (Estonia) signed a memoran-

dum about possible joint new nuclear reactor construction on 8 March in Visaginas, the town in which existing nuclear power plant in Ignalina, Lithuania is built. "The three of us don't see any alternative to nuclear power," said **Karlis Mikelsons**, **Sandor Liive** and **Rymantas Juozaitis**; the latter added that nothing brings countries together better than joint projects.

The construction of a new power unit will both provide for energy security of the Baltic States and contribute to economic growth in the region. These issues were discussed by the news conference's participants following the signing of the memorandum. "We would be very disappointed if Latvia or Estonia withdrew from this project as Lithuania would find it very hard to carry out the project alone, said Mr. Juozaitis. Without the support of neighbors, it will take longer to build the new nuclear reactor but I think that the project would be implemented anyway."

NEW NUCLEAR POWER PLANT YET UNNAMED

Ignalina Nuclear Power Plant (INPP) director general **Viktor Shevaldin** underlined that the project is not about building the third power unit at the Ignalina INPP, it is about construction of a new nuclear plant with a modern-type reactor. "It would be a separate company, a new corporate entity with its own management and its own protection territory," he said. New power plant owners will choose the reactor's type through tender procedure. Naturally, economic benefits and competitiveness of the new reactor would be taken into account. Moreover, the reactor shall be licensed in Lithuania and comply with the national standards.

Mr. Shevaldin thinks that it could be a pressurized water reactor, PWR-type. According to nuclear safety requirements, alongside the new INPP a full-scope training simulator's replica of the reactor will be

- There are 440 electricity producing nuclear power reactors in the world, another 24 are being built and construction of 41 reactors has been planned.
- These 440 nuclear power reactors in 31 countries around the world generate about 370 Gig Watt of electric power.
- The most "nuclear" EU countries are Lithuania and France where nuclear power plants produce 78-80 per cent of national electric power consumption.
- According to Eurobarometer pools conducted in 25 countries 60% of population in Lithuania, 65% in Hungary and 64% in Sweden are in favor of nuclear energy.
- The International Energy Agency (IEA) has estimated that the world countries will spend over USD 200 billion on nuclear energy development by 2030.
- According the International Atomic Energy Agency (IAEA) forecasts, 17% of the world electric power output will be generated by nuclear power plants by 2020.

built. This training reactor will simulate model emergency situations which are indispensable in training new INPP operational staff.

If the decision about a new power unit construction is reached Lithuania will have to face a problem of personnel training. Previously employed nuclear energy specialists were being trained in Kaunas Technology University of Technology, and afterwards they continued professional training at Russian Nuclear Power Engineering Institute in Obninsk. After shutdown of the Ignalina NPP the profession lost its drive for young people and the training faculty was closed. It would take at least three years to train technical operation staff of a nuclear power plant. Some of the needed personnel could be found among young engineers at the Ignalina NPP; after appropriate re-training they would be able to work at a different type of nuclear reactor.

In case the necessary funding for a new power plan construction is found and no other obstacles occur that could postpone commencement of the construction, the year 2015 would be a realistic time for the project completion. According to experts, the construction and assembly should not take more than four years but numerous formalities have to be settled before the construction can begin, e.g. papers for holding a tender, all technical documentation has to be prepared, alongside licensing procedures; all of that would take a long time.

For pure economic reasons it would be feasible to use existing nuclear power plant infrastructure; therefore it has been suggested to build new power in the immediate vicinity of the Ignalina NPP facilities. So far nobody knows what the new power plant would be called and it is another issue that its future founders will have to decide.

WHEN INTENTIONS FOLLOW REALITIES

Presently the key task facing energy security project's participants in the Baltic region is to study financial and other project's sides, the study that could be done very quickly as Lithuania has already had experience in conducting similar studies.

Thus, first of all, before the final decision about new power unit construction in Visaginas, geological and seismological surveys have to be carried out to determine whether the area is suitable for construction of a nuclear power plant. Then, the issue of radio active waste disposal from the new plant is to be settled down, as well as other issues.

The estimated reactor's cost is about 3 bln euros. "Raising investment for such a serious project is the most difficult thing in this case," said the head of *Lietuvos energija*. "We discussed the question about attracting private capital, said Lithuanian MP **Manfredas Zymantas**, a member of the Commission on Ignalina Nuclear Power Plant problems. "But today there are no leading industrialists in Lithuania ready to invest in construction of a nuclear plant. Owners of large companies can invest in building a production plant boiler but they are not ready to participate in such a big project?"



VIKTOR SHEVALDIN: The construction of the new power unit won't take more than four years.

electric power deficit by 2010. "Electricity imports' perspectives are not very bright and therefore we have to find our own ways to produce electric power"; said Mr. Gylys.

He also reflected on nuclear power plant advantages over a combined-cycle gas-fueled power plant, e.g. during 30 years the costs of the nuclear power plant operation would be 19 bln litas less than costs of gas supply. "Construction of a new nuclear power plant on the basis of the Ignalina NPP as well as integration of electric power and gas networks into the Western energy system is not only the most



MANFREDAS ZYMANAS: The chances are 70 to 30 for a new nuclear plant being built in Lithuania.

THE PROCESS HAS BEGUN

Despite Lithuanian commitment to the EU to close the only nuclear power plant in the country (Lithuania used Soviet-type RBMK reactor) Lithuanian nuclear energy law makes it possible for the government to take decisions on new nuclear power facilities construction. The Lithuanian Parliament's Commission on Ignalina Nuclear Power Plant problems discussed construction of a new power plant in March 2006. Speaking at this meeting prof. **Jonas Gylys**, director of the Institute of Energy Technologies in Kaunas Technology University said that construction of a new nuclear power plant would help Lithuania and other countries in the Baltic region to avoid

rational method for guaranteeing electric power supply to the region but also a way to reduce environmental pollution"; scientist said.

Other members of the Commission on Ignalina Nuclear Power Plant problems suggested that by the end of 2006 Lithuanian government prepare and submit to the parliament a bill about construction of a new nuclear power plant. The commission also said that all initiatives aimed at reducing country's dependency on a single energy source should be taken into consideration and called for support of the EU common energy policy.

Thus, a political decision about a new nuclear power plant construction has been made; now it's time to find investors. •



Baltic economic review

By Eugene Eteris

European Integration Institute, Denmark

Baltic countries have experienced during several good years a continuous economic growth. According to various sources the present review is based on, e.g. World Bank, ECB, Eurostat, *SEB*, etc. economic growth in these countries is heading towards a certain peak in their historic development.

“Balanced” economic development in the Baltics is of extreme importance as strong growth can lead to higher inflation rates. Most balanced among the three Baltic States is Lithuanian economy where both inflation and current account deficit are at a modest level allowing the country to enter the euro zone from the start of 2007, as it was expected. The other two — Latvia and Estonia would have to wait until 2008 or 2009. But high interest rates and growing labour force shortage have affected Lithuanian economic development as well. Present energy turmoil has affected some Baltic States, e.g. Estonia and Latvia can show some signs of overheating and consequent increase in inflation levels. Among the three states average inflation percentage was lowest in Lithuania (1.2 and 2.7 in 2004-2005) in comparison to Estonia (3.0 and 4.1 during these years) and Latvia (6.2 and 6.9, in 2006 the

country reported 7.6% inflation rate). The general inflation picture seems leveling up; thus inflation level in the old EU-15 is about 2 per cent in the last two years, whereas in the Eastern and central European EU-8 has reduced (on average) from 4.3 in 2004 to 2.1 per cent in 2005. This is a remarkable reduction from about 14 per cent in 1990s.

The Baltic sub-region’s unemployment rate was the lowest in Estonia among the three states with 9.7 and 7.9 in 2004 and 2005, correspondingly in comparison to Latvia (10.4 and 9.2) and Lithuania (11.4 and 8.5) during these years.

