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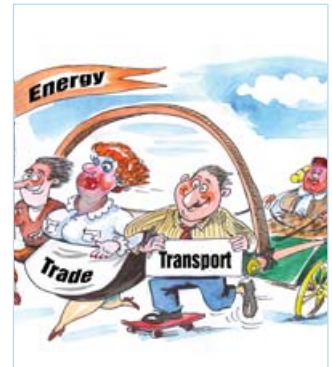
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AVE TRANS GROUP	LSF TRANS
Banking Institution of Higher Education	Messe Munchen GmbH
Grateka	NP Properties
Latvian Business School	PriBalt
Latvian Railway	RMS
Latvijas Gaze	SENSEI
LETA	



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AVE TRANS GROUP

Logistic operator rendering a unique complex of services



AVE TRANS GROUP

Our main aims are:

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

Our policy and purpose:

- Complex service is more efficient and less expensive

Our group structure:

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

AVE TRANS GROUP

Industrial Park

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

- General **guarded parking spaces** of up to 12 ha
- **Clearinghouse- and industrial facilities** of up to 18 thousand sq.m
- **Office apartments** (class B & C) of 3 200 sq. m
- Free **parking** lot for passengers' cars
- **Parking** lot for trucks
- A branch of a Bank

Transport Section:

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

- Our transport facilities fulfill all Euro-standards' requirements
- We provide CMR-type insurance
- We have due experience in different cargo-trade routs (since Sovtransauto-time)
- We have qualified drivers' staff with adequate knowledge and experience

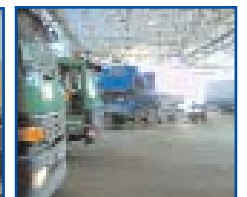
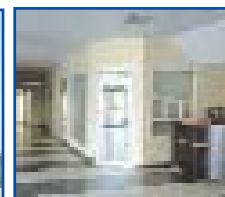
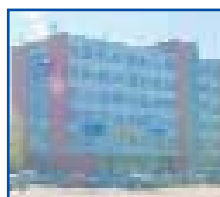
Auto-repair works' Section:

- We provide complex repair works for trucks, busses and other heavy vehicles, including oil and wheels' checks, mailing and etc.
- We supply clients with auto spare parts
- We have **car-wash** service and **disinfection** unit for trucks
- In our **shop** one can buy various spare-parts, instruments and worker-dress
- We can help in all sorts of goods' re-loading
- We can assist in **buying and selling used cars**

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FOR DECISION MAKERS

**The
BAL TIC
COURSE**

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The present *BC* marks a “silver
jubilee”, i.e. 25 magazine's issues
have been published during last
six years. With this in mind, we
decided to celebrate the occasion
by publishing four sectoral reviews
and the content of the round
table. It is the greatest ever num-
ber of reviews the *BC* published in
one issue. But of course, as we all
know, it's not the number but
rather the materials' quality and
actuality that count.



It has already become a tra-
dition to convene regular
the *BC* — Baltic International Academy round tables. This time —
it's about extremely important for the Baltic States issue, i.e. fam-
ily business. It happened that after the collapse of the Soviet sys-
tem and regaining independence, these three Baltic States, when
entering into market economy relations, explored potentials and
possibilities of the family business. Attention to these issues is
deemed both to change the existing patterns and to make such
“business” adaptable to the EU rules.

Transport issues have been under constant attention in the
Baltic States, to explore these states “transit” geographic position.
Extensive interview with the regions' three transport ministers can
provide readers with a most accurate overview on transport situa-
tion in the Baltics. Important sign in this regard: there good
prospects for the ports in the 3 Baltic States.

The Baltic-Russia business relationship review has been
important in several aspects. For the first time in modern Baltic
economic history an assessment has been made as to the role and
importance of Russian-Baltic business interconnections. And they
appeared to be great, regardless of the angle one can take in order
to assess it. Thus, in the list of richest people in the three Baltic
republics there plenty of Russian names. There are plenty of com-
panies with Russian participation (either personal or financial) in
all three states, e.g. in Latvia it's more than 2 thousand in totals.

Due to modern business's international character, the ethnic or
linguistic “colors” almost ceased to play any relevant role.

The complicated work of private detective's services was the
theme of a sectoral review in the “jubilee issue” showing both the
organizational and practical service's difficulties in the Baltics.

Then, we have a Baltic business rating review showing the
champions in the Baltic economy.

A view from the inside of the Commission's headquarters is
always interesting. It reveals more than just the EU official opinion;
it provides readers with a new insight into the EU development. The
BC offers an interview with the member of the Economic and Mone-
tary Commissioner's Cabinet, Mr. Benjamin Angel.

I hope you'll find this issue thought-provoking; and as always,
we welcome your letters and comments.

Enjoy your reading!

Eugene Eteris
BC's International Editor,
Head of the BC's Scandinavian Office

LITHUANIA'S SECURITY IS THE US CONCERN



Lithuanian President **Valdas Adamkus** visited the United States on February 7-13. After touring the country, Adamkus had talks with the US President **George W. Bush** and other high-ranking officials at the White House. At the annual US-Baltic Foundation meeting V.Adamkus received the Baltic Statesmanship Award; the nomination was effected by the former US national security adviser, **Zbigniew Brzezinski**.

Lithuanian president delivered a speech at the conference, which was organized by the Joint Baltic American National Committee to discuss the energy security issues in the Baltic region.

“Lithuania still is an ‘energy island’ with no effective alternative gas supplies, with undeveloped ‘Western electricity connections’. It is therefore extremely vulnerable because of its technically and politically unreliable energy infrastructure. Without stable commodities supply alternatives, major energy utilities on our Eastern side can easily transform even minor technical problems into tools of political pressure,” said Adamkus.

He underlined that Lithuania and other Baltic countries were already taking action to reduce energy dependency.

POLISH CEO FOR MAZEIKIU NAFTA

Piotr Kownacki, new *PKN Orlen*'s president and a long-time associate of Polish President **Lech Kaczynski**, was elected Lithuanian oil refining complex *Mazeikiu nafta*'s new board chairman this February for a term of one year. P.Kownacki's appointment as the head of *PKN Orlen* was regarded by experts as a sign of expected improvements in Poland's energy security. At the meeting with Lithuanian Prime Minister, **Gediminas Kirklilas**, P.Kownacki said that *Mazeikiu nafta*'s new owners in the next five years planned to invest USD 700-900 mln in development and upgrading the Lithuanian company. Currently the Lithuanian government holds 9.98% of shares in *Mazeikiu nafta*.

BORDER TREATY SIGNED

Latvian-Russian border treaty was signed in Moscow on March 27 by prime ministers of the two countries: **Mikhail Fradkov** and **Aigars Kalvitis**. “Today we have succeeded in solving the most sensitive issue in bilateral cooperation,” said Fradkov after the signing ceremony. “I think it will help to



solve all other problems,” he added. (For details, see our material in the magazine).

Besides creating stable bi-lateral relations, this even closed another chapter in the EU external control by establishing official border line between Russia and the EU.

The treaty concerning Russian-Lithuanian national border delimitation was signed on October 24, 1997. Lithuania ratified the treaty in October 1999 and Russia in June 2003.

The Russian-Estonian border treaty was signed by foreign ministers of both countries on May 18, 2005. The Estonian parliament ratified the treaty on June 20 the same year, and Estonian President **Arnold Ruutel** promulgated the act for ratification. But already on June 27, 2005 Russia revoked its signature under the document, demonstrating disagreement with clause in the preamble about territorial claims, which was included in the treaty too.

ESTONIAN HOUSING PRICES AS GLOBAL LEADER

Northern Europe has led the global housing price boom in 2006, reported the *Global Property Guide*. Among the three countries showing the steepest housing price growth are Estonia, Denmark and Norway.

Prices in Estonia grew by 54% in 2006, which is a 30% rise from 2004, though 2% less than in 2005. In Denmark the price growth was 23% (+1%), and real estate prices in Norway increased by 14% (+7%). Prices in Sweden, Canada and the United Kingdom also grew fast.

Apartment prices in Tallinn have grown by 30%, but in certain districts of the Estonian capital the prices have risen as much as 55%. However, the official Latvian statistics were not yet available for this survey but the realty company *Latvio* has estimated the price growth in 2006 at 59%.

RUSSIAN GASOLINE ARRIVES IN LATVIA



At the end of January this year Latvia received the first shipment — 2,000 tons gasoline — from *Lukoil* plant in Nizhniy Novgorod. A new supplier's appearance on the market might mean increased competition on the Latvian fuel market, which would only be to the benefit of consumers, the *Lukoil* Baltic subsidiary, *Lukoil Baltija R* representative said at in a press-release. Gasoline imports from Russia were the result of negotiations and following a meeting between *Lukoil* President **Vagit Alekperov** and Latvian Prime Minister **Aigars Kalvitis** in last December in Riga. At that time Alekperov offered that *Lukoil* might deliver gasoline to Latvia, in case of necessity. And apparently the time has come for the deliveries.

KAZAKHSTAN TO RECEIVE ANTI-TBC DRUG FROM LATVIA

Latvian pharmaceutical *JSC Olainfarm* has won a tender for supplying Kazakhstan with anti-tuberculosis medicine, i.e. PASS-sodium salt. This is the largest contract ever received by *Olainfarm*; the total deal's value amounts to EUR 1.38 million.

VENTSPILS MAYOR UNDER ARREST

The Riga City Central District Court on March 14 issued and arrest order for **Aivars Lembergs**, the mayor of Ventspils city in north-western Latvia; he should be taken under police custody.

The Ventspils mayor's charges stem from the provisions of Article 164.3 of the Latvian Criminal Code on two counts (criminal events dating back to 1994-1995), including large-scale bribes coupled with extortion. In addition, A.Lembergs has also been charged with money laundering under Article 195.2 of the Latvian Criminal Code.

LIEPAJAS METALURGS' 125TH ANNIVERSARY



Liepajas metalurģis, the only metalurgy company in the three Baltic States, dates back to 1882. The company, which is based in Liepaja, south-western Latvia, organized celebration anniversary events in Riga. The anniversary celebration will last from March to September and include a number of sports competitions, music festivals and concerts.

REQUIREMENT TO USE MINORITY LANGUAGE

The Estonian parliament has approved amendments to the Language Act. According to the amendments, the regional and municipal public authorities where at least half or more of the population represent a national minority will be required to communicate with visitors, besides Estonian language, in their native language too. In addition, the amendments allows translations into a foreign language along with the original text in Estonian of outdoor signs, advertising, etc. "But this can only be done under one condition – that the Estonian text comes first and is clearly visible," explained the parliament's press service office.

LINKING LITHUANIAN AND LATVIAN GAS PIPELINES

Linking Lithuanian and Polish natural gas pipelines should become a matter of European concern, Lithuanian Foreign Minister, **Petras Vaitiekunas** said at the meeting of the EU foreign ministers in Brussels this January.

"I welcome the European Commission proposal identifying four links-connected priority chains that need to be built, calling for increased European coordination. Regretfully, this will not solve the problems of isolated natural gas markets' integration, which depends on a sole supplier and a single pipeline within the EU energy network," said Lithuanian foreign minister.

Participants of the Brussels' meeting also agreed to start negotiations with Ukraine on a new, enhanced cooperation agreement. P.Vaitiekunas said that the EU should think both about those neighbors, which have proceeded on the reforms' path and include in the process Belarus Republic as well.

DENMARK'S DANSKE BANK ACQUIRED FINISH SAMPO BANK

Sampo banka, the Latvian subsidiary of Finland's *Sampo Bank Plc.*, will continue operating under its current name and independent management until 2008. Afterwards the bank will be fully integrated into the group of its new owners, Denmark's *Danske Bank*. The takeover of *Sampo banka* by *Danske Bank* is officially completed. *Sampo Bank* has daughter banks in Latvia, Lithuania, Estonia and Russia. As a result of the deal, *Danske Bank*, which is the largest bank in Denmark, will expand the network of its branches and subsidiaries in Finland to 125. In the Baltic states it acquires 33 branches with a total staff of 1,100 people. The Danish group intends to spend on the takeover more than DKK 1.5 bln and will rename its new branches in other countries after 2008.

The new owners also intend to split *Sampo Bank* management into two regions – Finland and the Baltics, explaining that the two markets were very different from each other and needed individual development strategy. **Georg Schubiger**



has been put in charge of the activities by the Baltic banks and would also sit on the Board of the *Danske Bank* group. The board chairmen of the Baltic subsidiaries will not be replaced and would keep their respective offices: **Ingus Grasis** in Latvia, **Gintautas Galvanauskas** in Lithuania and **Aivar Rehe** in Estonia.

ONE BANK' DOWN

The Riga Regional Court has approved the Latvian Financial and Capital Market Commission (FKTK) request and issued a ruling putting the *AS Ogres komercbanka* under liquidation procedures. The court ruling is not subject to appeal. FKTK's resolution about annulling the banking license issued to *AS Ogres komercbanka* and seeking the Riga regional Court ruling on the liquidation of the bank was adopted on December 21, 2006. The resolution was based on the lasting failure by the bank to introduce adequate internal control system. Moreover, cases of document forgery were also revealed at the bank.

TISSOT PRESIDENT HELPS RUNDALE PALACE IN LATVIA



The Swiss world-famous watch-making company, *Tissot S. A.* has completed facade round-clock's restoration, the clock used to adorn the Rundale Palace, an outstanding monument of Baroque and Rococo art built by Italian architect **Francesco Bartolomeo Rastrelli** in the 18th century. **Francois Thiebaud**, President of *Tissot S.A.*, personally attended the ceremony during which the clock was returned to **Imants Lancmanis**, Director of the Rundale Palace Museum, on March 1. Restoration experts have done a great job on the clock which had been seriously damaged since late. After the restoration the clock can boast a unique sound system, which can play both classical tunes and also create complex musical effects.

There is a story behind this restoration. Thiebaud and his spouse visited Riga in May 2006 to attend the World Ice-Hockey Championship sponsored by his company. In addition to tourist attractions in Riga, Mrs. Thiebaud visited also the Rundale Palace where her eye was caught by the clock on the main facade of the magnificent building. This is when the idea occurred to the Thiebauds couple about assisting in restoration of the unique clock.

EU'S ASSISTANCE FOR LASER TECHNOLOGIES

The Lithuanian National Centre of Laser Science and Technologies, established two years ago by the Institute of Physics and Vilnius University's scientists, will develop further on with the support from the EU funds. The Project's partner, Vilnius University, plans to complete modernization of the centre somewhere in April 2007. The centre will accommodate laboratories for laser Technologies, optical coatings, etc. As part of the project, the Institute of Physics will purchase new equipment for a total amount of 2 million litas. Phase 2 of the project will be completed in April 2008. All in all, the EU has granted 5.5 million litas for the project.

During Phase 3 the new students' curricula will be worked out and the necessary conditions created for aligning the Lithuanian laser science standards with that of the EU.

The direction is towards

By Olga Pavuk

On the eve of the "TransRussia" international conference and a fair that regularly assembles transport industry representatives from all over the world in Moscow, the *BC*, by tradition, interviewed the Baltic States' transport ministers.

BC: What were the key events for you as the transport minister in 2006?

Ainars Slesers, Latvia: First of all, Latvian parliament elections. Having won the people's trust, I became the transport minister for the third time and again took charge of the transport industry, which is very important for the Latvian economy. We, the government and the Transport Ministry, are interested in developing logistics and transit.

Algirdas Butkevicius, Lithuania: The year 2006 was a good year for the Lithuanian transport industry. We achieved record-high results in freight rail transport; the rate of passenger transportation is also growing steadily. We are particularly pleased with the port companies and stevedores' performance. Cargo turnover at the Klaipeda sea port grew by 8% to 23.55 mln t. Cargo transportation by rail also increased significantly in 2006. There was a slight decrease (by 1.2%) in road haulage, which was not bad after all, as we could get rid of traffic congestions on the roads. The transport industry showed quite good results in general.

The growing intensity of air travels is a trend common to all three Baltic States; therefore I do not want to linger your attention on the growth figures in our country. I will only say that all airlines operating in Lithuania carried much more passengers than in previous years and the three international airports in Lithuania served 25% more passengers than in 2005.

Edgar Savisaar, Estonia: First of all, it was controlling stake in *Eesti Raudtee* (Estonian Railway Company) buyback. The process was arranged mostly during last year, even though the transaction itself took place in the start of this year. Now the state has again become the sole shareholder in *Eesti Raudtee*, and the railway company is likely to operate just as successfully as other state-owned companies, which have become the flagships of our economy, e.g. *Eesti Energia* and *Tallinna Sadam* (Tallinn Port).

I have to mention too the opening of the Saaremaa deep-water port and completely renovated Soru port in Hiiumaa, which has become the most modern of Estonia's small ports. We have also ensured reliable passenger ferry traffic to West Estonian islands by signing a 10-year transportation contract with the winner of the tender.

BC: What Transport Ministry's initiatives would influence industry's development?

A. S.: Our ministry is making serious efforts towards transport industry development in all directions. These include expansion of the Riga International Airport, restructuring of the Latvian railway company *Latvijas dzelzceļs*, upgrading of ports, renovation of existing roads and construction of new highways.

Our goal is to turn Latvia into a finance center, as well as logistics and transit hub. The Riga airport should become the largest in the North Europe. It should be bigger than the airports in Stockholm and Copenhagen. After all, we have the opportunity to provide air links between cities in the EU and the former Soviet Union territories.

** When the article was already in press, Edgar Savisaar has become Tallinn's city major; new transport minister, Juhan Parts was elected, he served as country's prime-minister in 2003-2005.*



AINARS SLESERS: Minister of Transport, Latvia.

A. B.: On the initiative of our Ministry of Transport and Communications we received co-financing from the EU TEN-T funds for the first phase in the Rail Baltica project's implementation. This project is vital for our country as it would help to increase dramatically the interoperability between the Lithuanian railway and the railways of other European countries.

We do not have to forget that Rail Baltica is the project aimed at construction of a railway line with the standard European gauge. It is planned both at building a new railway line and at renovating the existing railway bed in order to increase the train speed to up to 160 km/ph.

There are many other things related to the railway development. Last year we ordered two double-decked electric passenger trains from a rail-car plant in the Czech Republic. It means that we are upgrading both the railway infrastructure and the rolling stock at the same time. By this I am already answering the third question because our initiatives and projects are inter-related as the projects are implementing the initiatives.

E. S.: Transport Development Plan composition for 2006-2013 and the Public Transport Development Program for 2006-2010, and their approval by the Estonian government and the parliament have been the key factors influencing the transport industry development in Estonia. These documents lay down the rules and provide instructions for solving the transportation problem and the level we want to achieve in this.

We have also reached a political agreement to follow the practice of most European countries and to start providing support to the

container transportation



ALGIRDAS BUTKEVICIUS: Minister of Transport and Communications, Lithuania.



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

shipping industry on the national level. The first subsidies will be paid in 2007 and are meant for the merchant fleet. In March 2006 a plan for development of the ice-breaker sector in 2006-2013 was adopted and envisages construction of at least two new ice-breakers. Preparations are already being made for construction of the first ice-breaker.

BC: What would be the most important for the sector projects in 2007?

A. S.: In order to achieve further growth of services, the Riga airport needs to be expanded radically, and its infrastructure has to be developed. Construction of a new terminal will begin this year. It is also planned to extend the existing runway and build the second runway later. It will require investment unprecedented in the Latvian economy, i.e. 500-600 mln lats. This is a tremendous plan to be extended over several years.

Another project important for the transit industry will be launched this year. It will be the construction of the Moscow highway, a road that would link our ports with Russia.