Some prognostic estimates have shown that Estonia in 2006-2007 will be the fastest-growing economy in the EU, at about 9 % growth rate. Latvian economy will slow down due to inflation and labour shortage, although consumption and property boom will continue. As to the main economic devel-

BALTIC STATES: KEY ECONOMIC DATA

	Latvia			Lithuania			Estonia		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
GDP, %	7.2	8.5	10.2	10.5	7.0	7.5	6.7	7.8	9.5
Public sector debt, % of GDP	13.3	13.2	10.7	21.3	19.5	18.8	6.0	5.5	5.2
Unemployment, %	10.6	10.4	9.2	12.4	11.4	8.5	10.0	9.7	7.9

Source: Eurostat, SEB and World Bank.

opment indications, if seen from a 3-years' retrospective, the Baltic States figures are really impressive.

It is most certain that growth and expansion are two main features of Baltic States recent year's development. Fears of recession could be based on inner logic of economic cycles in the Baltics, as expansion is always closely connected to subsequent downturns. One of the signs of that are heavily indebted property markets in the three Baltic States.

ESTONIA

The country's pace of reform has been outstanding, i.e. during the last 15 years Estonia managed to create sound macroeconomic achievements mainly through efficient structural policies. As a result, during the last decade per capita GDP has risen from 35% of the EU average to about 60%.

In 2005 the country for the first time in the last five years reached more than 10% growth on the year-on-year rate indications; it was the second best year in Estonia's post-Soviet economic history. And strong growth is expected to continue, but somewhat shifting to a slower gear.

Development prospects according to SEB's experts seem quite optimistic:

- Strong impetus from unprecedentedly low interest rates will continue.
- Exports will continue to grow and stay at the level of 20 per cent GDP.
- Construction sector will experience stable increase at the level of 8-10 per cent.
- Energy market will face an upturn in consumer prices (together with transport and housing costs they represent about 30% of consumers' monthly expenses).
- There are some uncertainties concerning the level of gas prices.

INFLATION ASPECTS

One of the negative aspects in development was national concern of meeting the EU criteria for Estonia's euro zone accession. Counted at the year-level inflation rate the country overshoot convergence criterion by at least 1,5 per cent being at the level of 4.4 per cent. Although there is a positive sign here — the government can hold a balanced budget. Strange enough, but relatively high inflation level has not provided negative impact on Estonian exports. Currency's real depreciation over the past 3 years has been at the level of 10-12 per cent.

Some experts suggest that high current account deficit is due to a solid inflow of foreign investments, which is more than double the Lithuanian level and more the triple as to the Latvian one (See Table).

POSITIVE SIGNS WHICH CAUSE CONCERN

Estonia has shown a clear improvement in the level of current account deficit, although it is still at the level of 11-12 per cent of GDP; but the prospects, the government insists, are optimistic. Important transformation occurred in financial sector, i.e. all major banks have become subsidiaries of foreign parents. One of the outcomes of this "transformation" was that Estonian banks finance their assets' growth mostly through short-time credits.

Credit boom in Estonia, as in other Baltic States, has been fuelled by low interest rates and population's construction and household activities. Therefore, most credit expansion was due to household property market loans. These two



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factors showed that very often construction and renovation “enthusiasm” took over the common sense logic and property prices soared above economically justified levels.

LATVIA

The country's development is specific among the European Union members in two aspects, i.e. on one side there is a fastest-growing in the Union GDP (about 7-8%), on another — it has the highest in the Union inflation (about 7%).

Some general factors reflecting Latvian economic development can be mentioned:

- Stable growth in the GDP outcome regardless of inflation and other negative trends.
- Good growth rates have been observed in service sector, in construction industry and to a certain degree in manufacturing.
- Major driving force behind GDP growth is private consumption and growth rates in export (about 34 per cent - twice as much as before EU accession), although with adequate growth in import (about 27 per cent); the old EU members constitute about half of Latvian export.
- Labour shortage as a result of massive workers' migration to, mainly, the UK and Ireland, has pushed wages up (almost 10% of labour force has left the country for good). Labour shortage and high inflation already pushed wages up by 17% in 2005.
- Retail sales grew by 21 per cent, housing loans almost doubled, new car sales increased by 48%.
- Consumption and living standards are still well below average EU figures.
- The current account deficit is above 12 per cent of GDP and there is still strong demand for merchandise imports, mainly from the EU states.
- Inflow of foreign direct investments covers only a third of the current account deficit.

INFLATION FACTORS

High inflation has postponed the country's accession to euro-zone to as late as 2009. At the same time, high current

account deficit presents a great danger to economic stability; the fact that coped with booming housing loans and growth in real estate sector present other threats. Inflation, according to SEB experts, is being fuelled by high resource utilization, still great share of shadow economy, inflow of foreign currency and soaring prices on energy resources. All these factors have a permanent effect and therefore the country will follow the inflation path being of higher in the EU level. The general opinion is that Latvian government has been doing too little in combating inflation although it seems not very difficult to promote competition and protect population from sudden shocks. It is inflation that going to be the greatest country's obstacle on the way into euro-zone.

LABOUR SHORTAGE

Although unemployment dropped from 11.5 per cent in 2003-04 to about 7.5 per cent presently, and employment reached all time high level still outflow of workers presented a great problem for the government. Experts say that this negative trend is likely to continue for several years.

The outflow has been driven both by low wages in industry and poor social security in the private sector, as well as still great share of grey/shadow economy. Latvian government plans to improve social conditions for workers and reduce personal income tax from 25 to 15 per cent in 2009.

PERSPECTIVES

Fast-growing economy and high inflation boosted tax revenues by 27% which allowed for higher social spending sans investments. Public debt is decreasing slightly decreasing.

Parliamentary elections in October has stimulated disagreements among parties in ruling coalition which could result in a slightly different but generally steady course of economic policy.

LITHUANIA

The country's economy is performing well with about 15 bln euro GDP, the highest in the Baltics. On a year-to-year level it has experienced 8.6 per cent increase with almost all

MAIN BALTIC STATES MACROECONOMIC INDICATORS, 2005

	Latvia	Lithuania	Estonia	Total/Baltics
Population, mln	2.29	3.41	1.34	7.04
GDP, mln EUR	9060	14900	6280	30240
GDP growth rate	10.1	6.9	10.6	
Inflation, %	7.5	3.5	4.6	
Public budget deficit, % GDP	3.1	0.6	4.3	
Current account deficit, % GDP	- 11.4	- 6.9	- 12.1	
Foreign Direct Investments, mln EUR	3880	5280	10410	19570
Export, mln EUR	4100	9510	6210	19820
Export growth rate, %	33.6	27.1	30.3	
Import, mln EUR	6910	12460	8190	27560
Import growth rate, %	27.1	25.0	22.2	
Foreign trade balance, mln EUR	- 2810	- 2950	- 1980	- 7740
Commercial banks assets, mln EUR	15990	12870	12100	40960
Unemployment official rate, %	7.5	4.0	2.7	
Searching employment, total number	8.7	7.2/8.3*	7.0	
Average wage, before tax, EUR	382	421	555	
Public debt, % GDP	13.3	19.7	3.2	
Standard& Poor's credit rating	A-	A	A	

* Data from February 2006.

Source: SEB Unibanka.

economy sectors on the rise. Some experts predict GDP increase at the level of 6.5 per cent in years to come (e.g. SEB's forecasts). Credit demand and private consumption are steadily growing too as interest rates decline. But some bottlenecks in the labour market are expected to limit growth in the future. The country's import, as in other two states, is exceeding export by about 3 bln euro which is a concern for foreign trade deficit.

Labour productivity growth is lagging behind wage growth, which is pushing up producers and consumers' prices; widening gaps between the two can bring an increase in labour costs. Consumer market can expect additional financial influx with income tax rate reduced from 33 to 27 per cent. Establishment of the social tax (an additional 4% on corporate profits) was intended as a buffer (seemed quite unnecessary) to a likely drop in budget revenues due to reduced personal income tax — down to 27% from July 2006 and to 24% from 2008).

A growing concern for the government is the expected sell-out of Mazeikiiai Nafta (MN), in which Russian Yukos company has a controlling state. Present two realistic buyers (from Kazakhstan and Poland) are far from being optimal: the former can not guarantee long-term crude oil transit through Russia; the latter is too dependent on Russian supplies. The government can either use its right to bail out Yukos' shareholders or invoke a possibility of MN's nationalization. Last year MN's net profit was 929 mln litas.