In the context of the emerging trend to move logistics centers closer to the EU external borders, the Latvian railway will have to take on the task of handling a significant part of cargos traveling along the West-East transport corridor. Latvia and the CIS countries are linked by railway tracks with the same 1520 mm gauge. This year old rail tracks are being replaced with new ones. In future the second set of rail tracks will be built in the direction to Russia (in the Skriveri-Krustpils section along with modernization of the railway stations in Krustpils

and Plavinas). It is also planned to build the second set of rail tracks in the section between Indra and the Belarus border (at Bigosovo station) and to modernize the railway junction in Daugavpils. There are also plans for extensive renovation of sorting stations and railway accesses in the Riga and Liepaja ports.

A. B.: We continue implementation of the Via Baltica project in Lithuania, building the highway that would link all three Baltic States — Lithuania, Latvia and Estonia — with Warsaw and from there to other European capitals. In some sections we do not build a new highway but upgrade, renovate and expand the existing roads instead. Nevertheless, the purpose is the same, i.e. to have a nice, convenient high-speed road Via Baltica, which the Lithuanian drivers as well as their colleagues in Latvia, Estonia and other Nordic countries need so much.

RAIN or Rural Area Information Technology Broadband Network is another important project which envisages construction of broadband Internet cable channels in Lithuania's rural areas. The purpose of the project is to provide every Lithuanian resident with access to Internet. The project is already under way. Its first phase is to be completed by 1 January 2009, and then all public authorities and organizations, not only in the cities but also in the rural areas, should have access to Internet. By 2010 the network of the broadband cable Internet channels should cover 90% of the Lithuanian territory.

E. S.: There are a number of facilities from renovated road sections to new bridges which will be completed both on motor ways and railways

in 2007 I would say that one of the most important projects is the overhaul of a 47-km section of the Tallinn-Pechori railway main line, which will significantly reduce the train travel time between Tallinn and Riga.

BC: How would you assess the free economic zones' activities in the Baltic ports from the attracting investments point of view?

A. S.: Our ports have several attractive investment projects. One of the most significant projects is the construction of the container terminal in the Kundzinsala area of the Riga Free Port. I met personally an investor's representative, **Vitaly Yuzhilin**, a member of the Russian State Duma, who is related to the Russian company *First Quantum*, which intends to implement this project. It would mean reloading of 1-2 mln containers or 40-50 mln t of cargo in future. Of course, we have to support such a project as it is a clear business project in view of new jobs.

Another interesting project — a general cargo terminal — is to be developed in the Krievusala area.

The ports in Ventspils and Liepaja will each get EUR 50 mln in investments from the EU funds.

A. B.: Personally I appreciate very much the role of free economic zones in the national economy. They represent oases for the production development and, consequently, improved employment, competitive ability and increased cargo turnover. Any tax allowances function as a magnet pulling investors because they increase the return on capital. I hope that free economic zones in Lithuania would attract ever more investments.

E. S.: As regards free economic zones, in Estonia's case we can speak only about customs-free zones in our ports. Their effectiveness depends, first of all, on the quality of port services, which is something we cannot complain about and which therefore are attractive to investors.

BC: Do you expect any changes regarding transport and transit industry in the Baltics in view of the possibility for Russia to join the World Trade Organization (WTO)?

A. S.: During meetings with Russian Transport Minister **Igor Levitin** in Moscow this March the issue of railway freight tariffs and problems with crossing the Latvian-Russian border have been discussed.

It is very important for us to have good relations with Russia and to be able to settle our issues directly, without the intermediation by Brussels.


Signing the border treaty with Russia at the end of March was a good start for a long-standing and mutually fruitful cooperation.

A. B.: I wish that Russia join the WTO as soon as possible. I believe this will contribute to development of partnership and transport cooperation. First of all, it will help to simplify product quality checks, customs and other procedures. Standardization of mutual relations in trade would facilitate further integration, transparency in cooperation and fair competition. I hope that Russia's membership in the WTO would increase the flow of Russian transit cargos through Lithuania.


E. S.: For us, the key result of Russia's accession to the WTO would be that the Estonian government and Estonian business people would in future have a more clear idea about the Russian Federation trade policy. As a WTO member, Russia will be required to comply with the WTO rules and agreements and would no longer be free to take any unpredictable measures. From the perspective of the Estonian transit competitiveness, it is important that during the WTO membership negotiations Russia undertake the commitment to level up the railway freight tariffs for outbound cargos with the tariffs applied to cargos destined for the Russian ports. This would also create good pre-conditions for bringing to our ports new product categories.

But the most important changes in the transit and transport industry are not directly connected to Russia's membership in this or that organization. They will have to do with modernization of our economy and infrastructure. For example, *Eesti Raudtee* and the Estonian ports have set the course towards transition to container transportation as a strategic development direction.


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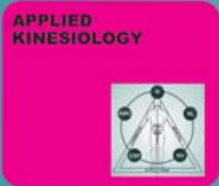


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Good prospects for the ports in the Baltic States

Although Russian ports on the Baltic Sea keep growing, they are unable however to tackle with ever increasing cargo flows in the region. It can serve as a good sigh for Estonian, Latvian and Lithuanian ports; the growing transit might be very helpful for their economic development. For this to be a reality, it would require political will of the Baltic States' governments, as well as new Russian investments into the ports. On the other side, Russia's anticipated WTO accession would urge investors into the neighboring countries' transit infrastructures. The *BC* has chosen these points to assess the transport industry development in the three Baltic States.

Latvia's ready to become a transit hub

By Olga Pavuk

Much of the credit for Latvian transport industry development should go to Minister of Transport **Ainars Slesers**, even though some may find his ambitious projects unrealistic. Political clashes often hamper industry's progressive movement while forcing participants to be on the constant state-of-alert.

Latvian minister intends to turn Latvian ports into a springboard for Russian businessmen seeking for "working capital" abroad. "We are both closer than Switzerland and much better because, contrary to Swiss, 90% of Latvia's population speaks Russian. Knowledge of Russian is our precious commodity, like oil, gold or diamonds, which shall be invested right," said Shlesers. He is strongly convinced that already in a couple of years Latvia will become a part of the Silk Road, a transport corridor that would lead Chinese goods to Europe.

INTEREST GROWS FOR THE RUSSIAN MARKET

This fact is confirmed by statistics, too. According to Russian Federation Ministry of Economics preliminary data, Latvian-Russian foreign trade grew by 34% in 2006, reaching about USD 2 bln. Transit cargos to Russia have made up 75-80% of the total cargos amounts crossing Latvian borders.

It should be noted that Latvian statistics shows a somewhat different picture of foreign trade with Russia, e.g. total amount is USD 541 mln, whereas export growth is by 27.8% and import growth by 20.6%. According to the Russian Federation statistics, Russian export (being consequently Latvian import) is more than three times higher. The reason for this has been known all along, i.e. the differences in the accounting methodology as Latvia does not include in its imports goods destined for the bonded warehouses and special economic zones.

Russian statistics reveals that most of the growth (up to 50% a year) has been due to Russian oil products' exports, mineral products, metals and metalwork, and food stuff both to and through Latvia. Steep growth of imports from Latvia to Russia was observed particularly in metals and metalworks (+240%), leather, furs as well as leather and fur products (+198%); pearls, precious stones and precious metals (+70%).

According to the head of the Russian Federation Trade and Economic Mission to Latvia, **Evguenij Tikhonov**, one can surely acknowledge quite real potentials for Latvian transit and its further growth on the Russian market.

AIRPORT: MULTITUDE OF PLANS

Minister's dedication and energetic efforts, which coincided in time with Latvia's accession to the EU, provided an impetus for Riga International Airport development. The number of passengers grew by 49% in 2004, by 55% in 2005 and by 33% in 2006. In 2003 there were regular direct flights to 18 cities, in 2004 already to 30 cities, in 2005 their number increased to 38, and in 2006 one could fly from Riga to 43 cities in Europe, America, Asia and Africa.

The Riga Airport maintains the leading position among airports of the three Baltic states by all main indicators, e.g. the number of passengers, the number of flights and the amount of freight transportation.

One of Shlesers' associates, **Krisjanis Peters**, who himself had been for a while Transport Minister, was elected Riga Airport's Board Chairman this January. Changes in the airport management coincided with the inauguration of the new Maintenance, Repair and Overhaul (MRO) Center in Riga Airport. It is the largest and

most advanced aircraft maintenance facility in the Baltic States.

“No major airport in Europe has been able to keep up with our development pace,” K. Peters told the *BC*. “In order to achieve further growth of services, to serve five million and in near future ten million passengers a year, the airport needs to be expanded radically and its infrastructure must be developed. It means, practically, a construction of a new terminal, the extension of the existing runway and the construction of the second runway later on. It will require unprecedented in the Latvian economy amount of investments at the level of 500-600 mln lats.”

The airport also intends to develop services indirectly related to aviation. In addition to the existing facilities, a town with hotels, a conference and exhibition center, office buildings will start growing in the airport’s business park with the area of 20 ha already this year. Investment in this project will exceed EUR 400 mln.

RAILWAY AT A CROSSROAD

The Latvian railway company *Latvijas dzelzceļš* is headed by another of Shlesers’ associates. *Latvijas dzelzceļš*’ Board Chairman **Uģis Magonis** faces the difficult task of restructuring the company and upgrading the railway.

In 2005 *Latvijas dzelzceļš* achieved a record-high cargo turnover of 54.9 mln t (of which 46.7 mln t international cargos). In 2006 the cargo turnover fell by 11.2% to 48.7 million tons (of which 40.1 mln t international cargos). The downward trend continued also at the beginning of 2007 as transit reduced by 14.6%, including a 10.3% decrease of transit through the ports.

There are several reasons for reduction of the cargo turnover, in particular,

trains with coal standing idle at the ports in Riga and Ventspils, waiting to be reloaded. Transportation of oil products through Latvia has also decreased.

One of the most sensitive issues is the transit tariffs in the Russian transport direction. Russia has announced that in two or three years it would be willing to lower the railway freight rates for transportation in the Baltic direction along with raising the rates for cargo destined for the Russian ports. If Russia keeps this commitment, cargo transportation by Latvian railway is likely to grow by 20% annually and will double in five years, said Shlesers.

“In the context of the emerging trend to move logistics centers closer to the EU external borders, the Latvian railway will have to take on the task of handling a significant part of cargos going along the West-East transport corridor,” U. Magonis told the *BC*. “In view of this task our priority investment projects in 2007-2013 have been developed. The projects are co-financed from the EU Cohesion Fund. About EUR 486 mln will be invested in a set of measures aimed at increasing the railway’s throughput on the most loaded routes.”

TRUCKERS LOOK TO THE EAST

An interesting trend has recently been observed on Latvian international road haulage market. “Despite the continuous rumors about the TIR system nearing the end of its time, the number of its members in the association is growing,” Secretary General of the Latvian road haulage association *Latvijas Auto*, **Pavel Groshev**, told the *BC*. “The new members do it only in order to get TIR carnets, which means those are the companies that work on the eastern market.”

There were 82,879 TIR carnets issued in 2005 and 93,764 in 2006. The statistics on

INTERNATIONAL ROAD HAULAGE MARKET IN LATVIA AS OF DECEMBER 31, 2006

	Truck fleet	Bus fleet
Number of companies	3028	402
Number of vehicles	10048	813

Source: *Latvijas Auto*.

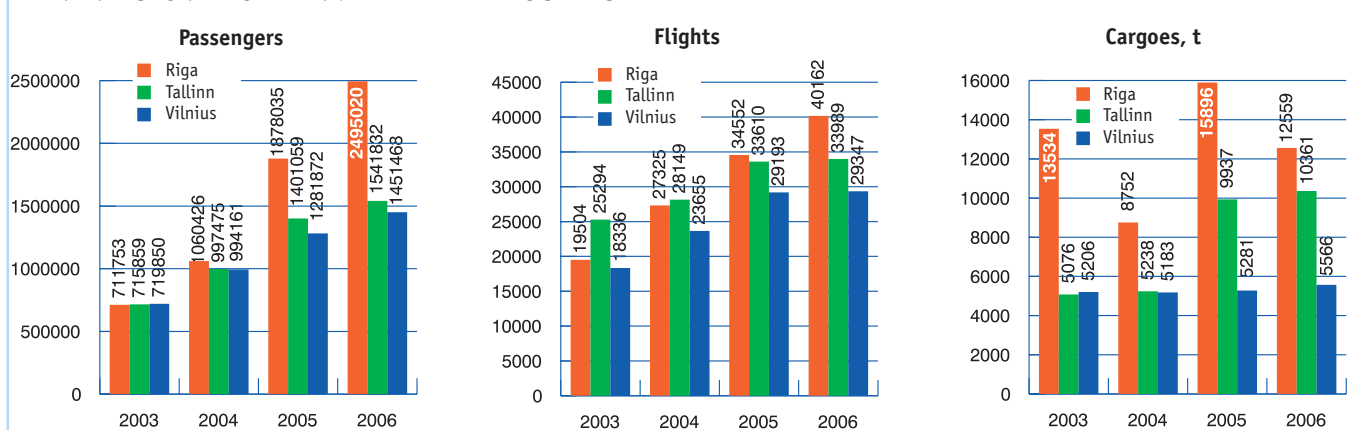
TIR carnets issued in January-February during last 3 years has shown that 10,169 TIR carnets were issued in 2004, 13,648 in 2005 and 14,961 in 2006.

The fleet of heavy trucks has grown recently by one-fourth, and most of them are new, environmentally friendly trucks meeting Euro-3, Euro-4 and Euro-5 standards. In 2006 alone, the number of vehicles meeting Euro-4 and Euro-5 standards increased by 1,500. Trucking companies are investing huge amounts of money in truck fleet renewal. It should be said that a truck suited for international road haulage costs up to 70,000 lats.

“Currently there is a very tough competition between Finland and the Baltic states (especially Lithuania) over domination in transit cargos transport from Russia, Kazakhstan and China. We have all the opportunities to turn these cargos to transit routes through Latvia,” said *Latvijas Auto* president **Valdis Trezins**.

Further growth in the international road haulage market in Latvia is hampered by three problems: idle time spent waiting in lines at the Latvian-Russian borders, inadequate road infrastructure and great shortage of drivers. These problems are regularly discussed on all levels but any real solutions are still a long way to go. Heads of the Latvian and Russian customs services at the meeting in Moscow on March 8 agreed on customs checkpoints’ upgrading on Latvian-Russian borders.

AIR TRANSPORTATION MARKET IN THE BALTIC STATES



Source: *Riga Airport*.

RUSSIAN MONEY FOR THE BALTIC PORTS

Total cargo turnover in the three Latvian ports was 58.4 mln t in 2006 (58.8 mln t in 2005). On the Baltic Sea east coast, only Primorsk can show larger turnover at 65.9 mln t and St. Petersburg is in the third place with 54.2 mln t. The turnover of liquid cargos in Latvia increased in 2006 (at the account of oil products). There was a slight reduction for bulk cargos (coal and mineral fertilizers) as well as for general cargos (at the account of timber) while turnover of container cargos increased. By tradition, Ventspils port kept the leadership, both by the general cargo turnover (29.1 million tons) and by the rate of cargo turnover reduction (-2.7%).

The Riga port is the third largest in the Baltic region (after Primorsk and Klaipeda) by growth of cargo turnover, and the only port in Latvia that demonstrated growth in 2006 (25.3 million tons, with 3.8% growth). Yet, both ports — Riga and Ventspils — suffered reduction of cargo turnover in January 2007. Representatives of stevedore companies put blame on the Latvian railway company *Latvijas dzelzceļs*' tariff policy.

The third and the smallest of all the largest Latvian ports, Liepaja, has done better in the beginning of 2007, showing a 25.4% percent growth of cargo turnover in January.

There is hardly any vacant space left in the Liepaja port and, according to our information, this port also invited Russian investments. "Through implementation of purposeful investment policy the port will attract up to EUR 50 million from the EU Cohesion and Structural Funds as well as from Latvian national budget for development. These investments are expected to result in a double growth of the cargo turnover in 5-7 years to 10 million tons annually," said **Guntars Krievins**, Manager of the Liepaja Special Economic Zone.

Board Chairman of the Riga Free Port, **Andris Argalis**, explains the positive dynamics of the cargo turnover growth at the port in the following way: "Riga is one of the most advantageous transit routes due to its geographic position and relatively developed infrastructure as well as high quality cargo services coupled with competitive prices for freight transportation in this direction?"

Transit cargos to/from the CIS countries make up to 80% of the cargo turnover at the Riga port. Today successful operation of the Riga port to a large extent depends on coal from Kuzbas and oil products from Russia.

"One should look for new cargos and pursue a more active policy as regards attracting Russian strategic investors to development of the transport and port infrastructure. Making the port one of the links in the production and logistics chain would provide certain guarantees for using the ports' piers," said Tikhonov.

Riga ranks second among the ports of the Baltic States by handling of container cargos. In recent years the Riga port processed one-third of all containers shipped through the Baltic States (in terms of both the cargo volume and the number of containers).

Presently there is one container terminal (Baltic Container Terminal) functioning in the Riga port. But it might face the competition from a new terminal that Russians intend to build in the Kundzinsala area. An agreement has been signed with the Russian company *TransKonteiner* (a subsidiary of the Russian state railway company, *RZD*) concerning the leasing of the land for the 45 years' period of a new terminal construction in Kundzinsala. A company *Nacionalais konteineru termināls* (National Container Terminal) was founded in Latvia in May 2006 for implementation of the business plan. The company founder on the Latvian side was

Ivars Millers, Vice-President of *Skonto Buve*, one of the largest Latvian construction companies. The new terminal to be built in the Riga port plans to be handling container cargos transported from South East Asia and Russia's western region to Europe, and vice versa.

According to the preliminary data, the terminal will become operational in 2008-2009. Its capacity will be 2 mln containers a year. If one container weighs about 20-25 t on average, it would mean annual cargo turnover of 40-50 million tons whereas currently the entire port handles only 25 million tons.

"Today the Ventspils Free Port is not only a deep-water ice-free harbor with modern specialized cargo terminals. It is also a rapidly growing ferry traffic hub in the Baltics and an attractive location for investments in production of goods with high added value," Ventspils Free Port Manager, **Imants Sarmulis** told the *BC*.

In 2006 the port showed a cargo turnover of 29 million tons, of which almost 62% were liquid cargos, about 30% were bulk cargos and over 8% were general cargos. In addition to traditional cargos like oil and oil products, liquid chemicals, coal, mineral fertilizers, raw sugar, sawn timber etc., handling of general and container cargos at the port is constantly growing. Opportunities are emerging for reloading of new types of cargos (grain, juice concentrates).

The major event in 2006 was the acquisition of state-owned shares in *Ventspils nafta* by *Euromin Holdings* represented by the *Vitol Group*. In March 2007 Latvian Competition Council approved the takeover resulting in *Euromin Holdings*' acquiring decisive influence over *Ventspils nafta terminals (VNT)*, a subsidiary of *Ventspils nafta*. In January-February 2007, *VNT* reloaded 1.9 million tons of oil and oil products (as to 1.2 million tons in January-February 2006). Oil products were delivered to the terminal by the pipeline, by rail and by sea.

If anything hampers operations of the Ventspils port, it is the continuous scandals involving the Ventspils City Mayor, **Aivars Lembergs**, as well as constant quarrels between a group of stevedore companies reloading potassium salt, grain and other cargos and the Latvian railway company. As a result of the conflict, several companies withdrew from the Latvian Transit Business Association and formed a new organization, the Baltic Transport and Logistics Association, which is headed by **Janis Jurkans**, former popular Latvian politician. •

CARGO TURNOVER AT PORTS ON THE BALTIC SEA EAST COAST, MLN T

Ports	2002	2003	2004	2005	2006
Primorsk	12.4	17.7	44.6	57.3	65.9
St. Petersburg	41.3	42.0	51.2	57.5	54.2
Kaliningrad	9.9	12.6	14.0	14.6	15.2
Ventspils	28.7	27.3	27.8	29.9	29.1
Riga	18.1	21.7	24.0	24.4	25.3
Liepaja	4.3	4.8	4.5	4.5	4.0
Tallinn	37.8	34.9	37.4	39.5	41.2
Klaipeda	19.7	21.1	20.2	21.8	23.5
Butinge	5.6	10.8	7.2	6.1	5.9
Gdansk	17.4	21.3	23.3	23.3	22.4
Gdynia	9.4	9.7	10.7	12.2	n. a.

Source: Latvian Transport Ministry.

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"ALPA Centurms" operates a number of own tank wagons for light oil products and flatbed wagons for timber, running on rail tracks of the Baltic States, CIS and Finland.

Lithuania in a state of sober optimism

By **Sigitas Pasilaitis**,
Lithuania

Lithuanian transport industry's employees can be really happy about last year's activity: it is seen in the preliminary figures published by the Department of Statistics at the beginning of 2007 that transportation had been one of the sectors, which contributed most to the total added value growth in the country.

Lithuanian transport industry along with the processing industry, construction, financial intermediation and real estate sectors contributed 11% each to the national GDP; while for other industries' sectors this figure was 4%. It means that the leading industries generated about half of the entire Lithuanian GDP. Quite naturally that transport and communication industries received the biggest share (846.7 mln litas) from 2007 public investment funds.

PORT COUNTS ON DEVELOPMENT'S RESERVES

The Klaipeda port reached in last year's accounts a record-high result in recent years: in 2006 it reloaded 23.55 mln t of cargos, which is 8% increase from the year before. In addition, the port served 240.2 th passengers, which also is a higher number than in 2005.

Klaipeda port has succeeded in increasing the turnover in all categories of cargos — liquid, bulk, combined and general, but the leading products in terms of growth in 2005 were bulk fertilizers, Ro-Ro cargos and oil products.

These advances in Lithuania were not however perceived as an unexpected though quite a pleasant surprise. Media reports about multi-million investments in Klaipeda port seabed deepening, as well as infrastructure development and other projects have become a common place recently. These investments, judging by the results in 2006, have already started paying off.

Although in 2006 there were 6.5% less ships than in 2005 visiting Klaipeda port, nevertheless, the total cargo turnover last year increased by 8%. **Sigitas Dobilinskas**, Director General of the Klaipeda port, expects the port to operate just as successfully also in 2007, achieving another record — 25 mln t a year.

But **Arturas Drungilas**, Marketing Director in Klaipeda State Seaport Authority, told the *BC* that when it comes to investments, one has to consider state and private businesses' cooperation in Lithuanian port.

“Investment efforts by the state are, of course, extremely important, said A.Drungilas, but half of the success still depends on private companies. If the port authority builds new piers or deepens the seabed in the port but private businesses are not neither building warehouses on those piers nor invest in getting loading machinery or develop the infrastructure, then successful outcomes would take a long time to come. Every year both parties, i.e. the port authority and the private businesses, invest in the port's development about 100 mln litas each”

A.Drungilas believes that the apparent benefits are shared by both parties. For example, the *Bega* stevedore company reloaded 2.9 mln tons of cargos last year, which is 11% increase as to 2005. Since 2000 the amount of cargos handled by the company has been growing steadily at the rate of 10-15% annually.

It seems naturally that all this can not escape business people's attention. Hence, it is possibly for this reason that one of the largest land-users in Klaipeda port, the shipbuilding company *Vakaru laivu gamykla (VLG)*, has planned to start liquid products' terminal construction in 2007. The estimated investment in the project is 25 mln litas.

“Currently there is no shortage of areas for development in the port, said A.Drungilas. We expect that there will be enough territory for development for a while. In addition, we can count on the vacant areas in the Klaipeda Free Economic Zone. I think those territories will be sufficient for 7-10 years' development. Moreover, Lithuania plans to build a new port in Melnrage, not far from Klaipeda”

FEZ PREPARES FOR BREAKTHROUGH

A.Drungilas had a good reason to mention the Klaipeda Free Economic Zone (FEZ) as a reserve territory. For the same reason, **Eimantas Kiudulas**, Managing Director of the Klaipeda FEZ, considers seaport's vicinity as one of the key fac-

tors which potential FEZ's members take into consideration.

“I would say that the access to the port is extremely important for 60% of the present Klaipeda FEZ's members, said E.Kiudulas. About 90% of our tenants are exporting their products by sea. Plus, we can offer not only the sea transportation but also a convenient railway links. Understandably, business also takes into account tax privileges”

Yet, according to E.Kiudulas, the “Klaipeda port's factor”, which continuously expands its capacities, takes precedence in the minds of businessmen. Possibly this is why the FEZ, which had so much problems at the start (after completion of the paperwork, several years passed before the FEZ actually began functioning), is now ready for a breakthrough. Today five companies are operating at the Klaipeda's FEZ, but the managing director expects their number to reach 18 by the middle of the next year.

“By the end of the year a logistics complex with total warehousing area of 20,000 sq.m is to open in the FEZ,” said E.Kiudulas. “Two of three companies will be working there. In addition, as many as three plants will start biofuels' production in the near future. One of them specializes in making bio-diesel petrol and the other two will produce bio-ethanol”

Companies from various countries are showing interest in Klaipeda FEZ's activity. The FEZ management has divided them into several groups. There are companies from EU member states willing to expand their production while cutting operating costs. The the countries next to the EU: e.g. negotiations are underway with a Norwegian company specializing in metal equipment for energy industry. Asian companies interested in entering the EU market also put their stakes on Klaipeda. Businesses from the CIS countries also pursue the same goal, and the local capital is also anxious to be present in the Klaipeda FEZ.

RAILWAY: TOTAL MODERNIZATION

Lithuanian state-owned railway company *Lietuvos gelezinkeliai* (Lithuanian Railway) cannot claim large growth figures. According to the Lithuanian Department of Statistics, the railway

company transported 50.2 million tons of cargo in 2006, which is up by only 1.9% from the previous year. The growth on international routes was 5.6%, while domestic railway freight transportation decreased by 7.1%. These trends have been constantly persisted during last few years and are hardly likely to change in the near future.

Nevertheless, the figures and trends given above should be considered through the light of the problems which *Lietuvos gelezinkeliai* authorities identified at the beginning of the current decade: measures for modernization of the infrastructure and the locomotive fleet need to be taken immediately. Otherwise the time will come soon when there will be no rail cars for carrying cargos, no locomotives to pull those trains and no rail tracks that would meet the ever growing requirements.

Therefore, if one tries to describe the currently priority of *Lietuvos gelezinkeliai* in just one word, that word would be “modernization”.

TRUCKERS INVEST IN BUSINESS GROWTH

Lithuanian road haulage industry in 2006 performed quite well is the opinion of **Algirdas Baranauskas**, Secretary for Transport Policy and Information of *Linava*, the Lithuanian national association of road carriers. The positive results are based, among other things, on great activity by local trucking companies in the new trucks' investments.

Favorable terms offered by leasing companies also played a role here, of course. If the Lithuanian truckers were not able to make the ends meet, as the saying goes, they would not be likely to invest their hard-earned money into upgrading, not to mention expansion of their fleets. Consequently, they see great potentials in such action.

Yet, A. Baranauskas thinks, such activity's development may actually play against the companies, being of a leap service.

“As long as a system of trucking permits exists, one cannot rule out a situation where the number of those permits for operations on the eastward routes fall short of the growing capacity of the Lithuanian road carries, he said. In that case they might have to switch to the EU market. If we can see a more or less mass switch, tariffs might fall and revenues would reduce.”

But it takes time to see what development scenario the Lithuanian market of international road haulage will follow this year. So far the truckers themselves feel optimistic. Logistics experts expect 5-7% price growth in the sector this year.

One of the reasons for this is not only the demand for the trucking services but also a considerable shortage of drivers. The trucking companies are looking for drivers not only in the labor markets of the CIS countries, which by now have become a traditional source, but also in the neighboring Poland.

COMPETITION IN THE AIR TRAFFIC GROWS TOUGHER

In 2006 the Lithuanian air companies operated with varying success (see Table). All in all, they carried 729,600 passengers, which was 8.2% increase from the year before. At the same time, the amount of freight and mail deliveries carried by the Lithuanian air companies fell by 26% from 2005 reaching 5,600 tons in 2006.

It should be said that the Vilnius airport, which accounts for a lion's share of the passenger transportation (about 1.45 mln people), reduced two of the main airport fees last year: the passenger's departure fee was cut from 60 litas to 50 litas, and the aircraft landing fee was cut from 52 litas to 45 litas per ton. Even though these actions, as well as expected growth of costs

will probably bring the airport's profit down from 23 mln litas in 2005 to 18 mln litas in 2006, the airport administration had no intentions to give up the reduced fees, said the Vilnius airport spokesman, **Arunas Marcinkevicius**.

Apparently this can be explained by the increasing competition both from the main rival, the Riga airport in Latvia, and from other Lithuanian airports, which also do not stand idle. Thus, Kaunas airport, which cooperates with the Irish low-cost-ticket airline *Ryanair*, served 250,000 passengers in 2006, which three times more than in 2005. Moreover, the second largest airport in Lithuania, which is called *Karmelava* after the neighboring town, maintains the leading positions in the freight transportation market, too. In 2006 it handled over 6,600 tons of cargos, which represents a 60% growth.

And it looks like there are no limits yet: by October 2008 Kaunas airport intends to expand the passenger terminal by some 3,000 sq.m, adjusting it to the Shengen requirements, and will spend about 10 mln litas for the purpose.

Palanga airport cannot compete presently with Vilnius airport on equal footing as it serves only small and medium aircrafts. Nevertheless, the curve representing the number of passengers served at the Palanga airport annually is rising upwards steadily. In the last three years (2004-2006) the airport served 76,020, 94,000 and 110,828 passengers a year, respectively.

Therefore Vilnius airport should not let its guard down. Actually, it has no intention to do so. The Vilnius airport has succeeded in bringing in the Latvian airline *airBaltic*, which last year ousted *flyLAL-Lithuanian Airlines* from No. 1 position, a company with the Lithuanian capital that traditionally used to lead the companies working at the Vilnius airport by the number of passengers carried.

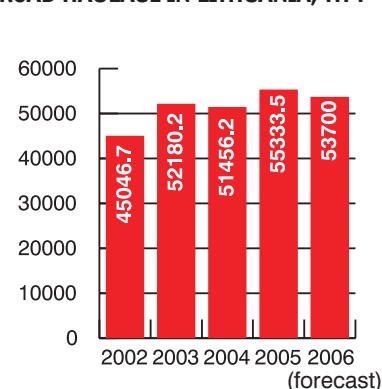
CARGO TURNOVER BY LIETUVOS GELEZINKELIAI, MLN T

	Transit	Import	Export	Domestic	Total
2000	17.99	3.96	4.10	4.66	30.71
2001	15.15	3.41	4.27	6.34	29.17
2002	20.80	4.90	4.47	6.48	36.65
2003	23.78	7.18	7.05	5.44	43.45
2004	22.99	7.92	8.60	6.04	45.55
2005*	19.20	10.25	5.48	14.36	49.29
2006	20.20	11.70	4.98	13.34	50.22

* From 1 January 2005, the methodology for rail transport statistics was changed in line with the Regulation (EC) No 91/2003 of the European Parliament and of the Council, and the Commission Regulation (EC) 1192/2003. It means that the cargos carried from other countries to the Klaipeda port by rail and the cargos shipped to the Klaipeda port by sea but removed to other countries by rail are not considered the transit cargos.

Source: *Lietuvos gelezinkeliai*.

ROAD HAULAGE IN LITHUANIA, TH T



Source: Lithuanian Transport and Communications Ministry.

Estonia: as turnover grows, the directions change

By Dmitry Kulikov,
Estonia

The Estonian transport industry is exploring new development options which, first of all, are related to containerization and growth of oil products' export.

Contemporary trends in the Estonian transport industry have been specified at the *TransEstonia* conference held recently, by **Raivo Vare**, former Development Manager at *Eesti Raudtee* (Estonian Railway) company and presently transit industry expert.

First, Estonia occupying Eastern part of the Baltic Sea would explore fast development in relation to containerization, growth of road haulage and sea transportation. Secondly, Russia is stepping up production of energy resources, on one hand, and the global demand for such resources is growing, on the other hand, which will lead to increase of the Russian energy exports through the ports on the Baltic Sea, including the ports in the Baltic States.

"It is very important for Estonia that the Russian oil product exports should not slow down," said Mr. R. Vare. Some sources claim that oil transit constitutes about 61.5 percent of the freight transportation in Estonia; some other analytical sources make it as high as 70.2%.

Mr. R. Vare has said on several occasions that transit is an element of key importance for Estonia's development. Demonstrating flexibility in solving various issues when working out logistics chains, tariff components, etc. also matters a lot. Especially now, when Russia, on one hand sends the bulk of its export cargos though her own ports and, on another — boosting capacity of its ports. "The Russian ports now have a price advantage, therefore the Estonian ports can't compete with them," said R. Vare.

Russian Transport Minister **Igor Levitin**, who recently visited Tallinn at the invitation of **Edgar Savisaar**, the Estonian Minister of Economic Affairs and Communications, became the first member of the Russian government to make an official visit to the former Soviet republic in the Baltics. In con-

clusion of the visit, Mr. Levitin said in the interview to the internet provider, *RZD.Partner.ru*: "It was important for us to understand today the way Estonia is ready to accept the cargos that Russia can't reload through the Russian ports. Estonian ports now process about 40 mln tons of Russian cargos. The meetings in Tallinn revealed that we share with the Estonian Minister of Economic Affairs and Communications, Mr. Savisaar, the same understanding of the importance of transit and investments for our countries and are willing to work together."

TALLINN AIRPORT'S UNLIKELY TO CATCH UP WITH RIGA

Tallinn airport served 1.541 mln passengers (+10%) and 34,000 flights (+1.1%) and also handled 10,360 tons of cargos (+4.3%) in 2006.

According to the Tallinn airport marketing manager, **Kristel Saulepp**, the passenger growth in the last 5-6 years has been driven by several factors, e.g. including opening of the new air routes and the growing number of flight operators' companies. Interest in air travels has increased also due to the falling air fares and Estonia's accession to the EU. "One has to keep in mind too the overall economic growth in the country and, consequently, the improving welfare of its citizens. Foreign tourists preferring air travels have also taken an increasing interest in Estonia," K. Saulepp told the *BC*.

In addition to regular flights, the number of charter flights departing from Estonia has also increased as the tour operators offer terms favorable to Estonian tourists.

The *Aripaev* newspaper reported about the official beginning of the renovation of the Tallinn airport. Two keystones were laid — for the passenger terminal and the airplanes' take-off



strips. Both facilities have to be completed by mid-2008.

Mr. Rein Loik, Board Chairman of the *Tallinna Lennujaam* (Tallinn Airport) company, believes that even after the renovation that would cost EEK 1.2 bln, Tallinn airport is unlikely to keep pace with the Riga airport, although only few years ago the Tallinn airport was serving more passengers than the airport in Riga. "There are more people living in Latvia," said R. Loik, explaining the growing rift between the two airports.

PLENTY OF FACILITIES IN THE PORTS

Speaking about the port capacity, Managing Director of the Estonian Association of Port Operators, **Ago Tiiman**, told the *BC* that, contrary to Estonia's direct competitors — Latvia and Finland, where ports are situated in the cities and therefore have limited potentials for expansion. In Estonia there are vacant areas, it is seen by the expansion of the country's ports, e.g. new terminals are being built in Muuga and Paldiski ports and improvements made to the infrastructures.

As to the Russian capital's activity on the territories of the Estonian ports, one can note the presence of several large Russian groups striving to develop business. Of course, *Severstal-trans* can be mentioned among the most active of them, as it has been buying up

the Estonian terminals to become the leading player on the oil-product reloading market. Those terminals, operating under the *E.O.S.* brand name, now reload over one-third of oil products shipped through Estonia.

“Operations by the mineral fertilizer producer *Acron* and construction of the coal terminal should be noted as well,” said A. Tiiman. He added that oil transportation is becoming more transparent as blending takes place both in Estonia and Russia.

NATIONWIDE CONTAINERIZATION

The main issue of concern for business in the ports is changing the ports’ profiles. The rumors have long been spreading about the likelihood of ending huge profits from oil transit. Now the problem of containerization has entered the limelight. Experts think that, regardless of the rapid development of the business in general, a downward trend has emerged in container transportation in Estonia.

At the same, a debate started recently in Estonia about the need to build another container terminal in the Tallinn port. The proposal is not quite logical, thinks **Igor Zimin**, Board member of *Muuga CT* container terminal in Tallinn. His speech became one of the key events at the conference *TransEstonia 2006*. Mr. Zimin believes that it will be impossible to safeguard enough cargos for the two container terminals. He said that insufficient workload was one of the main factors having adverse effect on the *Muuga CT* terminal’s activity results.

In Mr. A. Tiiman and other experts’ opinion, the issue of port con-

tainerization faces “the chicken and the egg” dilemma, i.e. which came first. It means that either Estonian ports first build the infrastructure and find a major global operator, or initiate an agreement with a solid partner like *Maersk* and afterwards build the infrastructure to meet its needs.

According to *RZD.Partner.ru*, the container terminal in Muuga has a long-term development plan for 2005-2015. Phase 1 of the terminal development provides for expansion of the area to 40 hectares around the terminal. During Phase 2 a pier will be built and the adjacent water territory deepened from current 12.5 meters to 14 meters.

ROAD HAULAGE ON THE RISE

According to Association of Estonian International Road Carriers (ERAA) statistics, there are 1,044 companies engaged in international road haulage in Estonia and they own or hold under the lease 2,234 trucks and 56 buses. For most part, those are small companies. Over half of them have 1-3 vehicles. Only 13 companies have truck fleets with more than 50 vehicles. About 40% of all trucks are equipped with Euro-3 engines.

Estonia, just like Latvia, is suffering from congestions on borders with Russia where the trucks are stretching the line for many kilometers. The ERAA expects that the flow of vehicles across the border will increase in 2007. For convenience of drivers, the ERAA has decided to build a truck parking facility one kilometer from the border, in Narva. The association has bought 10 hectares of land for this purpose.

Not all truckers are happy about this information as they think that the issue should be solved by the state.

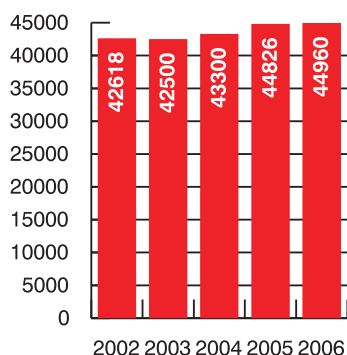
WHAT WILL FUTURE BRING?

The national transport policy is outlined in the Estonian Transport Sector Development Program for 2007-2013. Investments in the amount of USD 615 mln (EEK 8 billion) are envisaged in the program. The money will be spent mainly on expensive projects, e.g. Estonia needs to buy icebreakers or together with Russia, a bridge will be built across the River Narova, which links Ivangorod and Narva border-towns. Estonian railway’s infrastructure needs to be developed, even though so far there are plenty of uncertainties about the railway company’s future.

The program takes into account the expected steep rise of cargo transportation across the Baltic Sea by 2020 (some sources forecast a double growth). Most of those cargos will be transported along the Estonian North-South transit corridor. If all cargo transportation routes are taken into consideration, the cargo turnover in Estonia will reach 448-620 mln tons.

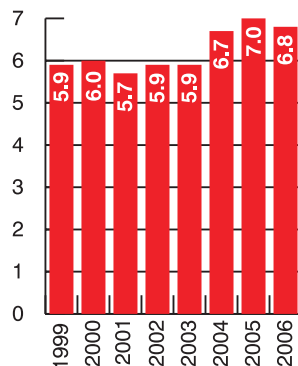
The Estonian Statistics Department has shown that in 2005 the Estonian transport industry carried 96.4 mln tons of cargo, of which 70% was transported by rail. This figure increased a little in 2006. Road haulage accounted for 28% of all cargos. Oil products prevailed among the cargos transported by rail at 52% and oil shale constituted 22%. Transit cargos made up 36 mln tons, including 25.8 mln tons of oil products, which is equal to 27% of all cargos.