INFLATION PROBLEMS AND EURO INTRODUCTION

An average inflation rate in the start of 2006 has been at 2.7 per cent, very close to the EU's criterion demand of 2.5 per cent. Still euro introduction planned for the beginning of 2007 is a hot issue as inflation rate can jump to unacceptable 2.8 per cent. Most experts, although can hardly see that euro introduction would provide a significant stimulus for the GDP growth in the coming 1-2 years, but it can have a positive effect within 3 to 5 years. If Lithuania failed to adopt the euro and the transition would be postponed, the general economic situation in the country would remain stable and litas still tightly linked to the euro.

REAL ESTATE BOOM

As in the other two Baltic States, this market sector is booming in Lithuania too. Prices of certain kinds of property have increased by 40-60%. As a result, along side companies, an individual real estate tax of 1 per cent has been introduced in 2006. The euro introduction delay can somehow pull down real estate market prices as property speculators in disappointment might sell their properties.

THE EU FUNDS' CONTROL

The improvements in the balance of current transfers have been greatly due to significant EU structural funds' support — the fact which attracted additional public attention to distributing EU structural funds. Country's Labour Party (LP) has been most active critics suggesting more public involvement in controlling and coordinating the funds. For example, the LP questioned the Ministry of Finances' role as a proper coordinator pointing out that the ministry is not responsible for funds' appropriation and only monitors the process. The multi-level system of EU funds' allocation in the Baltic States has been a theme of constant criticism. •

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Does a businessman need a psychologist?

By Anzhela Rzhishcheva

Latvian economy's transition to the free market inevitably repeats some regular processes occurring in the Western societies with a developed market economy. Among these "regular processes" is applied science achievements' integration into business structures, especially psychology.

Life is going on, as we all know perfectly well and new conditions require innovative technologies in business, fresh ideas, knowledges and skills, methods and sometimes even new approaches to customary actions. Our brains work according to natural laws that are as clear-cut as, for example, the law of gravity. Individual peculiarities produce impact on our behavior all the time. Without being aware of that we deem to grasp a lot of things happening around us as manifestations of mysticism or tricks of the mind. Whereas, being aware of that we can make our life precisely the way we would like it to be.

Applications of psychology methods in business are multi-faceted, *inter alia*, activation of psychological factors in labour productivity both in teams and individually; improvement of training efficiency, social and psychological training, personnel's selection and assessment, psychological factors in advertisement, marketing, PR, and psychological support in efficiency of negotiations, just to name a few.

PRESTIGIOUS AND PRACTICAL PROFESSION

Irina Plotka, professor, doctor of Psychology, vice-chancellor of the Higher School of Psychology (HPS) in the Baltic Russian Institute (1999-2004), and presently a director of the HPS' Master programmes has been at the initial stages of HPS studies' establishment in Latvia. In her opinion, psychologist's profession is becoming ever more popular and in greater demand in modern society.

To my mind, said I. Plotka, people coming to our school are attracted not only by the prestige of this profession. No doubt, some students follow their drive for profession; but some are willing to be engaged in science. However, there are a lot of HPS' students that want to resolve their personal intentions via profession. There is no harm in this at all. Practical psychology in the recent years has become an integral part of everyday's life, irrespective of our intentions.

Let's take some of the integral components of a modern individual's psycho-

logical portrait: striving for risk, experiencing various motivations, avoidance of misfortune and achievement of success, personal inclinations and levels of personal esteem, self-confidence and self-appraisal, etc. Only through analyzing these peculiarities a human being is able to guide them consciously, choosing the style of activities



IRINA PLOTKA: Practical psychology in recent years has become an integral part of everyday's life, irrespective of people's intentions.

appropriate to him/her, to attain internal harmony in personal and professional aspirations, freeing internal resources. How to reach all that practically?

First of all it is important to find answers to a series of ordinary and at the same time quite important questions. How do emotions occur, when are they harmful and when are they useful? Is it really important to listen to your "inner voice"? It is well-known how difficult it is to combat stereotypes. But how do we really tackle them? Is it possible to make the way we think into a positive process? Am I a leader? Am I able to be a leader? Do I really want to be one?

You can not answer these questions without a psychologist's assistance who has already acquired a lot of reliable, proven techniques, methods and tools for adequate assessments. Applying them one can

become a successful and creative businessman. Learning more about yourself, your own resources and peculiarities is the only way to become a "particular person"; i.e. the one we can proudly call an individual.

PRIMUM NON NOCERE!

"It is really important, argued **Aija Dudkina**, vice-chairman of the Baltic Association of Practicing Psychologists (BAPP), when applying for psychologist's help that a businessman can actually get a professional advice according to the old-aged principle "first, do not harm!" This was the objective for establishing the BAPP. At present it incorporates more than 100 specialists providing consultancy work in Riga and in other regions in Latvia. All of them are subject to regular compulsory certification and re-certification checks which are a sort of guaranty for quality service. Certainly, it does not mean that psychologists outside BAPP's membership provide incompetent services; however, choosing a specialist I would recommend asking for a professional certificate", A. Dudkina added.

INVALUABLE ASSISTANT

Alexander Samojlov is one of the first "independent" Latvian psychologists, who started to apply his academic knowledge obtained at Leningrad University practically, being engaged in management staff and personnel's monitoring. Then he worked in the Republic's Sociological Center. In the early '90s he used to work at Police Department, where he was engaged in the expert's evaluation of the staff managerial potentials, both newly appointed and those nominated for new posts. At present A. Samojlov is a psychology teacher at Riga secondary school No. 65 and in his spare time he provides professional assistance to children's parents and businessmen. In A. Samojlov's opinion, many Latvian businessmen usually refer to psychological methods when the ordinary and accepted methods of resolving business problems do not work. In these situations only a specialist, i.e. practical psychologist or a group of psychologists could render effective assistance.

Psychologists have proven methods and tests for diagnosing relations in the formal/informal groups starting from the conflict's origin, when its sources are "carefully hidden" and sometimes quite vague for being

investigated independently which is not realized by the participants. This could hinder making optimal preemptive decisions.

“Personnel or human resources are the decisive factors behind any business’ success”, argued A. Samojlov. For this purpose a psychologist has sufficiently effective methods used as distant, out-of-contact staff assessment, for example, through participants’ biographic data assessments. Furthermore, even when highly qualified specialists are employed in a company it is still not out of order to make their psychological diagnostics



AIJA DUDKINA: It is really important when applying for psychologist’s help to know that a businessman can actually get a professional advice according to the old-aged principle “Primum non nocere!” (“First of all, do not harm!”).

presenting individual recommendations for improvement, awareness as to their individual style of actions, range of activities, both positive and negative for a given individual, including psychological correction, and psychological training. This is what psychological service at a company shall do and which is really producing serious advantages for the business as a whole. There were cases in my practice, he said, when using certain methods I managed to reveal “moles” that sucked out a share of company’s profits”

Sooner or later a demand in a company arises when there is a need for more precise information about company goods’ consumers and customers. Usually, sociologists are involved to make such assessments, however, in A. Samojlov’ opinion, it is more expedient to involve psychologists, as it is much more important to know consumers’ psychological characteristics rather than just collecting valuable data, e.g. concerning consumers’ sex, place of residence, income level, etc. So-called “targeted auditorium”

of consumers’ approach is in the basis of such marketing information. Without knowing these approaches and not trying actively influencing them, it is difficult to sell anything occasionally and simply impossible to sell goods on a regular basis. The benefit of using psychologists’ recommendations is well worth the money spent.

DO NOT ALLOW YOURSELF “GOT RUSTY”

In order for your business to prosper it is not enough to have sufficient financial resources, it is necessary to be able to work with people; here the ballet principle is valid, i.e. do not allow yourself “get rusty”.

“As a matter of fact, it is not wellworth manipulating people. Though it might sound crazy for those who value time and money, it is, in fact, both useful and beneficial to invest time and money in people and form a team of like-minded people around, explained A. Samojlov. Such business environment can progress business, in this way manager’s plans meet active support and the staff is more satisfied with work producing more profits for a company, many times exceeding costs of their remuneration. This task is difficult to resolve without a psychologist, who will build up or fine-tune the system of personnel’ selection and training, will help the manager creating in a firm an efficient corporate culture, a comfortable emotional environment, and help in forming particular skills needed both for other people and self-management.

I can give an example, a case from my practice, when a businessman established a team of the like-minded people but, however, he was unable to hold the leading positions. One day they all resigned and established their own company instead. Thus a businessman himself has “created” his competitors. If he timely contacted a psychologist, it would be possible to avert the situation.”

HOW TO SPEAK “THE SAME LANGUAGE”

Negotiations are an integral part of any business; but how to reach an agreement without sacrificing you own interests? In order to find a financial compromise a businessman does not need a psychologist; he can do it himself. In the course of negotiations it is important to fully understand one’s opponent: as a rule, all failures in business are related to the lack of understanding.

“It is possible to master the technique of conducting negotiations with the help of various trainings; information on such courses comes on a regular basis from consulting companies”, added A. Dudkina. Besides the skills a businessman need for achieving his aims in

business he should possess certain psychological features, i.e. he/she should be a “stress-resistant” person and sufficiently mature to withstand difficulties. It is important for a businessman to know how to use and take preventive measures and resolve a lot of “chronic” bottlenecks both in private and in business spheres as it concerns “nonbinding” partners and undisciplined personnel.

One does not have to ignore, neither dramatize a critical situation but to take it as it stands as an “inevitable attribute” to one’s profession and being proud of timely managing and resolving it. This experience requires obtaining, first of all, the skills of managing one’s own life; only then it is possible to administer others and manage the processes which involve other people.

People are the opportunities that exist, the available resources. That is why it



ALEXANDER SAMOJLOV: There were cases in my practice, when using certain methods I managed to reveal “moles” that sucked out a share of company’s profits.

is a must to learn how to deal with other people and constantly develop one’s abilities to attract people and turn them into partners. These recommendations can help both accomplished businessmen and those trying to establish their own business or making headway up the career stairs”

BUSINESS IS STILL YOUNG

Talking about business psychology there was something the all the people the *BC* has interviewed have been unanimous about, i.e. this sphere of activity in Latvia is still in its embryo. However, more businessmen and other “ordinary people” have realized the necessity of psychologist’s advice with the aim of establishing both efficient business and attaining success in life. •

Economic patriotism

New trends in the EU integration

By Eugene Eteris

European economy is being presently pushed from both sides, i.e. globalization challenges and regional consolidation. Both processes have become a litmus test for the EU efforts in creating a genuine free internal market. Regional "reaction" to globalization has turned into a specific feature in the EU economics and politics taking a form of "economic patriotism". Generally speaking, there is nothing wrong in protecting both national and the EU's interests. The question is how it copes with the EU single market's concept and integration perspectives.

REASONS FOR PROTECTION

The notion of "economic patriotism" was coined into European political lexicon by **Dominique de Villepin**, France's prime minister in July 2005. He called it "a true economic patriotism" and he meant that under global changes ("globalization") the idea for nation-states, i.e. for France was to gather strength and defend the country. It seems that this notion can fit pretty well into the present level of other EU states' politics, economy and the whole Union's integration.

The notion of "patriotism" can be easily traced back to the initial EU reaction to globalization when dangers from China textile and shoe industries appeared for the region's future. When discussed in WTO the European Union made clear defensive efforts in creating tax burdens for such goods from China.

There is another fact to be mentioned in this regard: since the inauguration of the Lisbon Strategy signed in 2000 the EU heads of state and government each year tried to accommodate the strategy to pessimistic EU economic perspectives. It seems that "economic patriotism and nationalism" makes sense helping to protect states' economy, in particular the state-owned sectors of industry and utilities.

France is not alone in the efforts, only other countries are not "very loud" about their moves. For

example Danish three main state companies in the field of post service, railways and maritime transport (i.e. *Post Danmark*, *DSB* and *Scandlines*) have gained tremendous profit advantages (resulted in average profit increase of 10-17% in comparison to 5-7% for an average private company) due to various state aids. In fact there are much more public Danish companies with great

state share of ownership, e.g. *DONG* which is involved in oil and gas extraction in the North Sea. The Danish government is not only "collecting" huge taxes from these companies (this is why it assures that they are profitable) but "drains" them accordingly, e.g. *DONG* paid in 2005 about 1,1 bln crowns in taxes (around 200 mln USD) and about 1,2 bln as "public remuneration"; *DSB* correspondingly paid 242 mln and 1,1 bln crowns to the state purse.

POLITICAL ASPECTS BEHIND PROTECTIONISM

To understand the rationale behind some European countries' moves towards "patriotism" (or isolationism, in economic sense) both in energy and other sectors, we can take French example provided by the country's leading political expert, Mr. **Dominique Moisi**. He suggested that at least three elements have to be combined in such analysis:

- Political traditions: This is, in analogy with the British "old boy network"; i.e. an idea of people sitting in the government coming from the best elite high schools and universities. Thus chief executives of *Suez* and *Gas de France (GdF)* in France came from the same elite establishment (National High School of Administration, ENA), from the start of their careers up to the highest civil authorities' posts. The

same picture is resembled in all the other EU states.

- Superiority complex: For many in the present governmental structures (be it French, German or Italian elites) to resist the foreigners' bids and takeovers is a proof of "patriotism"; i.e. that they are doing something right for their country. In France, as Mr. D. Moisi comments, "the economic centrality of the state is not perceived as an anachronism in a global economy but as an application of Adam Smith's law of comparative advantage". And he concludes: "France has a strong state compared with most European countries, so why not use the state in the service of the country's ultimate economic interests?"

- Privatization efforts: This element of "patriotism" in French terms has more tactical than political implications; and could be probably very negative for other EU states' political culture. In order to counter *Enel's* "Italian offensive" on *Suez*, the French government decided to merge *Suez* and *GdF* as the perfect opportunity to privatise the latter. On top of the EU complaints, the trade union's response in France was extremely negative.

ENERGY STRATEGY FOR EUROPE THROUGH "NATIONALIST APPROACH"

Recent EU member states' "defensive" efforts have been most vivid in energy sector. Thus out of four major acquisition scandals in spring 2006, two dealt with energy:

- French prime minister was hastily arranging in early 2006 a merger between a state owned gas firm *GdF* and another big utility, *Suez* in order to resist Italian bid for *Suez*.

EU MEMBER STATES' ENERGY DEPENDENCE, IMPORT IN % OF TOTAL CONSUMPTION

EU-25	49.5	Lithuania	45.3	Austria	69.8
EU-15	51.8	France	50.5	Spain	76.4
Denmark	-31.7	Slovenia	53.4	Belgium	78.8
The UK	-5.9	Latvia	58.7	Italy	84.0
Poland	14.3	Finland	59.2	Portugal	85.3
Czech R.	24.9	Hungary	61.1	Ireland	87.1
Estonia	27.4	Germany	61.1	Luxembourg	98.7
Holland	37.6	Slovakia	64.6	Cyprus	99.1
Sweden	42.9	Greece	67.4	Malta	100.0

Source: Eurostat.

• Spanish government was trying to block a German firm's bid (*E.ON*) for *Endesa*, a Spanish utility.

The idea to create European energy strategy evolved from late price increase on utilities service and last winter Russia's energy supply break, the country that, as is well known, cover more than a quarter of Union's consumption in gas and crude oil.

It is underlined that Europe must act collectively on energy; the reason for the EU common energy security is obvious as the EU will be importing a growing amount of its energy needs from abroad in the future. The EU is already relying on external sources for 50 per cent of its energy use. Most estimates suggest that these figures will rise to 90 per cent for oil and 70 per cent for gas by 2030. Russia's recent disputes with Ukraine, Georgia and Moldova over the terms of gas supplies have been of major concern for the EU.

Quite remarkable that only two EU states are self-sufficient in energy, i.e. the UK and Denmark.

The EU energy strategy is to face the fact that the Union is going to import greater amount of energy resources from abroad and the EU has to discuss the issue with the member states and foreign energy partners. Thus, the EU member states are already working together on liberalising and integrating energy markets within the Union. The "balance of logic" in energy sector's trade is such that the EU needs to buy from abroad and exporters need to sell energy resources. For example, the EU presently imports about 30 per cent of its energy needs from Russia. But equally significant for Russia is that it gets more than 20 per cent of all export earnings from selling gas to Europe.