RAILWAY FREIGHT TURNOVER IN ESTONIA, TH T



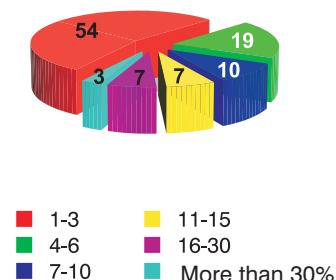
Source: Eesti Raudtee.

CARGO TURNOVER AT TALLINN PORT*, MLN T



* Including Tallinna Sadam as well as ports in Paldiski, Kunda, Parnu, etc.
Source: Tallinna Sadam.

ESTONIAN INTERNATIONAL HAULAGE TRUCK FLEET BREAK-DOWN, BY NUMBER OF VEHICLES, AS TO JANUARY 1, 2006, %



Source: ERAA.

Looking into the future

By Alexander Fedotov

At the SJSC Latvijas dzelzceļš a complex infrastructure modernisation is being carried out in the East-West corridor.



The modernised main-line diesel locomotive 2M62U.

A key area in the activities of the railway is the delivery of goods from Russia, Belarus and from other CIS countries to the Latvian ports. After Russia joined the WTO and after the discriminating railway tariffs were abolished as well as against the background of general normalization of relations between Latvia and Russia, goods' turnover via Latvian ports should increase. In order to be ready for it, the mentioned complex infrastructure modernisation is being carried out. Which works have been done already and which lie ahead? About this tells Ms **Aija Poca**, Head of the Project Management Unit of the *Latvijas dzelzceļš*.

A. P.: We work simultaneously in various directions. As it is not possible to do all volume of the works by the finances of the company, we attract money from EU funds and programmes.

At present, four projects worth 200 million lats have been already accomplished and two others are in the phase of preparation and their completion has been planned for the years 2007-2008.

BC: What would you like to emphasize of the already implemented?

A. P.: That is first of all our goods' reception park at the Rezekne-2 station. On 2 March 2006 an official opening of it took place. It is located at a very important point of the Latvian railway transport corridor Ventspils-Rīga-Zilupe and further to Russia. Within two years in a former boggy meadow of the rural municipality Verene six sidings were constructed for receiving and dispatching of trains as well as other infrastructure needed for train routing and formation has been constructed. The new park will allow significantly increase the train traffic volume when Rezekne-2 station is being used and

will ensure a smoother handling of cargo including a better distribution of cargo in directions to Latvian ports. The total value of investments was 10.2 million EUR, 7.66 million of which was a funding by the EU ISPA programme.

BC: However, the Riga railway junction remains still the most important one in Latvia. A large part of cargo goes right via it. What changes does it expect?

A. P.: Already in 2003, a preliminary project on main works was elaborated in the context of the general development of Riga port. Hereinafter however new requirements had to be taken into account and it then needed some corrections. Therefore, now construction of a rail track to the forthcoming new terminal in Kundzinsala is anticipated. In its turn, on the left embankment of the river Daugava the construction of a new receiving park Bolderaja-2 will be started. It will start handling the freight coming from the new terminal on the island Krievusala.

By the way, here is a package approach necessary that takes into account the interests of the railway, of the Freeport of Riga as well as of Riga, particularly taking into account the upcoming Northern ferry across river Daugava.

Preliminary investment expenses have been already calculated. For a complex reconstruction of the railway junction Riga, there are 53 million EUR necessary. About 60% of the needed financing should come from the EU Cohesion Fund. The remaining amount is the own financing by the *SJSC Latvijas dzelzceļš*.

Construction works should commence in 2008 and be finished in 2013. The constructed railway infrastructure will enable the Riga port to handle 40 million tonnes cargo a year.

However, taking into account the increased traffic intensity, the issue requires an immediate decision at which point cargo will cross the Daugava river. For at present, it crosses the centre of Riga. It will be not acceptable in future. There are moreover forecasts that the capacity of the port of Riga around the year 2030 will be 100 million tonnes cargo a year. In the old development plan of the city, it had been supposed the construction of a railway ferry on a raft of the hydroelectric power station of Riga. The trains however may run also over the Krustpils' bridge in the section Krustpils-Jelgava with a following distribution not only to Riga, but also to Ventspils and to Liepāja.

BC: Will the multi-million investments into the infrastructure development pay off? Which goods and from which countries will run along the Latvia railway?

A. P.: The purpose of our programmes is the increase of the speed, volume and quality of servicing the transit cargo that runs along the Latvian territory. It is indissoluble connected with the development of ports. Dockers and railwaymen should work closely together. It will help to increase the competitiveness of the Latvian link of the East-West corridor. Along with Russia and Belarus interested parties are also exporters from more far-off regions, for instance Kazakhstan. Besides it, there are tempting projects on paving of a new silken way — China takes an active interest in new opportunities for delivering its goods to the European markets. •

LSF TRANS — individual approach to each customer

By Edgars Jansons,

Member of the Board, LSF TRANS Ltd

We are glad for the opportunity to inform the readers about the *LSF TRANS Ltd* and the range of services we offer to our customers. We are quite certain that both our experts' professional knowledge and our previous working experience provide us with the facilities to secure high-quality services' provision concerning transit goods transportation through Latvian territory.

LSF TRANS Ltd main sphere of activity is to render all kind of services concerning railway transport of various goods, including containers, through Latvian territory. Among the range of services there are: inter-modal railway transport; preparing all necessary railway documentation paper-work; receiving and processing cargoes in the ports; facilitating intra-ports' goods operations; goods' sorting and security, including additional processing on the ports' territory; preparing necessary ship-loading papers, as well as all the information presentation concerning cargoes' movements and locations.

LSF TRANS Ltd was established in 2002. High service quality, exceptional work strategy, technical feasibility and high personnel's qualifications — this is all that has determined our successful work on the market of railway transport and cargo-expedition securing *LSF TRANS Ltd* a dignified place among leading Latvian transport and forwarding companies.

Quite advantageous transportation deals concluded with the Latvian Railway Company (*Latvijas dzelzceļš*) allowed *LSF TRANS Ltd* during short time present itself as a reliable partner in goods' forwarding by railway. The company has its own offices and agents in all major Latvian ports, which allows for both efficient processing of all the cargoes and quick resolution of all customs, railway and port formalities.

Company's high quality service together with reasonable prices has been adequately appraised by major trade and production companies, as well as by private dispatchers which have been already our company's permanent customers during last several years.

Every customer addressing *LSF TRANS Ltd* becomes our business partner; his wishes are always kept under control by the company's employees. We constantly strive for credible relationships with our customers following one of major modern business' principles, i.e. individual approach to each and every customer.

From organisational point of view, *LSF TRANS Ltd* is a daughter company of the multi-sectoral company, *LSF HOLDINGS Ltd*, which is an intermediary shareholder in container terminal and direct shareholder in grain and juice terminals functioning in Ventspils free port.

LSF TRANS Ltd has acquired the right to use terminals' access roads which together with the railways are situated in the strategic Ventspils' places allowing for quick, optimal and efficient cargoes' processing providing for the strategic importance of the terminals within the transportation chains between Latvia and its neighbors.

Company's longstanding and mutually favourable partnership relations with terminals' and stevedores' companies also in



Riga and Liepaja ports facilitate the company to offer forwarding and cargo owners extremely advantageous and elastic cooperation terms. *LSF TRANS Ltd* has become a solid partner in the transit chain, this fact is confirmed by the proven fact, i.e. audited yearly company's account for 2005 has shown \$93 mln turnover and the cargo transport which reached 10 mln t.

About 18% of all the cargoes transported by the state *JSC Latvijas dzelzceļš* already belongs to the *LSF TRANS Ltd* customers, as well as 35% of all the cargoes transported through Ventspils port.

LSF TRANS Ltd is an active member in such organisations as Latvian Trade and Commerce Chamber, Latvian Transit Business Association, Latvian Association of Freight Forwarders (LAFF) and International Federation of Freight Forwarders Associations (FIATA). This membership allows our company to express its position in business and pursue an active part in creating partnership cooperation with local and international businessmen.



LSF TRANS

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“I’ve loved Mickey-Mouse more than any women I ever knew”

Walt Disney

Family capital: love, marriage contract, inheritance and business

Family business was the theme of a new round table (RT) organised by *The Baltic Course (BC)* and *Baltic International Academy (BIA)*. In contrast to the previous *BC — BIA* round tables (see, e.g. *BC* No. 23&24), *BIA* students took part in the discussions besides the academia, experts and businessmen.

The theme was so interesting that the RT could not manage to cover in detail all the issues within the hours devoted to it. The participants, students in particular, just poured the questions on the speakers. In this *BC*'s issue we present main participants' reviews, and the results of the poll conducted.

Family as a capital

By Vladimir Gurov,
Professor, Prorector, BIA

We come from the assertion that a family is a small group of people united either by the fact of marriage or by other kind of a family relative's relations. In the economic sense, these relationships are permeated by the family capital in the form of accumulated family assets in liquidities or real estate, including family members' shares (one or several) in the common family business, if there is one, or in the form of other companies' shares. It is quite a natural trend that any family seeks to increase its capital. If such a task is pursued, that means that we are dealing with a sort of regular business arrangements.

It is necessary, to my mind, that from the very beginning the family shall create a family capital management system. In the West, a regular family acquisition control is a common picture. In our country, which made a gigantic leap from socialism to capitalism in a few years, the notion of “family capital” is in its initial developmental steps. It goes without saying that legally adequate and economically feasible family capital management is an absolute necessity to avoid possible losses and apparent mistakes.

FAMILY CAPITALS' MANAGEMENT

In Western states, e.g. in Sweden, Switzerland and Germany the family's

capital support and insurance systems have had a long history. Hence, there are evident rules for social and pension legislation, efficient measures for securing people's bank deposits and accounts, as well as sufficient child care systems, to name a few.

That kind of a system is in a development stage in Latvia, where at the initial steps all negative effects can produce great damaging effect. An important conclusion comes out of this: as soon as the ordinary people can not influence the state budget allocation system priorities, they can easily influence the process of family development instead. So to say, we have to “train our family structures” in order to making them adaptable to any economic stress. To



reach this aim one thing is needed — we have to create an optimal family capital management to facilitate capital's accumulation and to provide sufficient guarantees in any critical situation.

MANAGEMENT MODELS

As a rule, the family property and some liquidity in the bank are, no

doubt, at the “founding fathers’ merits”; who already went through enormous and severe “business school.” This “fathers’ generation” went through undeserved sacrifices during the turbulent 1990s in the Baltics. It might seem that such experience can give “founding fathers” certain advantages in family business management.

Somehow, in reality things rarely happen that way; there are plenty examples when founding fathers intentionally set themselves aside from family business. Why? The answer, as a rule, lies in their present business engagements and/or life-long tiredness. As a result, family business moves onto a wife’s shoulders, which resembles an old-Soviet system when a husband earned money and a wife “carried on the housework.” As a rule, actual capital management does not occur in such families: house-wives just spent money instead of investing into profitable projects.

The model where both a husband and a wife are earning money could be regarded as a second one. And the third one, in which children in the family would take part in management, on par with the other family members. The third model seems to me to be the most perfect: the young generation has already elaborated a different to the previous time approach to the capital, life-styles and moral values. And it’s not a complement to the youth, it’s a recognized fact. Their behavior is presently determined by the new western approaches to life, i.e. pragmatism, rationalism and prudence which during previous Soviet period were perceived as some negative features. Children’s participation in a family capital’s management makes the whole process more pragmatic as well as predictable.

As an outcome – relationships in various families, including the young ones, are becoming formalised, e.g. marriage agreements are concluded or parents-kids’ relationships are getting regulated as to the intra-family loans, etc. In such families often the testaments are drafted beforehand. Besides, property management in such families can be run jointly and/or separately by a single person. It goes without saying that the rights and duties of the family participants are legally defined.

RIGHTS DEFINED IN THE CONTRACT

The importance of this notion can be shown in two examples. In the first, the husband is running a shady business and is

killed in a criminal fight; after his death quite suddenly from a “dark side” some debts showed up. As a result debts, uncertain inheritance and the death of the “bread-winner” are becoming an unbearable burden for the family. Another example: a husband is a casino-infected person and intentionally does not reveal all his assets. Once he loses all the money in gambling; in order to pay the debts he leaves as deposit the apartment and the house, not informing the family about it. As result, the family is homeless and broke.

In order to avoid the negative consequences of these two examples, the relationships in the family shall be “formalised” in order to provide for legally binding relations.

AROUND THE WORLD...

There are different family capital management models in the world; I shall touch upon some of them.

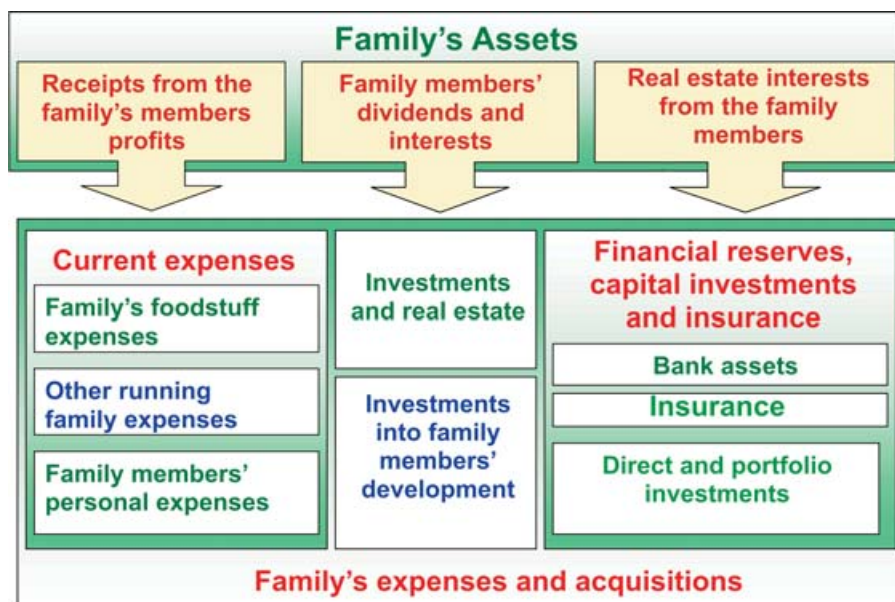
Thus, the **American model** is characterized by a great pragmatism in relationships among family members: as a rule, children reaching 18 trying to start their own life outside the parents’ house. Relatives in such families regard themselves being “separate from the kids” entity. I’ll take two examples in this regard: **Bill Gates**, the *Microsoft* founder underlined in his will, that his children would get “only” 5 mln dollars each out of family’s multi-billion heritage; the rest is devoted to various charities. Another example, **Yul Brynner**, a popular American actor, testaments all his assets valued at about 60 mln dollars to his last wife giving nothing to his previous wives, children nor to his own sister.

American family capital management model is wholly based on contracts and all family decisions are taken with the lawyer’s assistance.

German model. Germans are famous for their inclination to accommodate capital through several families’ generations. I talked recently with a German businessman who according to national standards occupied a middle-income position: his company’s turnover reached 15 mln euro and about 150 mln in acquired capital. It turned out that it was his grandfather who was actually the founder of the company; then the business came over to his father and in the last extent the ownership turned on to him.

Swedish model. Swedes are very restrained people; emotions in their life mean less than in other Europeans’ souls. It seems that in the Swedish family’s capital management the first place is occupied by a developed social welfare system rather than the pure business factors. Swedes in the social context are protected by the welfare state system in which each person can survive independently of other persons or relatives. Therefore, Swedish families are rather independent; besides the country has experienced an acute marriage system crisis. Moreover, there is a highest in Europe suicide-level per 100 th citizens in Sweden.

Jewish model. Jewish families seemed returning recently to their traditions as the Jewish family demonstrated a remarkable tenacity of historic family capital management principles. Thus, parents regard a family capital as a means to keep contacts with



the kids, as a means to educate them creating the conditions for career's growth, including a transfer of some competences to run family business. In the core of a Jewish model lies a rational approach to running business and emotionally-spiritual drive to preserve the inherent ties between generations.

A model based on infantilism. The western family "maturity age" presently reaches 30, when people acquired good education and earned sufficient initial capital.

Such a situation reflects a serious approach to the following marriage with the drive to minimise all possible risks.

On the opposite side of the ladder are young genes which do not want to establish family ties, holding tight to parents instead. Such young people are examples of a pure "boarders" wishing to run their lives constantly sucking money from their wealthy parents; they do not wish to change anything in their lives.

Such model does not carry anything positive and is critical to family capital management. Such families, in order to survive on rental payments must have enormous savings; there are quite a few such people in Latvia. Therefore sooner or later the "boarders" would be forced to earn their living, the transfer which is followed by economic difficulties at first, then by the psychological crisis in the family capital. •

Family capital and investments

By Rihards and Julia Svelpe,
PriBalt venture fund

Capitalist system has acquired new notions, such as family capital and investments; but what does that imply? Do they exist in the Baltics? How useful are they, in general?

In order to find out, let us first clarify the notions.

MAIN FAMILY "DRESS"

Family. Latvian Civil Code specifies that a "family" in a narrow sense of the word consists of parents and children, as soon as the latter share common, not divided, household.

Capital. The word *capital* as translated from various languages, e.g. French, English or Latin generally means "the main", which is remarkable in itself, isn't it. Modern economy dictionary specifies that in the broad sense the word "capital" means "anything that can deliver profit". In addition it says that the term "capital" can be used to specify "material or financial investments in economy and/or production and is called capital investments or just investments". It seems that such notions as capital and investments, or in that respect "investment activity" are quite similar.

Before we arrive at any conclusions, let us not forget that an investment is a long-term



capital contribution with the aim of a future profit. Interesting enough, that the Latin "*investore*" means "putting something on."

It seems that the main conclusion could be, jokes apart, that family capital investment is the *main family dress*. This conclusion depicts both the danger and the grief realities of the modern family existence. Main danger lies in the fact that a family capital, investment, business in general and money are turning into "idols" ousting out basic family and human existence values. People tend to "forget" about themselves, their close relatives and kids in pursuit for money as the prime instinct. Anglo-Saxon world even



introduced a notion concerning "human value in a monetary sense". One can apparently commit the worst atrocity while pleading innocent on the pretext that it was business and nothing personal; the worst thing seems to be that such an approach would be treated as normal by other people around.

ASSETS AND CAPITAL

We have to acknowledge that the family assets and its capital are completely different notions. Hence, money and other valuables in monetary form belonging to the family are not in fact a family capital. Only the assets that are partly or wholly devoted to any form of investment process is, in fact, a family capital.

Why is it so important, and why do we have to understand all that before starting any investment-type activity? Because the capital can be "lost" which would raise a question, how shall we feed the kids; and not only them? And if we do not mix-up the definitions of capital and assets then any "losses" or failures would not be crucial, though certainly providing us with the sense of dissatisfaction.

Comment

By Julia Svelpe

In a family, even when there are two clever and active people, they have to decide who is going "to rule". It's necessary for the whole process to get through smoothly. The two decide: whatever happens, one is going to be the boss. This is what we decided in our family: the husband is going to be the leader; afterwards, it was easier for me — he stands responsible. Sometimes, I think it's natural that things become difficult for me: I am a wise person too and I have my own opinion which is not in line with that of the leader. Then the only thing is appropriate — be submissive, as a true Christian. And I keep in mind that under all circumstances my husband holds responsible.

This is why it is so important that the family capital can be what it has to be — the valuables separated from other family assets. This rule is to be followed strictly.

Unfortunately, in real life we can often see quite the opposite situations. Some explore the business principle: “everything is supposed to deliver profit.” But does it have to be that? Even the popular wisdom says that one can not put all the eggs into one basket. Wise men would argue that these arguments hold only for the big business arrangements and for small and medium business things are different.