There is no doubt that energy and other EU politics are closely interconnected; it is just necessary to find the right balance between a market-driven and a strategic course. Then, it is necessary to diversify energy supplies, including alternative modes of its transport and delivery.

CHAMPIONS: EUROPEAN OR NATIONAL?

Globalization processes, among other factors, caused apparent discontent across Europe. Mostly it concerns the accelerating erosion of state power, the fact which has never been acknowledged by European political leaders (*Financial*

Times, 24.03.06, p. 13). The bi-side effects of such erosion have been increased nationalist reactions around the continent, and economic protectionism is just one of such reactions. One thing is clear about weakening of a state — it threatens the national consciousness and damages stable statehood. Another one provides ground for both national and regional champions, e.g. big and powerful companies of world nature and influence. Some countries, e.g. France and others are strongly supporting the idea of European champions.

In this regard, it has to be admitted that there is nothing wrong in the position of a national economic champion. For example, *Enel*, which is both the largest Italian electricity supplier and Europe's third biggest utility by market capitalization. This is why acquiring more growth in Europe would be unfair for *Enel* and a little bit too much in its offer for Suez of which the former already owns about one-third.

WHAT IS GOOD FOR THE MEMBER STATES IS GOOD FOR THE EU

The idea of creating national giants, or economic champions (examples are numerous in the present EU), to quote Thierry Breton, French economy and finance minister, "in a world where fossil energy is increasingly rare, and where only size counts"; certainly makes sense. But if the primary idea and logic is company's size and pure economic rationality in a global market, then all recent actions (including proposed merger of *Gaz de France* and *Suez*, planned offer by Italy's *Enel* for *Suez*, *Mittal's* bid to absorb *Arcelor*, Germany's *E.ON* takeover for Spanish *Endesa*, etc.) can be regarded as perfectly wise and far-reaching. But then the "patriotic criteria" is being coined which completely confused and destroyed both the debate and the process of integrating consolidation process with that of the EU integration. Plainly speaking, can French giants be good for Europe, but "European giants" bad for France? The answer to the question needs, in fact, a complete revision of the Union's integration strategy.

Once **Karl Marx** argued that a socialist government had to nationalise "the commanding heights" in the economies; the outcome which was good enough for the theory of communism. But does the present UK's economy suffer because French firms (including *EdF* and *Suez*, among others) already own large share of British electricity and water utilities? No, it does not; as these

"foreign" (in national sense, but "internal" in the EU's sense) companies are subject to exactly the same regulations and labour laws as any other utilities in the country. Therefore the laws of the land and the state's competences are not violated. What is affected in fact is the ability of governments and certain politicians to use patronage at favoured firms to "help friends"; to get favours in return, to support special interests, e.g. that of trade unions, and "to paint themselves as patriots".

Reluctance to open up market is strongest in France and Germany, acknowledged recently former EU Commissioner for internal market and competition, **Mario Monti** (*Financial Times*, March 2, 2006, p.12). Some other negative aspects can be mentioned in this regard, i.e. these countries are at the same time slower in transposing single market directives into national law, and they are most frequent violators of the EU regulations.

CONCLUSION

All what is happening in the EU is also a perfect symbol of perverted EU's integration logic. In the past, member states' government used Brussels to pass unpopular but necessary for integration and single market reforms. That helped the member states to defend some unpopular moves on the national front: "We would have loved to do otherwise, but we cannot escape it; we have to follow the European rules;" was the convenient logic. Today, the countries like France have to find another pretext, for example, to hide behind patriotic rhetoric. In the case of France the responsibility was taken by the national government rather than by the Union's structures.

Famous British poet and essayist **Samuel Johnson** (1709-1784) once said that patriotism is the last refuge of a scoundrel. Probably it is unfair to the proper patriots but quite pertinent for politicians who make a fuss about foreign takeovers in their countries in the name of "national interests". The question is whose interests they are defending, i.e. that of the nation or their own (often their cronies). Such selfish populism has become widespread and popular in France, Spain, Italy, Poland and other countries. •

References:

- *Financial Times*, March 6, 2006, p.13 and March 24.03.06, p.13.
- *The Economist*, March 4-10, 2006, vol. 378, nr. 8467, pp. 10-11
- *Berlingske Tidende*, Denmark, Business Section, 23 Marts, 2006, p.12

Financial integration: supervision and control in the European Union

By Eugene Eteris

This is the 4th and the last article in our series on EU financial integration.

Financial supervision and control plays a decisive role in the Union's financial integration efforts. Supervision varies considerably among the EU member states. In about half of the EU the central banks have a key role in banking control; supervision in securities and insurance is generally performed by different state bodies.

INTRODUCTION

In December 2005 the EU Commission presented its new financial services strategy for the next five years. Introducing the new strategy Internal Market Commissioner **Charlie McCreevy** pointed out to the need of applying better regulatory discipline. Among five priorities of the strategy two are directly connected to supervision and control, e.g. extending better regulation principles into all policy making; enhancing supervisory convergence.

INTERNATIONAL AND EU REGULATIONS

The Basel Committee of banking regulators made banks in 30 countries carry out a study (fifth in a row) in order to improve the stability of the European as well as global banking system. Implementation of the Basel rules provides a burden for banks as to the costs of adopting new international accounting standards and the US Sarbanes-Oxley legislation on corporate governance. Small, mid-sized and large banks would spend, as a rule, correspondingly, from 30-60 to 60-70, to 80-150 mln euro on Basel II implementation.

The Basel II rules were finalized at the end of 2004 but expected to be enforced for the EU together with the Capital Requirements Directive. Chairman of the Basel Committee on Banking Supervision (Mr. **Jaime Caruana**, himself is governor of the Bank of Spain) said that about 100 states had signaled that they planned to implement the agreement even before the end of 2010. The Basel "fine-tuning" would include partial implementation in 2007 and the complete one in January 2008. But still some differences in implementation are unsolved, e.g. the tensions between "home" supervisor responsible for an international bank group's HQ and "host" supervisors dealing with subsidiaries or branches abroad.

FINANCIAL INTEGRATION AND SUPERVISION

Supervision has direct practical implication on efficient financial market regulation. The EU efforts in this field proceed alongside two main directions:

- supervision based on national efforts and corresponding body's responsibility,
- various EU regulatory measures supplementing the former.

Major step in the EU efforts for financial integration has been already mentioned, i.e. Financial Services Action Plan (FSAP) of 1999 which as its aim, among other things, envisaged financial stability.

Several EU arrangements have to be mentioned in this regard, such as Brouwer working group with measures to develop crisis management, and Lamfalussy Committee for securities market regulators and supervisors. In 2002 the ECOFIN Economic and Financial Committee prepared extensive analysis of the EU's financial stability and supervision regulations. In order to streamline the process three new committees were organized in securities, insurance and banking sectors' supervision.

Specific attention is paid in the EU to accounting rules for financial instruments: so-called Fair Value Directive entered into force in autumn 2001. The aim of the latter was to attach International Accounting Standards (IAS 39) for application in the EU. Already in 2002 EU regulation required listed European companies (as well as those in financial and insurance sector) to prepare consolidated accounts according to IAS requirements starting from January 2005.

SYSTEMS OF PAYMENTS IN THE EU

Main difficulties in control come from the existing in the EU system of payments. Payment transactions in the EU are processed generally through four main systems; such segmentation is good, first of all, for risk management assessments:

- TARGET — mainly large value payments are processed via EBA's account at the ECB;
- EURO I — mainly medium value payments are processed and maintained by Euro Banking Association — EBA. It's slower than Target system;
- STEP 2 — retail payments are processed through Euro Banking Association (EBA);
- CLS — Continuous Linked Settlement, designed to eliminate foreign exchange settlements risks. Payments are arranged on a payment-vs.-payment (PVP) principle when ownership of the currencies in the transaction switches simultaneously.

It has to be mentioned that there are still various payments' means and instruments used in the EU member states; thus, e.g. cheques are still common in France and the UK, while credit transfers are popular in the Netherlands and Finland. In the payment transactions' system, as an average calculation in the EU (per capita), four main instruments are



CHARLIE MCCREEVY: Internal Market Commissioner.

used: credit transfers, debit and credit card payments (the largest share in the EU), direct debits and cheques payments (the least used). It is in sharp contrast with the USA where only two main instruments are generally used, i.e. debit/credit cards and cheques payments.

On the other hand “average” European citizen makes less than 150 payment transactions a year, in contrast to 270 for an “average” American.

SINGLE PAYMENT AREA (SPA)

In June 2002, after introduction of euro, the European Payment Council was created to monitor retail payment system in the single euro payment area (SEPA). That system covered introduction of retail payment scheme STEP-2 since summer 2003. Both SEPA project and other legal framework for payments in the Internal Market have been prepared by the European Commission in order to promote integration. In December 2005 Commission created new stimulus towards “Single Payment Area” providing easier, cheaper and faster payments. SPA is expected to be a big money saving system to the EU economy to the tune of 50-100 billion euro a year. Currently, with various rules on payment in most EU member states, annual cost of making payments between these fragmented systems is 2-3 percent of GDP. The proposal is to be ‘worked out’ with industry and EU’s ECB. The SPA’s ultimate completion is expected to be around 2010.

Among other factors aimed at increasing control in financial integration should be mentioned:

- Institutional structures, such as already mentioned SEPA and Pan-European automated clearing house — PEACH — for retail payments. As for other measures, they are to be taken into consideration that various other companies are offering payment services alongside banks.
- Technological progress’ factors, including such as Internet, net-bank, electronic signature and e-commerce payment methods providing greater supervision flexibility.
- Legislation and regulations, aimed at harmonization existing control measures in cross-border payments.
- Efficient decision making procedures, corporate governance and common standards in retail payment systems as integration in the latter has began only recently.

INSTITUTIONAL ARRANGEMENTS

Central Banks in the EU member states are the primary supervisory authorities, except in Luxembourg, Malta and Denmark. Although the Central Banks’ supervisory role is different, it can be acknowledged that at least in half of the EU member states they play a key role in banking supervision.

On the other side, there is a great share of differences among these authorities’ competences in the member states, as well as some common features. Thus, a single supervisory agency is at present in 11 EU states while other countries have from 2 to 6 (in France) financial supervising authorities. In most of the EU states such institutions were created only recently, e.g. in the UK the Financial Services Authority which regulated country’s financial services industry was created only in 2001. The UK’s FSA distinguishes between wholesale and retail market services’ control.



JAIME CARUANA: Chairman of the Basel Committee on Banking Supervision.

At the same time national overregulation has been the biggest threat to regional banks in the past (and it’s going to be that way in future), as well as lack of adequate regulatory means from the EU side. Quite remarkable is the fact that ECB is not directly involved in banking supervision; it is still mainly the domain of the member states’ authority.

Supervisory functions can be classified by sectoral activities: in banking, insurance sector, and in securities; supervision in these sectors is exercised by different government agencies. In addition to supervision, government authorities perform financial analysis, provide stability assessments and publish crisis management trends.

CONCLUSION

Intensive discussions in the EU on the future of regional economics and finances in 2005 and initiatives to review

services directive added new dimensions into financial supervision challenges, coupled with the Commission’s announcement that Europe’s banks have agreed on a roadmap to single payment system by 2008.

Eurozone badly needs various sorts of takeovers and acquisitions in its banking sector to achieve market integration and consolidation. It is still to be remembered that eurozone’s banking sector consists of 12 “mercantilist states”, each jealously guarding its regulatory framework. For example, Italian central bank’s governor has the right to block any banking merger; especially foreign takeovers are opposed (it shows that Italy is not ready to open its financial markets to foreign investors).

The lack of an integrated supervision in financial market (the latter is the EU internal market’s major component) can be regarded as the biggest gap in the future EU economic infrastructure. For the 12 eurozone member states such single financial market is even more important as a prerequisite for successful development in future. Deregulation in the eurozone financial market can bring greater benefits in economic growth and employment. This is especially true at the time of globalization processes when many industrial sectors are going through intensive restructuring period in which efficient financial market can provide effective capital relocation facilities.

In lack of adequate supervisory structures, the banks themselves are trying to take the right decisions. But the banks are under press with an obligation to follow financial stability and supervision in their national systems. In this regard, cross-border takeovers can help in consolidation of the EU banking sector.

One of the most important principles in financial control must be the non-discrimination between economic agents in access to investment and capital on the basis of nationality or location. But the process does not proceed without problems. Fiscal flexibility is not bad in itself: eurozone member states have lost important policy instrument, i.e. the power to set interest rates. At the same time, fiscal policies should be free to react to local problems such as divergent income levels or demographics. The differences might occur between two supervision modes, i.e. deficit-financing versus tax-financing of public expenditures. The problem is that there is no political sanction mechanism in the EU to prevent fiscally irresponsible behaviour, either in other EU states or in the eurozone. •

Plans for eastward expansion

Baltic food producers conquering Russia with exclusive goods

By Alexander Fedotov

Riga-Moscow

Eastern markets, first of all Russian, always have been among priorities of Lithuanian, Latvian and Estonian food-stuff producers. The situation changed after the Baltic States joined the EU. On one hand, new export opportunities to third countries appeared due to EU export subsidies. On the other, it was necessary once more to obtain Russian veterinary certificates. Fish and dairy products from the Baltic States are still traditionally popular among our eastern consumers.



MOSCOW, PRODEXPO 2006: For the second time Latvian producers took part in the fair.

This is why most of the Baltic participants in the 13th international food industry fair “Prodexpo 2006” in Moscow were fish-processing companies from Latvia and Estonia and dairy companies from Lithuania. Russia and Eastern European countries traditionally recognize this fair as the most significant international event in food industry. It is organized under the auspices of the Russian Federation Chamber of Commerce and Industry. As many as 2,200 companies from 61 countries displayed their food-stuff at Moscow International Exhibition Center. Participants have been grouped both by sectors and by national exhibition’s stands. Of all three Baltic States, only Estonia did not make its own national stand; Latvian and Lithuanian trade representatives enjoyed great popularity among exhibition visitors.

Latvian producers participated in the “Prodexpo” fair for the second time. This time Latvian Agriculture Ministry provided solid assistance covering 50% of the fair rent for national exhibition stand (the rent was EUR 500-600 per sq.m of the exhibition area). Agriculture Minister, **Martins Roze** came to Moscow heading Latvian delegation. He underlined that Latvian food producers have shown a growing interest in such events recently as it is at these exhibitions they can establish business contracts for their products, which is very important for Latvian producers.

In addition, it was important that the latter underwent complicated and effort-consuming procedures in order to obtain Russian veterinary certificates giving rights for food-stuff exports in eastern direction.

CANNED SPRATS ARE NOT ENOUGH

According to **Inguna Gulbe**, Marketing Council director and member of Latvian delegation, the only chance of acquiring a place in the market is coming up with exclusive products. The task was not easy to perform; and it was quite clear witnessing at the fair huge assortments of various food-stuff. Our potential capacities are too small for competition in terms of amounts and attractive prices.

The fish-processing traditionally has maintained the most favored position in our export. No wonder that six out of ten Latvian companies that joined forces to organize a national stand were fish canneries. And the main export product was famous Latvian sprats in oil; Russians still remember its good taste. Latvian fish-processing companies can also offer something super-exclusive, e.g. canned cod tongues.

However, in Latvian export there is something more than just canned and frozen fish-stuff. For example, recent market research has shown that Russians liked Latvian whole meal rye bred *Sencu*, said **Eriks Lusis**, from *Zana Lagzdina maizes fabrika* bakery, as that kind of bread is not produced in Russia in sufficient quantities. Latvian bakers decided that they would supply rye bread loaves in a frozen form; in that way the bread retains its quality for six months.

DISTRIBUTOR WANTED

Commonly, it is not profitable for retailers to work with Latvia directly as both turnover and assortments are too small. The companies which have already established their representation offices in Russia are in a better position. Thus, *Karavella*, the successor of once quite popular in Russia trade mark *Kaija*, inherited also a former Russian distributor’s net. *Rigas piena kombinats* dairy several years ago bought a controlling stake in *Demyansk Dairy Plant* based in Russian Novgorod region. The latter has become a sort of transshipment terminal for export of Riga-made milk, cheese and cream destined for the eastern neighbor’s market.