The truth is that quite often in order to start business one has to invest the family assets. On another side, it's equally true that the decision has to be completely realistic; it has to be understood by a wife and a husband; they have to aware of their actions in case the whole project goes broke. Anything can happen! And it has to be understood that all the necessary

steps were taken, and at the end of the line people have to turn to the regular life-order.

We still have some questions to answer: do we have such a problem in the Baltics; how

Comment

By Rihards Svelpe

I do not see particular features that distinguish a regular business from that of the family one. Probably we are becoming more demanding to those closest to us. I do not think that the family business model is more efficient; I can fire my wife in half-a-second time. And if we see that our management system (when I direct and Julia heads our legal department) does not work, so we quarrel over things at home or business is not good enough, we change the model. And as to efficiency, how many boors have been written on the subject? Plenty! That means that problems in family business are as urgent as in the so-called regular ones and not all goes there well either. The relatives, as a rule, do not steel; if they do it stays in the family anyway.

Thus, we can conclude that the family capital represents “valuables” qualified by the two main principles: 1) it belongs to the family; 2) it can yield profit. Though, investment is a process reflecting the way we use the capital. And we could see the basic dangers and mistakes facing husbands and wives, as well as the main actors in family capital management.

useful, if at all, is such an activity? Of course, family capital investment has become a reality and it forms an important part of national economy. Just imagine: behind each banknote stays someone's family and that the national capital consist of numerous family's assets! Without a family capital there won't be the first railway! Just thing about it! •

Family business in the legal context

By Vladimir Bagirov,
Professor, BIA

Modern Latvian legislation does not refer to the “family capital”, or to the “family business” definitions. This fact depicts that these social relationships have not been regulated in full yet.

It is well-known that the law usually regulates those relationships that already exist in the society. The law in that sense is “secondary” and cannot, so-to-say, has “out-stripping effect.” The popular belief that the good-written laws can make life better in the legal science is called “legal fetishism.”

The old Latvian law on “Individual (family) enterprises, agricultural and fisheries companies, and personal labour services” adopted in 1990 is to be changed soon as it does not fit into the EU requirements concerning legal entities' property liabilities.

A family, as a union of people connected by marriage including all those involved in the relationship performs a household-economic function, among other things. Clear enough that the mentioned function is broader in coverage both the family capital and the family business arrangements.

Property-type relationships in a family are regulated in the Latvian Civil Code, i.e. in part one, “Family law.” First of all, the law regulates matrimonial property relationships between the husband and the wife. Children's property is not included in

the parents' property, as the kids before reaching full legal age can only administer the property.

Civil law determines two possible legal conditions for the parents' property: according to the law and according to marriage agreements.

MARRIAGE'S LEGAL EFFECTS

Property relationships within a marriage provide for the contract-type property agreement between the spouses. Legal conditions for separate property of husband and wife, their common property as well as spouses' share in common assets are precisely defined in the law. The law at the same time defines the order and sequences of spouses' property liability due to various property obligations or contracts. The principles of spouses' legal community property liability are embodied in all marriages; even when the spouses do not fully realize that.

MARRIAGE AGREEMENT

In certain occasions when legally binding regular property's marriage conditions don not satisfy the spouses,



they can enter into specifically binding marriage agreement. Such marriage contracts were included into Latvian legislation on 1 September 1993, after they were completely abolished in 1940; gradually, these contracts are becoming rather popular in the country. Thus, there were only 17 such contracts in 1994 in comparison to 1296 marriage contracts in 2006.

The spouses can themselves choose what kind of contract they want to conclude, e.g. they can agree on a complete property division, which means that there is no common matrimonial property left, and each spouse is liable before third persons

only by their own property assets. As to community household property the spouses, according to their property situation can allot some property assets into community use.

An agreement can be reached establishing communal character of any property amounts being in their individual ownership (according their wishes) into an indivisible community property part. Some spouse's personal belongings can not be subject to communal property apportion. With this kind of contract, the law determines greater community property dependence on spouses' individual and collective liability concerning their matrimonial property obligations.

Therefore, all possible family's commercial activities subject to such economic categories as "family capital" or "family business" are presently covered by the Latvian Civil/Family Law, excluding any specific relationships connected to it. •

Comment

By **Ajdin Askerov**,

Latvian Small and Medium Business Association "KALVE", president

We know that the civil law gives priority to men in matrimonial relations; however the marriage contract defends the interests of women and children. In contrast to marriage contracts existed in the Latvian First Republic these relationships mainly regulated the issues concerning property.

Our lawyers in formulating matrimonial agreements tend to specify beforehand all kind of spouses' relationships including such aspects as apartment, cars, real estate property ownership and even dishwashing and walking out dogs at night, as well. Funny enough, but these domestic problems could often spark the fire of matrimonial conflicts.

The law suggests that a spouse can not be liable for property debts of another spouse. Thus women entering into such kind of marriage contract can be aware of the fact that if their husbands make risky business then wives will not be dragged out of their apartments, neither the furniture is taken away.

Marriage contracts are working out by all law offices; though such contracts can be compiled by a certified barrister or even the notary. The commission is about 30 lats and the contract will be a rather simple document consisting of 5-10 points. If one wants to work out a more detailed document with all the needed peculiarities of an agreement, the commission will be much higher, though the scope of a contract might be extremely broad.

The contract must be certified at the notary office and it enters afterwards the National Marriage Contracts Register. In case the contract includes a clause on real-estate, it has to be registered in the National Land Register which contains information on the property.



We are both leaders

By **Lidija Gavrilova**,

GO Planet, Board Chairwoman

Our family's attitude towards "family business" has been changing with time. We represent a family in which both the husband and the wife are leaders. Though initially, when we were in our 20th nobody wanted to be a leader. When asked about the leader between us two, we were pointing at each other.

When my husband Vitalij worked at "Aldaris"; one of the company's stockholders was the Hartwalls, a well-known family in Finland. It was known as a family with about 143 years history where business was hand down through generations. It has been since an amicable and united family cherishing at all costs the family values: by inheritance, by involving children and relatives into business, by holding common family holidays two-three times a year. In short, the family did whatever it could in order to unite it.

Then the family faced globalisation challenges. The Hartwalls has been a huge company; they entered first into holding with the Swedish *Pripps*, and then merged with "Aldaris" and other breweries. So, the Hartwalls have been developing and enlarging. And then once came the moment to decide, how to develop further on? At this turning point the company decided that in a modern world family companies were deemed either to be small or ceased to be a family company at all. In order to develop a

company, it has to merge; hence, afterwards there is always risk of acquisition.

My husband was chocked by the course of events when *Hartwalls* sold their shares to Carlsberg; it was incredible for Vitalij. How could they do that, he said? For the last 8 years they were praising the family values and Vitalij himself praised them too whenever he could. Everybody knew that through the Latvian press. So, we started to talk about the changes too, arguing that family relations can not be appropriately developed in business, as it used to be hundred years ago. Hence, we have to change, too. What does it mean? Our kids are growing; my husband's wish was to make the business and then to hand it down to the family, so that everything would be good and perfect. I remember saying to him: it won't do. Even if we are sure to create something that does not mean for sure that our children would like to work there. More than that, it generally restricts the perspectives; so to make something, we have to make it "broader".



There is more logic in involving children into business, to give them start in their lives and then leave them to their own. Important in all this is — to make them interested in business, to help provide them with the life-start-up. Of course, if they want to; it's a very important issue. At that very moment Vitalij abandoned "Aldaris" and we decided to assist our daughter and her husband with their business-project, i.e. Go Planet complex! My husband and me, in fact were the project's investors.

When the project's effective guidance period started, I distanced slowly from the business leaving everything to my son-in-law and my daughter. He became the company's boss; I left for myself the head of the

Board's position. This is how it all was arranged with my eldest daughter.

My younger daughter, she is 10 years younger and 24, she studied in London and already being there she decided to return to Latvia. She is in the family but works in another company. It is in that way that our perceptions of the family business have transformed. In our students' time family business seemed something serious and fundamental. Presently we have understood that the main thing in the family business was to give children good education and to provide them with a start-up capital with all possible assistance. And then, we have to leave them in due though right time. We have to quite Go Planet business as well; moreover the kids are working there days and nights.

When we started the Go Planet project, I have written up the main family business' principles: complete trust in each other, mutual respect, timely and comprehensive information, competence division



The Gavrilovs at the capsule installation; the present place of Go Planet amusement center.

and delegated powers, reciprocal assistance, to name a few.

There is something important as well: even the most spectacular company's

financial achievements can not substitute for real family values, such as love, respect and the feeling that you'll be always understood and supported.

Ready to take up business!

By **Jana Jermakova**,
Master Student, IBA

During the round table, the poll has been conducted which revealed that 65% of those participated in the discussions were ready to start their own business. Some other facts were interesting as well.

There were 25 participants in the poll, i.e. those who took part in the round-table; among them 30.4% were people in the 30-40 age group, and about 17,3% in the age-group from 20 to 25. Such a participation in the round-table reflected a potential interest in the themes of discussion covering family business and family capital from

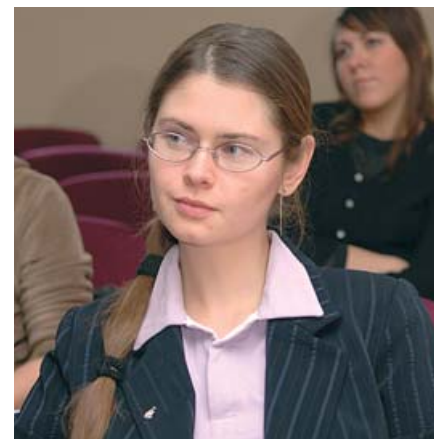
the representatives of the most economically active population's strata.

According to the respondents' answers, the profits of 39.1% was higher than 450 lats per month; 21.7% within 150-250 lats and 17.4% — profits were less than 150 lats.

As to the respondents' professional activity the division was the following: students — 21.7%, employees — 13%, CEO, managers and unemployed — 8,6%. The main purpose in creating a family 40.5% of respondents consider love, 21,6% — confidence and 18,9% — understanding. Only one respondent regarded children as the main purpose of family values.

In contrast to the known examples of famous family names with longstanding traditions and tens of generations, in Latvia the "age" of family business counts by about two decades; that was the opinion of about 30-34% of respondents.

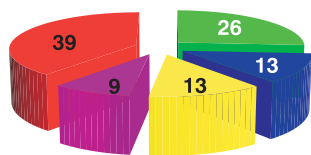
About 35% of respondents conducted their own "family business"; however 74% were ready to take over the fam-



ily business connections from their relatives. As the most successful factor in the starting up of a family business was regarded a connection of technical and financial expertise, this fact was acknowledged by 39,1% of respondents, followed by the mixture of financial and human science (39,1%) and pure social science (30,4%). Separate technical knowledge as an important background for family business was relevant only for 8% of respondents.

Clearness of business purpose was regarded as a vital personal character in the family business' participants by 13,6% of respondents. Other popular personal characters were also mentioned: the ability for compromises, the experience to work in teams, hard-working, resoluteness and the ability to take calculated risks.

THE OPTIMAL COMBINATION OF PERSONS IN A FAMILY BUSINESS



- Husband, wife, children and relatives
- Husband and wife
- Father and son
- Husband, wife and 2 kids
- Husband, wife and a child

"Family business" is more than matrimonial relations

By Eugene Eteris,
Denmark

A family as the society's nucleus can be definitely regarded as a true one, according to the popular Marxist's assertion. At the same time, the family could be easily the nucleus of any kind of business, e.g. small, medium and the big one. However often, it is not necessary always so. Truly enough, business relationship in the family could be advantageous for both sides; though this approach does not necessary hold always water either.

INTERNATIONAL FAMILY-NETWORK

Those interested in the family business' theory and practices are definitely aware of the existence of the *Family Business Network*, FBN. The network's information can be obtained at: www.fbn-i.org. Those wanted to join the network can easily do that: the membership fee is about 350 euro. The FBN provides educational and networking opportunities for family businesses.

In the FBN's website there is interesting information on some family business criteria: longstanding and stable purpose, efficient governance and management, strong activity in its own business-niche, etc. Curious enough that even FBN's leaders think that these parameters bring family business closer to some forms of private equity funds. As to financial sector, the only valid criterion is that not less than 10% of shares in such a business shall be held by the family members. Some experts (e.g. John Ward, Kellogg School of Management, USA) argue that a family must hold at least 30% of shares.

The FBN convenes regular world conferences, once a year; the latest is taking place mid-May 2007 in Spain and is devoted to new generations in family business.

SELF-EVALUATIONS

There are some remarkable assessments that global family business leaders provide for themselves and their activities.

Levi Strauss: "We hold ourselves more responsible than just towards other shareholders' interests; this is higher responsibility before our family values?"

Warren Buffet: "We are generous when others are greedy and we are avid when others are lavish?"

Giovanni Agnelli: "Continuity is the basic value in the family business?"

Marcus Wallenberg: "All decisions are taken out of long-standing considerations for a family's name, its honour and traditions?"

WALLENBERG'S EXAMPLE

Wallenberg's dynasty in Sweden is the closest to the Baltic States and one of the oldest in Scandinavia. Presently it's the fifth generation in the family business (the oldest in the world, though, is a small Japanese company with 130 employees and about \$120 mln turnover, which runs already through 41 generations). The founder, **Andre Oscar Wallenberg** (1816-1886) established first family financial business in 1856 creating Stockholm's *Enskilda Bank*; in 1916 his son Marcus established investment branch, *Investor*. Present generation has diversified family's activities: Jacob (born in 1956) is the member of the boards in SAS and ABB, and chairman of Investor, Peter (born in 1959) is in hotel business and vice-chairman in Wallenberg-fund; Marcus "junior" (born in 1956) is a member of the board in Astra-Zeneca and chairman in SEB-Bank. Central to the family is Wallenberg's holding Investor which holds shares in vital Swedish companies: Ericsson (5%), Saab AB (20%), ABB (10%), Scania (9%), Electrolux (6%), SEB (21%), OMHEX (11%), etc.

Wallenberg's example is provocative in one important sense. Market capitalism is not an ideology: it can be both creative and destructive. Such capitalism is good, among other things, in efficiency: as "machinery" it does not have values or soul; and this is where family business comes in. It co-creates competence and provides personality.

BETWEEN TWO FIRES

The EU legislation is trying to put a hand on creating a balance between the family interests, its business activity and increasing role in society. However, in the enormous mixture of relationships (legal, economic, administrative and financial) the EU norms, *per se*, are often outside the family issues' regulation; though the EU always wanted to stretch its influence over it (often at the expense of the member states' interests).

It has to be underlined that in the present EU's institutional system the "family



business" as a specific regulatory category does not exist: it is purely a national sphere of regulations. At the same time, the EU leaders do recognize the importance of such business regardless of its internal regulatory structures. Presently, these relations are within the so-called additional or coordinating EU and the member states' actions.

Therefore, the EU commissioner on enterprise and industry (G.Verheugen) "coordinates" entrepreneurial part of family business, including easier access to financial resources, optimal business regulations without red tape, companies' social responsibility and environmental protection. Recently there have been adopted several perspective initiatives: see website: http://ec.europa.eu/enterprise/index_en.htm.

Another EU commissioner for employment, social affairs and equal opportunities (V.Spilda) "coordinates" labour relationships including labour law issues. The latter is ever more important presently as about 40% of all those employed in the EU economy are either self-employed or enter into completely non-traditional labour agreements with the employers. Realities of life have become broader than the Procrustean "legal forms": Therefore the EU have already prepared a corresponding draft for member states' adoption in the first half of 2007; the draft can be downloaded from: http://ec.europa.eu/employment_social/labour_law/green_paper_en.htm

As to the exciting family companies' histories, with the global implication, where business, love, fortunes and family values intervene, we could recommend a recently published book by **David Landes**: *Dynasties: fortune and misfortune in world's great family business*. — Viking Press Publ, USA, 2006, 400 pp. •

Love or common sense?

By Olga Pavuk

The article is inspired by Kevin Roberts' book "Lovemarks. Future brands".

Our position in defence of family business, i.e. mainly small and medium enterprises, is based on the branding's innovative concept. One of the concept's founders, K.Roberts underlines the importance of emotional rather than abstract relationship between the suppliers and consumers of various goods and services. Lovemarks or, so-to-say, most beloved brands are driven by love and passion, be it for design, for customers' service to customers themselves or for life in general. These brands have to acquire certain amount of energy and embody mystery, mystique and intimacy.

In fact all what K.Roberts is writing in his "Lovemarks" is banal and simple. One of his theses is respect for teachers and tutors, the inspired professional who believe that to dream is as important as to act. Another thesis is that the way to success lies through dedication and love towards one's profession. The latter perfectly fits into family relations which easily transform into family business relationship.

Presently, it often happens that matrimonial connections are reducing in importance as it concerns relationships among people. Therefore, affiliation with the common cause could serve as a background to build strong connections among spouses, parents and children, brothers and sisters.

Extremely valuable experience in creating optimal consumers' relationship K.Roberts acquired in the Middle East where mass-marketing is still in a rudimentary development stage. In this part of the world people still cherish such communicational values as friendship, strong family relations and traditions in numerous walks of life. Common to the Western world red tape and bureaucracy in commerce do not exist there and new ideas are quickly coming on to practical implementations.

Primary emotions	Secondary emotions
Happiness	Love
Grief	Guilt
Anger	Shame
Fear	Pride
Astonishment	Envy
Aversion	Jealousy

HUMOUR OFTEN HELPS

Great ideas and witty decisions are usually appearing from the secluded corners of our brains. It is the sense of humor that often helps us to find a way out of numerous personal problems, out of constant life-turbulent moments and out of business turnabouts. Mr. K.Roberts argued that in the modern age the time has come for the "peripheral cultures" to play increasingly vital role. He underlines that "great ideas most often appear on the global periphery", i.e. from the regions where most of the restless and inventive people reside, those who are aware that anything is possible.

This argumentation can be used for the Baltic States too, as these countries have appeared on the EU's periphery and people so far have not realized in full all their talents and potentials. Taking into account Roberts' argument, these countries can strive both for important achievements and for the excellent ones, as well. Their aims shall be more ambitious: not just creating company number 2 or 3 in line; in has to be number one! And the "instruments" to reach that goal shall be inspiration and love.

EMOTIONS RATHER THAN RATIONALITY

Numerous evidences have shown that when emotional centres in the human brain are damaged, the person not only loses control over vital emotions, e.g. laughing and crying, the person loses the ability to make decisions. Businessmen have to take seriously this argumentation into consideration.

The idea was brilliantly supported by a prominent neurologist, Donald Kealn: main difference between emotions and rationality is such that the outcome of emotions is action, while the work of mind's outcome is logistic deliberations. Hence, the notion that without an emotional support the work of human mind can easily parish.

K.Roberts particularly stresses the fact that most consumers, when making their choice, use both brains and their hearts, or emotions in that sense.

As a rule, it happens that we often hardly saw an article but already acquire a feeling whether we would like to have it or



not. Presently, when the article's price is a priority, it is becoming difficult to rely on emotions in business; though emotions are more productive (and rational) both in the short- and long-term perspective.

K.Roberts divides emotions into primary and secondary (see below). One of his opponents argue that in the background of human relations are secondary emotions, therefore they play primary and not the secondary role. The distinguished feature of emotions is their social character.

FRANKLY ABOUT LOVE

As the emotion number one, argues K.Roberts, is love; we fully share his view. Out of his numerous reflections about love-feeling we shall enumerate only six.

The **first** one is a sort of warning-reflection: people's live is impossible without love, their live is loosing meaning without love. In many countries the fertility rate is decreasing, the number of singles is growing. The world generally suffers without love.

Second revelation: love is something more than just affection and great sympathy.

Third: love is a responsive behaviour; it's a very fine and intuitive feeling.

Fourth reflection is about "love's subject"; i.e. it's not only a romantic love, it's as well a matrimonial love that underwent sever ordeals or love to relatives and friends.

In fifths — love demands time!