But not all the participants at the exhibition have had such favorable partners. As **Valery Yaruzhny**, *Velte L* executive director mentioned that during the fair he had received business proposals from retailers representing almost all Russian regions, except maybe Kamchatka and Chukotka. The would-be-customers were interested in such company's products as various spices, food-stuff additives and sauces made according to old recipes from the eastern Latvian region of Latgale. But retailers need intermediary agents that would have transshipment terminals and would compose "a portfolio" of orders for various supermarkets.

WHAT COULD LATVIAN NEIGHBORS OFFER?

Lithuanian dairy products, i.e. cheese, butter, etc. are quite popular on



the Russian market therefore dairies prevailed at the Lithuanian national exhibition stand as well. A visitor's eye was immediately caught by a huge block of cheese, a product of *Rokiskio suris* company. *Rokiskio suris* was the first dairy company from the new EU member states which obtain the EU export license, thus becoming entitled to export subsidies equal to EUR 750 per each ton of cheese exported to Russian territory. Some other Lithuanian dairy giants, *Pieno zvaigzdes*, for example, also looked for additional export opportunities in the eastern direction.

Representatives from *Alita* liquor producer and *Krekenava*, the largest Lithuanian meat packer, also came to Moscow. All in all, 10 companies were represented at the Lithuanian national exhibition stand organized with support of the Lithuanian Agricultural and Food Products Market Regulation Agency.

Estonian representation at Moscow international fair was much more modest. The fish processing companies had a joint exhibition stand under the auspices of the Estonian Union of Fisheries. *Maseko*, which offers various canned fish products, like sardines in oil and sprats, has had an individual stand. Nevertheless, Riga sprats were much more popular at the Moscow fair.

A FLOW OF GOLD MEDALS

Traditional food-stuff tasting events were held among different groups of products at the fair. It was the 13th time when such tasting competitions were organized; this time 1,200 companies from 60 countries participated exhibiting about 2,000 brand-



articles for the competition. Latvian food producers did well in this competition. Five companies, i.e. *Kolumbija Ltd*, *Randa*, *Rigas piena kombinats*, *Ventspils zivju konservu kombinats* and *Baltas naktis* have won eight gold medals. It will be seen shortly whether those awards have signified growing consumer demands, especially since Latvian food producers have shown truly gigantic export ambitions and plans.

There are at the same time, good reasons to believe that after final 2005 food-stuff export results are made public, food export will exceed 300 million lats, both in the western and the eastern directions. •

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CONDITIONS OF
SUCCESS

NUMBER OF TRACKS IN INTERNATIONAL CARGO TRANSPORTATION MARKET

	2004	2005	Changes, +/-		Euro 1, 2, 3, 4, %
			tracks	%	
Poland	41119	64747	+23628	+57.0	64.0
Russia	19953	19970	+17	+0.1	85.7
Ukraine	16936	18081	+1145	+6.0	7.2
Lithuania	12500	13000	+500	+4.0	80.1
Belarus	8376	9485	-1109	-11.4	28.0
Latvia	6352	7996	+1644	+26.0	86.8
Estonia	5438	6130	+692	+11.0	n/a
Kazakhstan	2009	2233	+224	+11.0	60.0

Source: ASMAP.

AIR TRANSPORTATION IN THE BALTICS

	Number of passenger, mln pers.		Cargo turnover, th t	
	2005	% to 2004	2005	% to 2004
Riga	1.9	+77.1	15.9	+81.6
Vilnius	1.3	+28.9	5.3	+1.9
Tallinn	1.4	+40.5	9.9	+89.7

Source: LETA.

INDUSTRIAL PRODUCTION GROWTH IN SOME EU STATES, %

Country	December 2005 to December 2004
Luxemburg	+17.5
Estonia	+14.3
Poland	+14.0
Hungary	+12.9
Slovenia	+10.6
Latvia	+9.0
Finland	-1.5
UK	-1.5
Belgium	-0.9

Source: Eurostat.

RETAIL TRADE GROWTH RATE IN SOME EU STATES, IN %

Country	December 2005 to December 2004
Latvia	+23.9
Lithuania	+16.1
Slovenia	+12.4
Sweden	+10.8
Denmark	+5.9
Germany	-1.8
Average for EU-25	+2.3
Average for EU euro-zone countries	+0.8

Source: Eurostat.

PETROL PRICES (SUPER) IN SOME EU STATES, AS TO 20.02.06

Country	Price per th l, EUR
Most expensive petrol	
Holland	1374.00
UK	1308.36
Germany	1250.00
Cheapest petrol	
Lithuania	874.89
Estonia	839.42
Latvia	837.56
Average for EU-25	1201.56

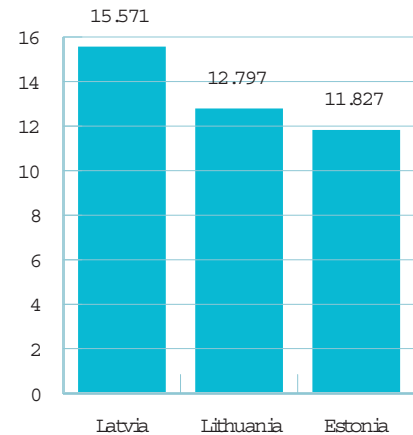
Source: European Commission.

FOREIGN CURRENCY ACCOUNTS' INTEREST RATES IN COMMERCIAL BANKS

	Latvia	Lithuania	Estonia
December 2005			
Short-term	4.1	4.0	3.0
Long-term	3.1	2.4	2.3
December 2004			
Short-term	5.3	3.2	2.1
Long-term	3.6	1.5	2.3

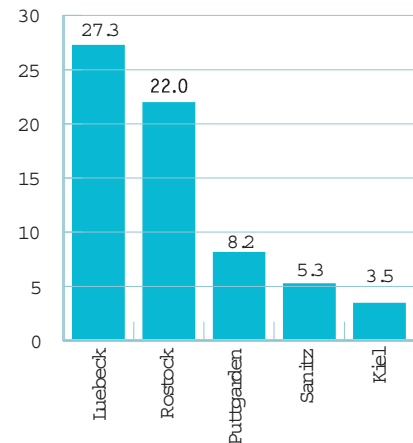
Source: Central Statistical Bureau of Latvia.

COMMERCIAL BANKS' ASSETS IN THE BALTICS, AS OF 31.01.06, BLN EUR



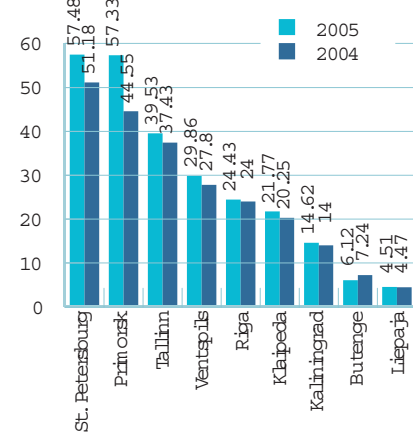
Source: LETA.

GERMAN BALTIC PORTS' TURNOVER, 2005, MLN T

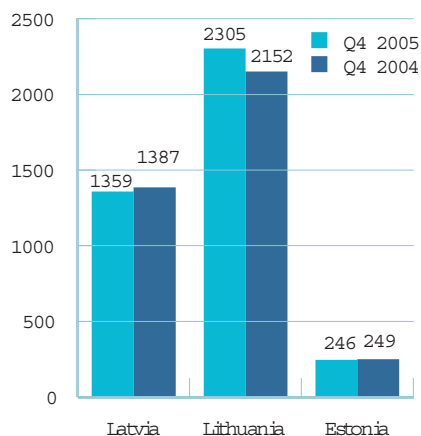


Source: SeaNews.

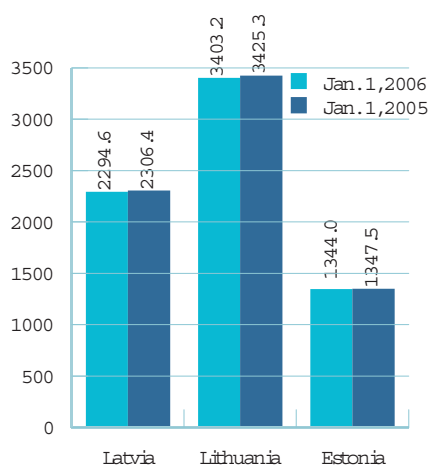
EASTERN BALTIC PORTS' TURNOVER, MLN T



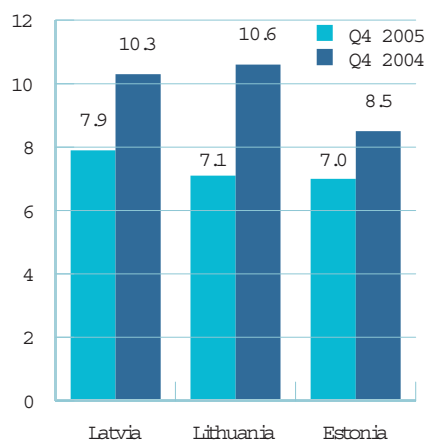
Source: SeaNews, LETA.

GENERAL GOVERNMENT DEBT, MLN EUR, AT THE END OF PERIOD

Source: Central Statistical Bureau of Latvia.

POPULATION, TH

Source: Central Statistical Bureau of Latvia.

UNEMPLOYMENT RATE, %

Source: Central Statistical Bureau of Latvia.

GROSS DOMESTIC PRODUCT

	Latvia	Lithuania	Estonia
GDP at current prices, mln EUR			
2005	12713	20587	10540
2004	11060	18084	9043
GDP at constant prices, % of corresponding period of previous year			
2005	110.2	107.5	109.8
2004	108.6	107.0	107.8
GDP per capita at current prices, EUR			
2005	5527	6030	7832
2004	4782	5264	6702

Source: Central Statistical Bureau of Latvia.

WAGES, EUR

	Latvia	Lithuania	Estonia
Monthly average, Q4 2005			
Gross wages	382.0	421.0	555.0
% to Q4 2004	116.9	110.9	112.8
Min. wages, March 2006	128.0	159.0	192.0
% to March 2005	112.5	110.0	111.5
Old-age pension, monthly average, Q4 2005	123.0	129.0	175.0
% to Q4 2004	111.9	110.9	118.8

Source: Central Statistical Bureau of Latvia.

FOREIGN TRADE, JANUARY 2006, MLN EUR

	Latvia	Lithuania	Estonia
Export (FOB)			
total	634	1618	1046
to EU-25	478	1055	694
% of total	75	65	66
Import (CIF)			
total	1126	2017	1416
from EU-25	822	1164	976
% of total	73	58	69
Balance of foreign trade	-492	-399	-370

Source: Central Statistical Bureau of Latvia.

FOREIGN DIRECT INVESTMENTS

	Latvia	Lithuania	Estonia
At the end of quarter			
FDI, stock, total, mln EUR			
Q4 2005	4035	5446	10371
Q4 2004	3359	4690	7381
Per capita, EUR			
Q4 2005	1759	1600	7697
Q4 2004	1457	1369	5477
FDI, flows, mln EUR			
Q4 2005	77	167	-38
Q4 2004	156	129	298
% of GDP			
Q4 2005	2.1	2.9	-1.4
Q4 2004	5.2	2.6	12.9

Source: Central Statistical Bureau of Latvia.

NUMBER OF CAR FIRST REGISTRATIONS

	Latvia	Lithuania	Estonia
March 2006	7428	12030	5742
March 2005	4699	12530	4720

Source: Central Statistical Bureau of Latvia.

International exhibitions and conferences in 2006 in which BC is planning to participate

CASH AND TREASURY MANAGEMENT IN THE NORDIC AND BALTIC REGION	C	Copenhagen, Demark	09.05 — 10.05
TRANSESTONIA	C	Laulasmaa, Estonia	10.05
CUSTOMS XXI, TRANSPORT CORRIDORS	E	St. Petersburg, Russia	10.05 — 12.05
SVIAZ/EXPO COMM MOSCOW 2006 — Telecommunications, Information Technology And Wireless/Broadband Technology.	E, C	Moscow, Russia	10.05 — 13.05
CEPIF — 3rd annual The Central Europe Property & Investment Fair	E	Warsaw, Poland	11.05 — 12.05
Bunkering in the Baltic and North Sea — Annual Conference	C	St. Petersburg, Russia	16.05 — 17.05
CUSTOMS XXI TRANSPORT CORRIDORS	E	St. Petersburg, Russia	16.05 — 17.05
EURO ID 2006 — International Trade Fair & Knowledge Forum For Auto-ID Technologies	E, F	Cologne, Germany	16.05 — 18.05
INFORMATION SYSTEMS	E	St. Petersburg, Russia	16.05 — 19.05
BELARUSSIAN INDUSTRIAL FORUM	F	Minsk, Belarus	16.05 — 19.05
TRASCASPIAN — International Transport And Logistics Exhibition	E	Baku, Azerbaijan	17.05 — 19.05
AKTAU. TRANSPORT. KZ — The 1st Caspian Regional Exhibition On Transport	E	Aktau, Kazakhstan	17.05 — 19.05
TRANSPORT & LOGISTICS	E	Helsinki, Finland	17.05 — 20.05
CORPORATE FINANCE IN RUSSIA	C	Moscow, Russia	18.05 — 19.05
1520 STRATEGIC PARTNERSHIP — International Rail Business Forum	F	Sochi, Russia	18.05 — 20.05
OILPORTS	C	Stockholm, Sweden	24.05 — 26.05
ADVERTISING AND INFORMATION	E	St. Petersburg, Russia	24.05 — 27.05
EFFICIENT LOGISTICS. SUPPLY CHAIN MANAGEMENT, COST SAVING.	C	Moscow, Russia	25.05
BALTIC FORUM CONFERENCE — Europe in the Mirror of Globalization: Problems, Challenges and Perspectives	F, C	Riga, Latvia	26.05 — 27.05
IFWLA — NEW LOGISTICS RESOURCES — Annual Convention Of International Federation Of Warehousing Logistics Association	C	Riga, Latvia	29.05 — 02.06
TRANSUKRAINE	E, S	Odessa, Ukraine	30.05 — 01.06
EUROCARGO — International Fair for Transport, Logistics and Telematics	E	Cologne, Germany	30.05 — 01.06
TOC2006 EUROPE — Shipping Ports and Terminals Event for Europe	E, C	Hamburg, Germany	30.05 — 01.06
SOFTWARE SHOWCASE	E	Astana, Kazakhstan	30.05 — 02.06
THE CIS OIL AND GAS SUMMIT	S	Paris, France	31.05 — 01.06
REAL ESTATE	E	Vienna, Austria	31.05 — 02.06
ELEKTRO 2006	E	Moscow, Russia	05.06 — 09.06
TREASURY AND RISK MANAGEMENT IN RUSSIA	C	Moscow, Russia	06.06 — 07.06
INTERTRANSPORT 2006	E, C	Odessa, Ukraine	07.06 — 10.06
IBREF — International Baltic Real Estate Fair & Conference	E, C	Gdansk, Poland	08.06 — 10.06
BOAT SHOW 2006	E	St.Petersburg, Russia	08.06 — 11.06
CIS COUNTRIES AND FEDERAL DISTRICTS OF RUSSIA — ON THE WAYS OF EFFECTIVE ECONOMY	E	St.Petersburg, Russia	13.06 — 15.06
NEW TECHNOLOGIES IN THE OIL, GAS AND ENERGY SECTORS	E	St.Petersburg, Russia	13.06 — 15.06
PETERSBURG INTERNATIONAL ECONOMIC FORUM	F	St.Petersburg, Russia	13.06 — 15.06
2ND NATIONAL AWARD IN RUSSIAN TRANSPORT INDUSTRY 'GOLDEN CHARIOT'		Moscow, Russia	14.06
EMPEX EUROPE — European Emerging Real Estate Markets	E	London, UK	26.06 — 28.06
INFOSECURITY RUSSIA — Focused Information Security Conference and Exhibition	E, C	Moscow, Russia	04.09 — 06.09

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