The **sixth** reflection, probably the most important one: love is not subject to commands, no delivered on request. Love is a life present. Love, similar to an authority, can be acquired only by rendering it from the bottom of one's heart. •

By Valery Zemljanov,

Latvian Detectives and Security Services Federation, Director; Docent, BIA

In the conditions of market economy, the security issues are handled both by the national law enforcement authorities and by the private detective agencies and security companies. The latter provide for the following services: detective's work, security services, development, installation and operations of special security equipment. The *BC* offers a brief overview of the private detective service market in the Baltic States and Poland. The material is unique because so far no survey on the subject has been done in the Baltics.

The present overview of the private detective and security services market in the Baltic States and Poland is far from being exhaustive. However, it is based on the analysis of materials provided by the Latvian Detectives and Security Services Federation (LDDDF), information from the Confederation of European Security Services (CoESS) and expert opinions by the leading specialists in corporate and personal security services.

LATVIA WAS THE FIRST TO PASS PRIVATE DETECTIVES' LEGISLATION

There were 310 private security firms and 80 private detectives operating in Latvia in 2006. Thus, there are three types of services currently represented in the Latvian market, i.e. security services, detective services and the mixed security and detective services. The legislative framework for operations of private security companies is laid down in the Republic of Latvia laws on security services, on detective services, on use of weapons, on protection of personal data, etc. It should be said that only Latvia has a Law on Detective Services (effective as of November 1, 2001). So far no such law has been adopted either in Lithuania or Estonia.

Latvia's accession to the EU created conditions for entry of new players to the market of private security services. According to the amendments to the Law on Detective Services, effective from May 1, 2004), "citizens of the European Union member states and citizens of the European Economic Area are eligible to receive the [private detective] certificates." In other words, private detectives from the EU member states can now do the detective business in the territory of Latvia. However, the EU laws do not say anything about Latvia's citizens and non-citizens being permitted to carry out private detective services in the EU's territory.

The EU membership gave rise to the trend of outflow of security staff to Ireland, for example. The shortage of

the staff in Latvian security companies is due to the need to change the focus of the security business, namely, to expand the use of technical security equipment, to develop further the use of remote control systems in monitoring the situation in the guarded facility and use of swift response teams. Another trend is that private security companies hire staff without proper qualification and certificates.

Apparently, further expansion of foreign security companies on the Latvian market is very likely, as those companies have financial potential and opportunities for lobbying their interests in the security contracts' tenders, which are not available to local security businesses. In such situation small firms, having failed to survive the competition battle, are either bought up by foreigners or retreat to the shadow market.

LITHUANIA MARKET MONOPOLY IS UNLIKELY

In experts' opinion, the Lithuanian market of private detective and security services has a low monopolization level. The total number of the companies operating in the security business is around 70-80, and less than a dozen of them are large players (with a staff of more than 500 people). The following authorities control the Lithuanian market of private security services: the Ministry of Interior Affairs, the Police Department and local police commissariats.

The special legislation governing the operations of private security companies started with the Lithuanian Cabinet Resolution No. 160 dated December 3, 1993, the Law IX-2327 on personal and property protection, adopted by the Lithuanian parliament and effective from January 12, 2005. The law on legal protection of personal data, as well as the laws on security operations and weapons, belongs to this category, too.

As is mentioned before, there is no law in Lithuania governing private

Pinkerton

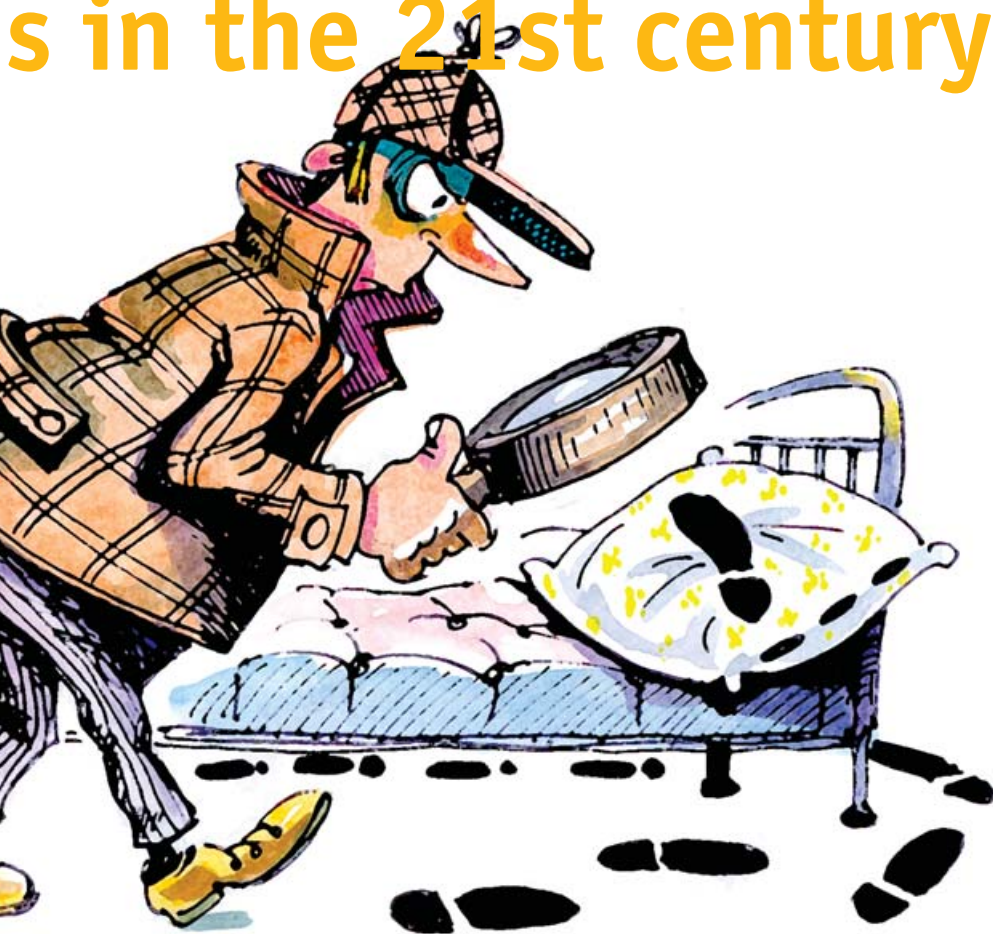


detective business' sector. Nevertheless, the Codification Manual of Permitted Business Activities in Lithuania, published by the Department of Statistics annually, lists such types of operations as "search for missing persons" and "investigation of theft." These operations, being officially permitted, essentially fall into the scope of private detective services.

The Lithuanian Ministry of Interior Affairs carries out mandatory licensing of security companies. Licenses, which are valid for three years, are issued only to companies from Lithuania and member states of the EU, EEC and NATO. Companies, which have been licensed in the EU and EEC member states for protection of people visiting Lithuania for no more than three months a year, are not required to obtain the Lithuanian license.

"WE NEVER SLI

s in the 21st century



ESTONIA HAS NO LAW GOVERNING PRIVATE DETECTIVE BUSINESS

The security services provided by private companies in Estonia are regulated by the following legislative acts – the law on security dated October 8, 2003 (effective from May 1, 2004), the government regulations on cash collection services, the law on professional qualification, the law on weapons, the law on security services, the law on protection of personal data, etc.

The legislative acts in Estonia cover the following types of activities – security consulting, security of movable property and real estate, cash collection services, personal protection, security services during events or at certain facilities, surveillance centre services, planning, installation and operation or security equipment. The controlling authority is the National Police Department.

EEP". Allan Pinkerton

Private security companies are not allowed to hire people, which have limited legal capacity, are serving a suspended sentence on criminal charges, have been declared bankrupt or are private detectives. The last restriction seems weird, to put it mildly, as there is no legal framework in Estonian governing private detective business.

Employers of the security service sector are united into the Estonian Employers' Confederation. There is also a professional trade union association.

POLAND: PRIVATE DETECTIVES SERVE THE COUNTRY

There the following Polish non-governmental organizations related to the security service activities: the Polish Chamber of Personal and Asset Protection; the Polish Association of Employers, *Ochrona*; the National Association of Alarm System Producers, Designers and Fitters, *Polalarm*; the Polish Chamber of Security Alarm Systems.

Security services in Poland are regulated by the following legislative

acts: the Law on Economic Activity dated December 23, 1988; the Law on Personal and Property Security Services with Implementing Regulations dated August 22, 1997; and the Law on Detective Services with Implementing Regulations dated July 6, 2001. The control functions are carried out by the Ministry of Interior Affairs and the administration of the relevant authority after receiving information from the head of local police.

The Polish laws permit the following services – property protection, personal protection, surveillance, cash collection services, installation and maintenance of alarm systems, detective services.

Public contracts account for 25% of contracts for security services, 8% are for corporate security and the rest are private contracts.

The Polish security technology's market can be divided into three sectors: 30% are price-sensitive consumers, for whom the cheaper, the better. Another 30% of customers prefer package solutions, which are rather expensive. And there are 40% of consumers, who do not know what they want and have no idea of where to go in search for security services. The reason for this is the lack of information.

Considering that the organization of private security companies in Poland, like in the Baltic States, began almost simultaneously with collapse of the Soviet Union and the Warsaw Pact, it would be logical to assume that the security services consumer market in the Baltic States consists of the same sectors as in Poland. However, the distribution of consumers among sectors by percentage might be different. However, there is no reliable information on this subject in the Baltic States.

Experts describe the situation on the Polish security market as quite favorable. Following the accession to the EU, Poland (as well as Latvia, Lithuania and Estonia) is obliged to follow the common European standards, which mean mandatory installation of appropriate security equipment at various facilities. The Polish government is investing in security of its nationals (which is not yet something one can say about the Baltic States).

In experts' opinion, Polish companies producing security technologies may appear on the market in the nearest future. •

Our common assets

By Olga Pavuk

On 27 March 2007 a long-awaited boarder treaty between Latvia and Russia has been signed by the countries' prime-ministers, **Mikhail Fradkov**, Russia and **Aigars Kalvitis**, Latvia. At the same time Latvian businessmen who accompanied Latvian government delegation discussed cooperation issues with their colleagues in Russian Trade and Commerce Chamber, headed by the former Russian Prime Minister, **Yevgeny Primakov**. *BC* followed about two-hour round-table discussion opened by Y. Primakov and A. Kalvitis; below follows some fragments from the dialogues between the two countries' entrepreneurs.



Yevgeny Primakov, President, Russian Trade and Commerce Chamber:

— We can acknowledge that a real breakthrough in the relationships between Russian and Latvia occurred. Suffice it to say that Russia already occupies the 4th place in Latvian foreign trade and trade turnover with Latvia reached \$2 bln in 2006. Good potentials are present in the bi-lateral investments: thus Russian investments in Latvia are at the level of \$ 0.5 bln whereas Latvian in Russian are at the level of \$ 30 mln. We can see that there is room for further investment increase. At the same time we have to activate regional trade and commerce chambers' cooperation.

Aigars Kalvitis, Prime-Minister, Latvia:

— Our bi-lateral relations have already existed during last 16 years. In our negotiations with president Putin, prime-minister Fradkov and other officials we followed a common line; therefore signing the treaty has been an important step towards further developing of our relationships. Thus already this June we are going to resolve other important issues, e.g. to sign an agreement on bi-lateral investments' protection and on double taxation. What is really important, that our countries' busi-

nessmen can meet and discuss problems in the Russian Trade and Commerce Chamber.

Peter Aven, president, Alfa Bank:



— During last years we have been working on the so-called post-Soviet territories. In fact, we never actually treated neither Latvia nor Lithuania and Estonia as independent entities. Present treaty is a cardinal breakthrough "into another trajectory"; or rather coming back to those whom we actually new well long ago.

Our interests in Latvia are: telecommunication company *Golden Telecom*,

which is part of the Alfa-Group and intends to acquire a Latvian operator; we are interested to launch our STS-channel in Latvia to broadcast in Russian; we'd like to acquire a big Latvian bank.

For a long time "a big wall" hampered our relations. I am fully aware that the best for countries' friendship is mutual capitals' penetration. In that case there won't be any conflicts. Then it's high time to create a Russian-Latvian Business Council.

Alexander, All-Latvia and Riga Metropolitan:

— Some think that business can run without spiritual connections. It seems though that entrepreneurs, their relatives and friends are closely connected to the church and to spiritual values.

The head of Russian Christian Church, Patriarch Alexij the Second received Latvian delegation in St Daniel Monastery, Moscow. The Patriarch underlined both countries leaders' approaches to spiritual values without which our life lacks its meaning. He expressed a belief that sooner or later the two independent states, Latvia and Russia would find common solution to all confronting issues. He concluded: I would remind you the words of a XIXth century millionaire who said: "we lived with prayers on peoples' needs and the latter lived by our donations".

Vitalij Gavrilov, Chairman, Latvian Employers Council:

— Russian-Latvian Business Council so far exists only in plans; no practical steps have been made to establish such a Council yet. Some suggest that a Council to be a part of inter-governmental commission. The Council's participants might be, for example, Latvian Employers Council and from Russian side Trade and Commerce Chamber, Industrialists and Entrepreneurs Union, and non-profitable public organisation "Business Russia". Our first meeting we can arrange already this July.

Here in Latvia we try to supervise the government's activity and we are ready to represent Latvian business interests in Russia. Russian Chamber of Commerce, Business Council and Employers Association are fully capable of resolving communication issues in dif-

ferent economy sectors. We do have our common assets.

Oskars Spurdzins, Latvian Finance Minister:

— In Latvian foreign investments there is a great share of Russian capital. Now that the treaty is concluded, the work of the inert-governmental commission shall start; there are plenty of questions that require urgent solution. I upheld Mr. V. Gavrilov's proposal to create a Latvian-Russian Business Council.

Janis Leja, President, Latvian Trade and Commerce Chamber:

— I would like to remind that such business council was created already about a decade ago. However during last years it performed mostly the cross-border trade council's functions. It's time to re-create anew the "business council" for entrepreneurs in Latvia and Russia; it would play a role of supporting existing official channels.

Salman Babaev, vice-president, JSC Russian Railway Lines:

— Russian and Latvia are united by the same railway's gauge-size. Then, about 23 mln t of Russian cargoes is exported through Latvian ports. Hence, further coordination with Latvian Railway Company is needed with a decision on a common operator and unified transport rates. We do not want to create any obstacles on the Latvian operators' path. There are 15 Latvian expeditor's companies working in Russian Federation, and the train "Baltica-Transit" successfully functions. Bottom-line: we are going to become a vital link connecting Russia with the European Union.

Valdis Trezins, president, Association of Road Carriers "Latvijas Auto":

— We have to admit a very negative present picture at the Latvian-Russian bor-



der-crossings, i.e. there are about 1300 trucks idly waiting their turn to get through; and everyday at the border-crossings there are about 500 trucks waiting. Each country, due to this, and Russian and Latvia truckers in particular, waist about 11-13 mln euro a year. Transit and logistics' share in Latvian GDP is about 20 per cent. We wish all what we can do in order to facilitate road haulage, including cargoes from China. Transport operators are waiting for the quick resolution of boarder crossing issues and better cross-border infrastructure. As soon as these issues are not resolved, the lines on the crossing points will survive.

Ruslan Greenberg, Director, Economics Institute, Russian Academy of Sciences:

— Latvia can play an important role in both securing Russian-EU relationship and creating a "common economic space": Latvia better understands the European Commissioners; we want to understand them too. Latvia can play a role of a councillor rather than an attorney.

Ivars Strautins, President, JSC Turiba:

— In the "old good days" science and business community closely cooperated. It's good if we cooperate too at different levels. Presently we have surrendered our both the internal and external markets. Hence the question: how to protect our goods, first of all agricultural ones, which are already known in Russia?

Viktor Kuzenkov, Executive Director, Russian Trade and Commerce Chamber Committee on energy and utilities:

— We have elaborated projects on the oil-gas transportation and processing, including LNG. It's important that we use Latvian ports' initiatives in order to create adequate terminals. Previously dispersed

Latvian legislation has led to risks greater than in other countries. The legislative background is to be modernised in order to eliminate risks. We have to admit that Latvian authorities managed to resolve discrepancies and created conditions for organising a new economic area.

Kirov Lipman, co-owner, JSC Grindeks:



— Two pharmaceutical companies *Olainfarm* and *Grindeks* have been established under Soviet regime in Latvia. We have managed to secure enormous high quality GMP's potentials. An adequate process in Russia proceeds with difficulties. We greatly rely on the Russian market where our turnover already reaches \$100 mln. We have concluded a contract with SOTEKS to produce at a joint venture company about 30 mln "Mildronat" ampoules. Another company's product, cancer-preventing drug "Ftorofur" is used in Japan; and an additional project with the Russian Science Academy is under consideration. We are ready to make all efforts to facilitate pharmaceutical sector in Russia. •



Business regardless nationality

By **Sigitas Pasilaitis**

National “inflections” in Lithuanian business are almost invisible. Thus, when a Lithuanian entrepreneur gets information on separately functioning “Latvian” or “Russian” business in a neighboring Latvia, he would regard it as a very great exaggeration.

It’s a well-known fact that after restoring its independence, Lithuania rendered country’s citizen status to everybody permanently living at the time in the country, regardless of nationality, place of birth and who reached full legal age and, obviously expressed a desire to acquire Lithuanian citizenship.

STARTING POINT

Most reasonable explanation that Lithuania did not start “civil-separation-dispute” policy was that in the beginning of 1990s in Lithuania, the most populous of the 3 Baltic republics with 3,7 mln people at that time, the core-Lithuanian population reached 80 per cent.

It is probably here, in the “lack-of-contradiction” climate that national minorities (e.g. mostly Russians and Poles, with, correspondingly, 8% of the total, in each group) did not raise issues concerning any aspects of the “national” aspects to conduct business. These contradictions sometimes occur in other spheres of social life, e.g. politics, culture, etc., but never in business.

There could be another explanation: there is not such a notion in Lithuania as a “Russian” or a “Lithuanian” company, and specialists are treated by their professional qualities rather than on national grounds.

As for some presently acute Lithuania-Russian political relations (for example accusations of the KGB-system’s contacts), they are generally used as an instrument in party politics.

TO CHERISH OWN RANKS...

Former Lithuanian President, **Rolandas Paksas**’ most active fund-raiser, **Jury Borisov** did not arise bad attitude in the public; on the contrary, he was even decorated by his impetus to national economy (his car-repairing firm *Avia Baltika* increased both employment and budget allocations through profit taxes). The attitude towards him changed to the opposite when he entered politics; the same happened with another Lithuanian millionaire with Russian roots, **Victor Uspaskich**.

It is a recognized fact that so-called “aliens” are not welcome in politics; it actually does not matter which nationality “the

alien” might be. Anti-Russian accusations, as a rule, are aimed at “local leaders”; most drastic example is the first independent Lithuania’s prime-minister, Mrs. Kazimera Prunskiene, called often the country’s “amber lady”. She conducted a firm and pragmatic foreign policy course in the Eastern direction. Her attitude has been based on the premises that trade with Russia has a lot of advantages for Lithuanian businessmen, and worsening relations with the country having such an enormous market would only damage Lithuanian economy. Even presently, at her agricultural ministry’s position, she is heavily criticized by political opponents who seem not to apprehend the real-life’s facts.

Recently, Lithuanian agro-producers were the first among the Baltic States to get Russia’s veterinarian service authorization for the country’s consumer export to Russia. Therefore, Russian officials would cease to control agro-goods’ export fully relying on Lithuanian controllers. Besides, Lithuania is a leader among the EU member states as to the number of authorization: 97 companies are allowed exporting their vegetables and meet-products to Russia without additional control.

All that has had a positive effect on Lithuania’s agricultural trade: e.g. during 2006 the country increased 1.6 times its dairy products’ export to Russia, which presently reached about 320 mln litas; vari-

ous meet-products' export more than doubled, as to the year before, and reached 83 mln litas.

Bit regardless of all the positive trends in agricultural developments, Minister Kazimera Prunskiene was blamed by the right-wing forces as “the Russian interests' advocate” in Lithuanian politics.

PROFITS WITHOUT NATIONAL FLAVOUR

Most common “hand-of-Moscow-type” accusation in Lithuania has definitely had very practical implications. Thus recently, Mr. **Rimandas Stonis**, *Dujotekana's* president has been criticised as a head of the company importing Russian gas. Politicians and journalists quickly dabbled the company both the “Gazprom's vicegerent” and “Kremlin's hand” in Lithuania. Main reason: Lithuania intends to regulate gas process for big companies; critics of the move, including *Dujotekana's* bosses, were against the measure and argued that some years ago when Lithuanian government sold third of its shares in a state-owned gas company *Lietuvos dujos*,

it promised not to interfere in price regulation; in return Gazprom promised to keep the prices stable for two years. It seems now that by violating its obligations the country instigated Russia's actions.

Another example: after Lithuania joined the EU, most ardent country's “integrators” initiated an active foreign languages' enforcement policy. During a similar “campaign” recently the object for attacks was Russian language on radio (hit-sings) and TV (talk-shows and serials). Now the aim was to implement as quickly as possible main EU languages; the means to make it done was, of course, at the expense of substituting “Russian hours” for other languages, e.g. English, German, etc which was regarded as vitally important for the country's citizens. The problem is that Russian language does not give away quick enough. Some blame TV-cable operation companies which do not seem to be quick in substituting Russian-language-channels. It's difficult to blame these companies for sympathies towards

Moscow, as all operators, due to traditions, are operators with local or Lithuanian capital (it could be seen even by the operators' names).

The position of the TV- authorities is even easier to understand: about three-fourths of the TV audience knows Russian and only one-fourth English; which means, they argue, that by abandoning Russian we slash a sound part of our viewers. The problem seems artificial enough, as transposition to digital TV system would allow viewers to choose the language of, for example, Discovery program.

Country's businessmen remain calm to “Russian issue” in the language sphere. Thus, Mr. **Arturas Drungilas**, marketing director in the State Sea Port Directorate underlined that the Sea Port authority is open to cooperation with all new investors and partners, without any geographical restrictions. Port's Directorate is willing to discuss businessmen proposals from Russia too; the only important aspect -the projects shall be profitable both for the port and the country in general.

Hearts' cooling success

Kaunas' banker, Vladimir Romanov, is one own the richest men in Lithuania; he is Russian by birth and a former Soviet marine officer. It seemed that he was deemed to be the first in line for the miserable object in anti-Russian campaign. Strange enough, but the feelings of despise he aroused only from... the Kaunas soccer fans, and only recently. It would be most correct to call him a Lithuanian businessman of Russian origin, as the divide in Lithuanian business does not proceed along the national lines.

Most exciting in the whole situation is the fact that with Romanov's financial assistance Kaunas' soccer team won national championship for the six times in a row. However, the banker is not confined only to investments in Kaunas. He has created a special “soccer pyramid”, which is quite specific for the whole post-Soviet territory. Besides, he owns Scotland's *Hearts* and another club in Byelorussia, *MTZ-RIPO*.

As to “the soccer pyramid”, the idea has been that soccer teams from the former Soviet republics would supply players for the more sophisticated in the soccer sense British market. Therefore the transfer of the best Kaunas players to *Hearts* has become a common place.

When the number of Lithuanian players in *Hearts* reached 12, Kaunas' fans went in revolt claiming that *Hearts'* success “was not for their hearts” as soon as the success was reached at the expense of their victorious club's march which could loose its place in the UEFAs Champions League.

At the end of 1990s Mr. Romanov established a tradition to celebrate, in the extreme splendor manner, the Russian “old New Year”, the event highly praised by the Lithuanian beaumont. And again, it seemed that organizing strictly Russian event on Lithuanian soil could be an ideal target for Romanov's accusations in “imperial traditions” and imposing foreign habits.



VLADIMIR ROMANOV: Creating a special soccer-team.

Strange enough, but nothing of the kind ever happened. The explanation could be that the New Year fest was organised as a cultural kaleidoscope of famous artists from Russian and Lithuania, rather than purely Russian artists alone. Last time, for example, Russia was represented by **Dima Bilan** with “Terem Quartet” and Lithuania by scholarship artists from **Mstislav Rostropovich's** Fund “Helping Lithuanian Kids” supported by other nationally famous entertainers. By the way, the program hosts were **Vytautas Carnages** and temporary residing in Vilnius actress, **Tatiana Lutaeva**, well-known for her role in the move-serial “Guardemarines, forward!”

TWO RUSSIANS AMONG COUNTRY'S MILLIONAIRES

In the last poll of the richest people in Lithuania (June 2006), conducted by the *Veidas* weekly, among the list of the first ten there were two Russian names: **Vladimir Romanov**, main stakeholder in *Ukio bankas*) and a former economy minister and Labour Party leader, **Victor Uspaskich**. According to *Veidas* weekly, “during last elections, at the end of 2004, Labour Party leader declared his family capital at more than 160 mln litas”

NATIONAL INFLECTIONS

The national ramifications are quite vague in Lithuanian business life. Thus when a Lithuanian businessman can hear that in a neighboring Latvia there are separate notions for, say, Latvian or Russian business functioning rather separately too, e.g. Latvians put their ads only in Latvian-language papers, Russians — only in the Russian-language ones, he regards that as a strong exaggeration. For example, in Lithuania there is only one business daily, *Verslo zinios* and it's highly improbable that another one in Russian would appear. Why? The answer is very simple: businessmen in Lithuania are mostly interested in a competent and urgent information, the language is actually not important, either Lithuanian or Russian.

BUSINESS RUNS BETTER WITHOUT POLITICIANS

Russian trade representative in Lithuania, **Igor Zotov** works already 5 years in Vilnius. He remember that during that time only once he heard about the idea of a Russian

business-club; though, there was nothing more than talks about the club as a place and means for communication rather than the place to settle any business issues. The reason that such a club does not exist in the country lies in the fact that there is no any sort of prejudices towards Russian business (neither business from Russia) in Lithuania.

Said Mr. I. Zotov: “Russian business projects, to my mind, have been developing quite well. For example, Yukos has had no hostile claims towards Lithuania. Some years ago Russian chemical company *Eurochim* made a prospective decision to invest into a biggest in the Baltics phosphate fertiliser company *Lifosa* (presently more than a thousand employees). That was a really good decision: last year company's profits increased by 13,1% and turnover reached 682 mln litas. And there are potentials for growth, as well”

Mr. Zotov pointed out some other examples of successful Russian-Lithuanian capital cooperation: one is a company in the city of *Rokiskis* where the Russian “Volga-type” car is assembled. These cars are exported into several countries, among them to 12 states in the EU. The demand for these cars is constantly growing.

Russian trade representative particularly praised Lithuanian capital involvement in the neighboring Kaliningrad region. More than 600 Lithuanian companies are already registered in this enclave and the interest is growing. “I recently visited Kaunas where we discussed the options of Lithuanian companies in that Russian

region: these are mostly machinery and high-tech manufacturing; there are some other projects too.” Thus, soon company *Arvi* from Marijampole will start producing fertilizers in Kaliningrad region; important that most of production is to be exported”, added Mr. Zotov.

As to the problems Russian business is facing entering Lithuania, Mr. Zotov strongly denied the existence of any particular impediments for Russian investments presently. Said Mr. Zotov: “If any such serious obstacles exist, they are quite sporadic and individual; they mostly stem from inadequate elaboration of the project as a whole or its constituent parts”

As to the often heard and quite sharp political declarations concerning Russian-Lithuanian relations, including those of *Mazeikiu nafta*, they are, according to Mr. Zotov, damaging for the customers and businessmen alike. The customers, for example, can not get the goods they need on local markets and on competitive prices. “We can conclude that when businessmen are going on without “politicians’ help” and decide everything by themselves using economic efficiency instruments, business proceeds quicker and better”, argued Mr. Zotov.

Some statistics in the conclusion: according to Russian data, trade in goods with Lithuania increased in 2006 by 32.5% in comparison to 2005. Russian export to Lithuania increased by 11.5% (up to \$ 4.7 bln); Lithuanian export to Russia increased by 157% and reached 1.8 bln dollars. •

ARVI sets on Kaliningrad

Lithuanian company, Arvi is already performing several projects in Kaliningrad region. Besides trade and agro-production, the company with the head office in Marijampole, has as its main aim in the region the production of granulated fertilizers.

The JSC *Arvi-NFK's* General Director, **Virginijus Darguzhas** has told the *BC* that the company started the project in 2004 with investments of about 16 mln euro. First commercial outcome is expected in summer 2007; after the complete production capacity, the company would produce fertilizers at the rate of 250 th t. The product is aimed primary for final exports to the EU countries, Latin America and the Balkans.

If all goes well, the initial expenses will be covered in 5-7 years, said V.Darguzhas.

“The rate of expenses’ repayment depends on several factors, he continued, but there is one thing we are sure about — we always find mutual understanding in resolving confronting issues. We do not have to claim about it at all”

Lithuanian businessman's reflections shall be understood in the context of Russian intention to turn Kaliningrad special economic zone (through various privileges and favours for foreign investors, in particular to production) into an export-driven zone, rather than the subsequent goods transfer to the “mainland Russia.” Lithuanian company with its plans to use the Russian enclave as a springboard in trade with the rest of the world perfectly fits into Russian intentions. •



VIRGINIJUS DARGUZHAS: We can always find a common platform with Kaliningrad region authorities.

Purely professional motivation

A perfect explanation of cause under discussion is found in the *Reladus* advertising agency's head, Mrs. Svetlana Molokovich.

She was Russian born in Kazakhstan and ten years ago, together with other two ad-agents, moved to Lithuania to start advertising business. Starting from the scratch, both financially and linguistically, she is presently firm on her feet: her advertising agency has more than hundred customers and sales are growing.

When asked about nationality problems in business issues during last decade, she said: "nobody's interested neither in my nationality nor in my Lithuanian language proficiency. When my agents or I address our customers with a business proposal, then the latter's commercial attractiveness is the decisive factor, or probably the only factor in proceeding with it, at all"

Language and national aspects can serve, at best, as a background in doing business, argued Mrs. Svetlana Molokovich.

Thus, recently, she goes on, on the eve of this year's February municipal elections one of the parties (which somehow

could be termed Lithuanian; though I do not think there are "purely Lithuanian parties" in the country either) asked us to conduct their advertising campaign. This example clearly shows that with the beneficial approach from both sides we can always find a way, in any language.

Mrs. S. Molokovich acknowledged that the language she uses depends on the day; sometimes she cannot find a proper word in Lithuania or uses words in a way that bewilders clients. But never ever that was a serious problem. "Quite on the contrary, she adds, our customers lately asked us to talk Russian as they wanted to practice their language skills"

However, she admits, national issues can not be completely tuned down in our work; though the main approach to work is through professional motivation.

"Our company's staff is quite mixed in nationalities, she concludes, though it is communication skills and responsible approach that really matters in an advertising agent's work, not the language affiliation. If, for example, I need a scale-modelling expert, I would rather take a Lithuanian as that person would be netter in written Lithuania, so I would save time in correcting the final scale. However, the vacancy can be filled in by any other "nationality" if the person could satisfy the requirements?"



SVETLANA MOLOKOVICH: Language and national aspects can serve, at best, as a background in business.

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On the business-press market since 2000



“Close neighbor is better than far away relatives” v. Dhal

By Olga Pavuk

Since the time immemorial the present-day Latvian territory has had close ties with Russia. Therefore, it is not the rule of chance that Latvians call Russian territory *Krievija* and Russians are called *krievi*, which is reminiscent of *krivichi*, the ancestors to the origins of Moscovite royalty. Even at present Russian population in Latvia (or, probably, better those who regard their Russian as native language) is much bigger than in the adjacent Estonia and Lithuania. It is, probably, therefore that business, being international by nature, is divided here into the Latvian and/or Russian one.

Though the division might sound quite relative, everybody in Latvia knows that there are mainly Latvian companies, than the “Russian-speaking” companies and the mixed ones, which in fact corresponds to the families’ composition in question, as it concerns nationality. The BC has looked in this review at Latvian business through the light of Russian capital participation in it (or rather, non-Latvian capital) and that which have originated in Russia; with an additional insight on the companies which are already working and willing to work in Russia.

WITHIN THE FIRST TEN...

In the list of the richest people in Latvia (published by the *Pastaiga* magazine; the poll was conducted by the *Baltic Screen* in cooperation with *Laika stars* in 2006) there are only three Latvian names. First 3 places are taken by the *Parex banka* owners, i.e. **Victor Krasovitskij** with his 175 mln lat fortune, **Valerij Kargin** and his former wife-with their common 182 mln lat, followed by **Leonid Esterkin**, *Reitumu banka* shareholder, with 83 mln. On the fifth line — **Oleg Fil**, *Aizkraukles banka*’s co-owner, with 80 mln; on the eighth line — **Oleg Stepanov**, co-owner of several companies in Ventspils, with 60 mln; and close to him with 56 mln lat — **Sergej Zaharjin** who holds controlling share post in *Liepajas metalurgs* company.

There are several public organisations uniting Russian businessmen: since 2001 the Russian Club with **Anatoly Iljin** as president (it unites businessmen, politicians and scientists) was established. Since 2004 the Union of Russian entrepreneurs is active with **Alexander Gaponenko** as president, which unites interests of more than 120 SMEs and medium companies mainly from Russia.

Riga Business Club with **Vladimir Solomatn** as president was established the same year uniting about 100 big Latvian businessmen. All these organisations unite people who take up the cause of protecting Russian language in Latvia as part of the European Union heritage. They render assistance in protecting Christian culture’s and Russian community values in the country, as the main task of these organisations is mutual business support.

NEWS IN RUSSIAN

Public interest to news in electronic mass-media is constantly growing together with news portals in Russian; they are actively read both in Latvia and in Russia. The BC numbered more than ten information sites with free access, e.g. rus.delfi.lv, lenta.info, rosbalt.lv (the latter represents Russian government channel), etc. Rosbalt’s Latvian representation director, **Vasilij Sokolov** was made recently the head of St. Petersburg’s information and business center in Riga.

RUSSIAN CAPITAL IN LATVIA

As to the Russian capital influence on companies’ development in Latvia, according to Latvian Company House data and Lursoft statistics, during 1991-2007 this influence increased more than 80 times (from 1.3 mln lat to 103 mln). There are more joint-venture companies in Latvia with Russian capital participation (2167) than, for example, those with Estonian capital (1338), American (1337), Lithuania (1112) or German capital (1106).

About 20 Russian “participants” already heavily invested into Latvian companies. There are, e.g. the following Russian companies in this list: Transnefteproduct (co-owner of LatRos-Trans) with 36,5 mln lat, Gazprom (Latvi-

jas Gaze) with 13,5 mln lat, Moscow Business Community/Moskovskij Delovoj Mir (Latvijas tirzniecibas banka) with 5,2 mln, Moscow Bank (Latvijas biznes banka) with 4.9 mln, etc.

Among those investors there are 15 Russian businessmen: **Yuri Shefler** (with controlling stakes in *Latvijas Balzams*) with 4.4 mln lat, **Igor Krupnik** (Fish PK Holging) with 1.7 mln lat and **Michail Elfimov** (Mezaragi) with 1.4 mln lat. It is known that the latter has been a member of the board in YUKOS with responsibility for oil processing and export; on 5 March custody warrant was ordered in Moscow on his name.

Quite active in Latvia is presently one of the richest men in Russia, **Victor Vakselberg**, he is the main share holder in Renova Group. Swiss holding Renova Management AG through its daughter company New Europe Real Estate takes part in the new 25-ha residential complex construction project in the most prestigious Riga’s district, Mezapark. A daughter company, *Mezaparks SPV* was established in Latvia; former Riga major Gundars Bojars heads the company. Construction project accounts for about 1 bln dollars.

IN SEARCH OF RUSSIAN PARTNERS

A number of Latvian businessmen have already paved the way to Russian market, including some that wanted to do so. “Association of Latvian Businesses in the Russian Federation” has been found in Russia on the initiative from both Latvian Investment and Development Agency (LIDA) and Latvian Embassy in Moscow; more than 50 companies and firms joined the association wishing to develop business contacts with Russian partners. The association, for example, organisers Latvian businessmen tours to different Russian regions. LIDA’s deputy head in Russia, **Ilja Podkolzin** supplied us with some success stories of such cooperation: FIB Group’s fibrolite export to Kazan reached 250 th euro; Olainfarm goods export to Tatarstan, Vologda and Jaroslavl reached more than 150 th euro; Parex leasing made a deal with Russian companies which totalled \$2.2 mln and presently is negotiating deals with partners in Magadan and Kazan.

The following association members are already active in Russia: *Ventspils nafta, Riga Railway Company, Dzintars, Laima, Ecolines, Kalnozols*, etc. There are those that are searching for partners: Ameri (textile), Logistics Solutions Company, Baltijas gumijas fabrika (chemistry), Data Pro (information technology), to name a few.

First consultations were conducted in March in Russian Transport Ministry in view of opening a direct air-route between Riga and Perm by Air Baltic. The main problem being that there isn't so far an international aviation transport agreement between Russia and Latvia; without such an agreement only air flights between the two states' capitals are allowed.

For the present year an interesting Latvian businessmen trip is to be performed on the Latvian Railway Company's train on the Ekaterenbourg-Novosibirsk-Irkutsk rout.

Moscow business association unites Russian entrepreneurs working in Latvia too. In previous years Russian businessmen were mostly interested in Latvian lax tax regime; at present they are mostly interested in using the EU funds. Still political discontent can be regarded as a major stumbling block for entrepreneurs' activity.

SITUATION IS BECOMING BETTER

Political climate in bilateral relations has become much better recently.

A "thaw" has been set in 2002 by the Moscow City Council delegation visit to Latvia headed by Moscow City Major, **Jury Luzhkov**. Reciprocal Latvian cities majors' visits to Russia took place in 2003; then there were "Moscow Days" events in Riga in 2004 and 2005.

Further on, there were Latvian delegation visit to Moscow headed by the Latvian Economy Minister **Juris Lujans**, followed by the "St. Petersburg Days" event in Riga in 2006 and ministers' participation in the Baltic Forum's conferences. Specifically shall be mentioned Former Russian president, **Boris Yeltsin's** visit to Latvia followed by the **Russian Patriarch Alexis**, as well as Latvian president's visit to Moscow on

I am proud to be a gas-engineer

It's already 20 years since Adrians Davis is heading Latvijas Gaze company. In 2001 Gazprom's authority decorated him with the "Honorary Gas industry engineer" badge.

It has been his most distinguished reward; he was the only one outside Russia to be decorated with such a badge. He says: "it's both an honour and an obligation to be a gas-engineer. When the Soviet Union ceased to exist, we were the first to unite into an association. We are just a big family, which helps a lot to find a common ground for understanding"

After graduating in 1965 from the Polytechnics University he entered *Latvijas Gaze* company where he climbed up to the position of the Board Chairman. He knows Russia perfectly well and is quite aware that being associated with that country brings both pleasure and profit.

Russian *Gazprom* participation in this Latvian company, according to Mr. A. Davis, serves as a guarantee for both the stability of gas deliveries and the company's bright and secure perspectives.

"Latvian companies and consumers never experienced any disruptions in gas supplies, says A. Davis. Mostly due to our country's geology structures we have had quite unique underground gas-depots". He continued: "recently we signed gas supply agreement with *Gazprom* for up to 2015. Our stakeholders do not take away dividends; they invest them into further development. That means they hope for longstanding cooperation, which was possible due to complete understanding between *Latvijas Gaze* and *Gazprom*. We have to take it for granted as Russians are co-owners of our company; besides, both sides work under the terms of mutual advantage."

Presently, some serious attention has been devoted to more active use of Dobeles natural gas depot. It has to be additionally stressed that Latvia's about 50 bln m³ gas-depot facilities cover about 10% of the European gas consumption during a year. If Latvia's gas-depot system is connected to the future North-European gas pipeline, it can help to secure stability of gas supply to European countries. To settle down the project, political relations between the EU and Russian must be resolved. By the way, the European Commission already provided funds for feasibility study concerning Dobeles natural gas depot potentials and a working group has been created.

"Russia for us is a kind of "home front"; Mr. Davis underlines, as it provides us with modern technology and equipment. To-day in all sectors of economy we lack specialists; not in the gas industry.



ADRIANS DAVIS: Russia is a kind of "home front" for us.

Since 1994 our company subsidizes our students' education expenses in Moscow Oil and Gas Institute. Already presently we have 10 highly trained specialists resolving complex issues on the company's modernization and security"

According to Davis, he visited Russia about 400 times; and not only on business trips. When a teenager, he rafted with his friends in Sajon, Altai, Jakutija, Baikal, Kamchatka and Chukotka.

"I feel myself at home there, says Davis, or even better. It is there that one can appreciate other values, in comparison to those we concentrate in big cities"

the occasion of the Russian 50th Victory Day's anniversary. One of the latest was a meeting between Latvian prime minister, **Ajgar Kalvitis** and Russian president, **Vladimir Putin** at the Economic Forum in St. Petersburg in summer 2006.

Two important agreements have been concluded between Russia and Latvia in October 2006: on the establishment of intergovernmental commis-

sion (IGC) and on economic cooperation. The IGC is expected to speed up the intergovernmental contacts development in various economy sectors, as well as in exploring legal cooperation in foreign economic relations.

Already in the beginning of 2007 in Latvian Economy Ministry consultations took place with the representatives of Russian Ministry for economic development and trade (RMEDT)

devoted to speeding up the pace of intergovernmental economic cooperation.

One of the representatives in these consultations, RMEDT's external economic relations' department head, **Sergey Chernishev** during his meetings with Russian ambassador to Latvia, **Victor Kaluzhny** underlined that Russia represented a huge market for Latvian export and that Russians respected Latvian

Zigurds' in full strength

Russian-Latvian company's, FIB-GROUP General Director Zigurds Skrodelis during last 20 years has been living in Russia. But he is still closely connected to Latvia both by business connections and personal ties. Thus, due to his personal involvement, "Association of Latvian Businesses in the Russian Federation" was established this February in Moscow; he became its first president.

As Mr. Skrodelis underlines, fibrolite is known to the world during last 70 years and is not something new for Russians; experienced construction workers know this material well. In the former Soviet Union there were 42 factories producing fibrolite.

Unfortunately, due to the low quality of material produced, it ceased to be used in construction. Therefore, all the factories producing fibrolite in Russian were closed.

With the FIB-GROUP's assistance fibrolite is exported to the Russian market from *Jelgavas buvniecibas sistemas* factory situated in Latvian Jelgava city. Latvia exports to Russia about 60 th sq.m of fibrolite a year; the factory plans to enlarge its export to Russia. This year the factory starts producing pressed fibrolite (the only such production in the world) bearing *Elto-board* trade mark. FIB-GROUP officially represents in Russia another Latvian company, *Brocenu keramika* which produces various ceramic plates.

For several years FIB-GROUP has been working in Tatarstan, where its partner is a republic's construction leader, KMK-construction company. KMK is a partner in the Russian national construction project called "Accessible apartments", which is supported personally by the Tatarstan president, **Mintimir Shaimiev**.



ZIGURDS SKRODELIS, ANDRIS TEIKMANIS AND AIGARS STRAUSS.

Among Skrodelis' ambitious plans there is "Latvian-Russian Business Forum" to be convened in mid-July 2007 in Jurmala.

Latvian Ambassador in Moscow, **Andris Teikmanis** thinks that the timing is good for creating "Association of Latvian Businesses in the Russian Federation" as relationships between two countries are becoming better: e.g. recently a boarder treaty was signed; there are drafts for discussion on investments' protection, double taxation and social legislation.

It might seem that Mr. Skrodelis does not actually need the support of Latvian business community. Though, according to his own assessments, his energetic stance is constantly pushing him into new projects. He is looking for the practical outcomes as well: for example, he takes part in Latvian dele-

gations' trips in Russian regions. Often the meetings with local businessmen are oriented towards distant aims, but if his business association's ideas are used properly, the practical results could be quite impressive.

However, besides some practical purposes, as association members acknowledged, the association establishment followed some emotional drives as well, i.e. the need to talk to people from Latvia. The venue has been already agreed on, i.e. Moscow's restaurant "Old Riga"; somewhere in April another restaurant "Jurmala" is to be opened. Official meeting would proceed, as usually, in Latvian Embassy in Moscow.

Mr. Skrodelis invites all Latvian businessmen and entrepreneurs interested in enlarging their contacts in Russia to join his "Association of Latvian Businesses in the Russian Federation" •

Prestige rather than profit

Latvian designer, Anna Osmushkina argues that couture's creative work is measured and signified by his/her prestige and popularity rather than profit. This Latvian designer has acquired the fame among most prominent couture in the world.

This year Anna Osmushkina Model House celebrates its 10-years anniversary; already in 1996 the house acquired a status of a model designer in the Baltic States.

There are several reasons for optimism: elegant salon in Riga's downtown; two haute couture type's season-collections and two seasonal pret-a-porter collections each year; various garments and clothes for women preferring classic-type as well as extravagancy styles for men and women; own salon to sell small collections of popular models during the season; model demonstrations in Milan, Paris, Nye-York, Dusseldorf, Moscow and, of course, in native Riga. On top of all that — individual work with most respectable customers from various countries.

Hence, in last September Anna Osmushkina demonstrated her collection through the whole week at Paris yearly mode exhibition "Salon du Pret-a-Porter Paris 2006"; she was the only representative from the Baltic States. Anna's first mode-collection appeared in Paris in 1999.

Behind significant success stays company's every-day tedious work. Besides her creative work devoted to constantly inventing ever new clothes' designs, she is to administer a whole team of managers, clothes' cutters and seamstresses, as well as to deal with foreign fabrics' delivery and press-people from famous magazines all over the world.

Valuable assistance in her work is rendered by her husband Vladimir and her son, Denis. They take over all the duties concerning fashion-shows, company's marketing strategy and dealing with numerous customers and partners around the world.



ANNA AND VLADIMIR OSMUSHKIN: New-York, 2005.

During several years Anna Osmushkina Model House, already recognized in the world, was an ordinary commercial enterprise in her native Latvia. Country's authorities seemed negligent to the famous brand she created in view of streamlining Latvian image in Europe and in the world. Only last year for the first time Riga City Council decided partially subsidize the House's show in Paris exhibition. Then, the stall called AOFH ("Anna Osmushkina Fashion House") was literally heaped up with information materials about Latvia's capital. Not bad thing, after all.

goods; at the same time Russians expressed interest in exporting their goods to Latvia. Russian representative expressed energy issues importance in bilateral relations as Latvia is strongly dependent on Russian energy supply.

Another important event for Latvians was February 2007 former Russian prime minister's **Yevgeny Primakov** (presently Russian Trade Chamber president) visit to Riga who had met with Latvian Archbishop Alexander, Latvian president and the prime minister, businessmen and conducted an open lecture at Latvian University. At the center of all discussion has been the territorial border issue, which at the time took place in Latvian Parliament as well. As a positive outcome of these discussions, Latvian Parliament approved the boarder treaty with Russia. Even Latvian president, V. Vike-Freiberga took part in discussion and made a speech in the parliament. She said: "The time has come to resolve finally the much delayed boarder treaty with Russia; in particular, the Russian

side expressed strong intention to solve the issue"

In mid-march a meeting between the two co-chairmen, i.e. Russian Transport Minister, **Igor Levitin** and Latvian Finance Minister **Oskars Spurdzins** in bilateral economic cooperation commission took place.

AS A RESULT: MUTUAL ECONOMIC GROWTH

It is not a secret that during last several years there was a decline in Latvian-Russian trade at the expense of formers increased trade within the EU. The initiatives mentioned above provided for a certain impetus to mutual trade between the two countries, which in 2006 increased by 34%, according to Russian statistics.

Due to Latvian membership in the EU, Russian investment activity increased. As Latvian Company House data and Lursoft statistics show, direct Russian investments' share in Latvian companies' capital is quite small (about 6% or 106,4 mln lat) and occupies 7th

rank after Estonia, Sweden, Denmark, Norway, USA and Germany. Accumulated Latvian investments in Russian economic development are almost negligent, i.e. \$28 mln. There are presently 320 Russian-Latvian joint ventures in Russia, mainly in Moscow and around North-Western Russia's region, whereas more than 2 thousand Russian companies are active in Latvia.

Russian export structure in Latvia, as underlined by Russian Trade & Economy Mission in Latvia, **Yevgeny Tichonov**, has had a single-oriented purpose, dominated by utilities and export goods. There are presently good perspectives for creating in Latvia the Center for Russian Innovations, argued Y.Tichonov, to streamline high-tech production with Russian capital participation, for example in Latgale.

Y.Tichonov considers that time is sharp to create a business information center, and he rests his hopes in this direction on cooperation between trade and commerce chambers of the two states.

Business in Estonia without ethnic differences

By Dmitry Kulikov

Russian investments in Estonia are rather small, says official statistics, i.e. about 2% of country's general FDI. In fact, the investment share might be bigger as to find out who precisely stays behind particular investments is a complicated issue; besides, business connections have become really international.

Taking into consideration the list of "top-500" richest people in Estonia in 2006, one can see that already among the first ten there are plenty of Russian names. Thus, **Maxim Liksutov's** fortune is estimated at 1.61 bln crone, on par with another "Russian name", **Sergey Glinka**, his partner and Transgroup Invest business colleague in which there are tens of companies registered both in Estonia and Russia. The spheres of activity are numerous: cargos' expedition, railway tank-cars' production, construction, utilities and coal export, tourism and so on. The group's profit exceeds 10 bln cronas. Some Russian sources trace group's quick success due to business connections with Iskander Mahmudov, who is Transmashholding's major stock holder and controller. The holding, among other activity directions, is major railway

rolling-stock producer; it employs more than 60 thousand people. It seems that in reality these people are richer as the abovementioned profit is calculated only at activity in Estonia, argued *Ari-paev*, Estonian daily.

Among "tenth richest" is the major country's employer, **Fedor Berman** (1.16 bln crone), main shareholder in ship-building and renovating company, *BLRT Grupp*. The company, besides Estonia, functions in Latvia, Lithuania and Finland. All the profit earned during last several years (about 1.8 bln crone) was invested in production enlargement.

Then there are other names: e.g. **Igor Izraeljan** (with 886 mln crone fortune) who is involved in play-wood and etc. items' production and owns a supermarket; **Valerij Kovalenko** with 730 mln who is second after F.Berman

shareholder in the *BLRT Grupp*; "metals' man", **Viktor Levada** with 719 mln crone, and furniture producer, **Peter Sedin** from the *Grove Invest*. The latter two, besides business activity, are developing soccer in the country: each owns a soccer club playing in the national first division; besides Mr. Sedin is the National Soccer Union's president.

60:40 — "SACRED COMBINATION"

According to various Estonian entrepreneurs, the business division according to ethnic grounds does not exist in the country. However, some "sacred combination" does exist: if a company is owned by Russians, then the "combination", as a rule, is 60 to 40, i.e. 60 per cent aliens and 40 — locals. In the Estonians' owned company the combination is 40 to 60. Though, of course, it's an average calculation and differences might be greater but an "average" combination persists.

Alien businessmen, as a rule, own medium and small companies. Russian investments in Estonia are rather small, says official statistics, i.e. about 2% of the country's FDI. In fact, the invest-

Timely assessed perspectives in St. Petersburg

JSC Glaskek's board chairman, Vladimir Obersneider explains that since 1997 the windows producing company begun spreading its activity along other Estonian cities. And soon, he adds, the company's Latvian filial was opened. At the end of 1990s, the company's board of directors started thinking about further expansion into the Russian market.

"The strategy seemed quite simple: made a tour, looked around and assessed perspectives", said the company's founder. In 1999 the JSC *Glaskek St. Petersburg* has been established. There are 170 employees in JSC *Glaskek St. Petersburg* presently.

The company produces, installs and sells plastic, wooden windows and aluminum frames. According to the board's chairman, the company intends to reach 100 mln crone turnover in 2007. He said: "We are not the only

company to produce windows in the Russian "northern capital" but we are definitely among the first five. We participate constantly in all major tenders. We are proud to implement such orders as making windows for such trade centers as "PIK" and "Grand-Canyon"; we also won the tender for glazing the whole city's street".

Mr. Obersneider says that both countries face similar problems: lack of specialists in "narrow" sectors (therefore we are forced to prepare our own staff, he said), high wages and social security allocations, in particular in St. Petersburg; small wages -it's all in the past.

Vladimir Obersneider argues that Estonian businessmen are more interested in Russian market than vice versa. Although the present political situation does not stimulate country's attractiveness either.



VLADIMIR OBERSNIDER: There are 170 employees in Glaskek St. Petersburg presently.

A constructive dialogue with Russia is needed

Tiit Vjahi, JSC Silmet Grupp's board chairman says that about 2 bln crone was already invested into the port development and other facilities in the Sillamae free customs zone; in the coming years the port and the zone's owners intend to invest about 1 bln crone yearly.

T. Vjahi's interest in Ida-Virumaa region, which most regarded as unfavorable, is explained by the following positive factors: the EU, on one side, with about 450 mln population and SNG/CIS region with about 200 mln people on the other; ice-free deep port with adjacent railway and motor road connecting Tallinn with St. Petersburg; two powerful state-owned electric stations and regional power unit which can supply heat and electricity to the port making it self-sustained.

There are good specialists with good education in the region anxious to work, which is a good factor in its perspective development (regardless of the fact that Estonian is a native language for only 4 per cent of local population). "I am not interested what language my employees use, as soon as they work well", he adds.

Sillamae transit port's main aim is to reach in the coming years 10% turnover between the EU and Russia, which equals to 10 mln t cargos a year. By 2030 this far-eastern in the EU ice-free sea port situated at the international goods crossroad "Eastern Finland – Ida-Virumaa – St. Petersburg" plans to increase goods turnover to 40 mln t a year.

He formulated these plans after he saw World Bank assessments, as well as his partners' and Russian investors' intentions. As to the "special approaches" towards Russian investments, T. Vjahi said half-joking: "I don't look after Russian investors, they find me. What I do is to suggest a strategic background for business on the EU's external borders, and then we start talking about cooperation".



TIIT VJAHİ (ON THE LEFT) AND EDGAR SAVISAAR: At the new ferry inauguration event between Sillamae and Kotka.

According to Mr. T. Vjahi, Estonia is an attractive place for Russian businessmen on several grounds: its geographical position, proximity to Russia, lack of language problems, liberal policies and secure legislation in various fields, first of all, in private property regulation.

As to the ethnic differences, the port's owner does not draw any specific lines for business. And he concludes: "each leader chooses the personnel which suits best his purpose. For example, in Estonian transit there are more Russian entrepreneurs, whereas in construction or agriculture - there are more Estonian ones. •

ment share is bigger as it's difficult to find out who precisely stays behind a particular investment and business connections have become really international.

This fact is verified by the Russian embassy in Estonia. It's really difficult to find out what sort of investments were used in Sillamae port construction by the former country's prime-minister, **Tiit Vjahi**. "On papers", as one of the port's owner and Vjahi's partner is mentioned a Finnish company; behind the latter are "hiding" two Russian businessmen, **Yevgeny Malov** and **Andrej Katkov**.

The same can be said about LUKOIL's activity: its European office is registered in Switzerland but numerous daughter companies are spread out around the continent. *AS LUKOIL EESTI* functions on Estonian market since 1992 and is involved in various wholesale and retail commodities.

NORTH-EASTERN REGION IS ATTRACTIVE

Regardless of the fact that political climate does not help in inviting Russian capital to Estonia, some big capital investments do show up. Thus recently, one of leading Russian and global mineral fertilizers' producer, *Akron* announced its intention to invest 50 mln euros in Sillamae port reconstruction (the information was verified officially by the Estonian government press-service and *Akron's* president, **Ivan Antonov**).

Company's intention is to turn Sillamae into a port specialized in dry and liquid fertilizers' transit with modern technical equipment. The port's turnover is expected to be after modernization at the level of 2.5 mln t liquid fertilizers a year. Presently *Akron* transports its produce through another Estonian port, Muuga; though increasing export is constantly demanding new

facilities. Besides her advantageous geographic position, Estonia was chosen for investments, according to Mr. Antonov, because of the country's "simple and clear taxation system, as well as legislation in general, which created a stable environment important for investors".

However, the final decision in defining the *Akron's* investment project future is to be taken by the country's new president, **Toomas Hedrick Ilves**. According to some sources, the president is not particularly excited about the perspectives in Russian-Estonian economic relations. Neither is "Tallinn corridor" mentioned in the program for Russian transport infrastructure development.

On the other hand, Estonian export to Russia has increased: thus, last year Russia outstripped Germany in the list of Estonian goods' importers. The reason behind it was abandoned double-taxation

regime. Metals, various metal constructions and food stuff are the main items of Estonian export to Russian Federation. Last year Russian share in Estonian export reached 10%, whereas Russian import to Estonia was at the level of 13%.

ESTONIAN MERCHANTS' 10 NATIONALITIES

There are two entities in the country — Merchant Society and Estonia-Russian Entrepreneurs Chamber, which might be regarded as Russian businessmen “clubs”; though they do not perform these functions. These organisations pursue the same, seemingly, aims, although they differ as to the participants' range,

i.e. they help in finding business partners, assist on different aspects of trade, production, customs and legislation issues, as well as in organizing seminars and exhibitions, and defending their members' rights.

Tallinn Merchant Society has been re-created in 1993: it unites presently the heads and CEOs of about 100 companies dealing with trade, consulting, brokerage, investments, etc. The Society is an associated member of the Russian Merchants and Industrialists Guild. Merchant Society unites businessmen of various nationalities; the distinguishing factor in the Society's procedure — its working language is Russian. The Soci-

ety's chairman said that there were even Chinese businessmen among its members, so if take into consideration ethnic factor, then it would come up to 10 nationalities in the Society.

Estonian-Russian Entrepreneurs Chamber differs in its members' composition, i.e. it unites Estonian entrepreneurs which are either making business in Russia or cooperating with Russian partners. The Chamber's chairman, **Oleg Karpikov** said that the Chamber concluded cooperation agreements with 40 regional Russian chambers of commerce; therefore Russian businessmen often apply to the Chamber for assistance. •

We never forget our homeland

Mr. Leonid Michailov is a manager of high class. Besides his leadership in this non-profit organization, he is the member of the board and development director in the JSC Tallinn Tram & Trolleybus Association, TTTA; the latter is owned by the city council.

According to Leonid Michailov, Tallinn Merchant Society was created by **Ivan Egorov**, Russian property owner and merchant, publisher and philanthrop in 1919. Presently the society unites people of various nationalities who, after collapse of the Soviet Union, managed to establish good business relations with their ancestors.

Leonid Michailov described the diverse society's membership in the following way: “some of them with contacts in Ukraine, for example, are actively developing metal business; there is a businessman from Hungary

roots, whose company, Budampex AS exports Hungarian wine to Estonia; there is a Chinese member who opened in Estonia several Chinese restaurants. As a consequence of such multinationality, the society often organizes meetings in various nations' embassies and with foreign business representatives. What actually unites all the society's members is the knowledge of Russian.

The society with about 100 local companies' members is a non-profit organisation and functions on membership fees. Besides successful commercial activity, the society is deeply involved in philanthropy: total amount for various support and donations for social protection equals 1 mln crone (about 64 th euro).

There about 857 employees in the JSC Tallinn Tram & Trolleybus Association, TTTA which the former city council vice chairman presently heads. About 60% of the staff, are so-called employees “with different language skills”; to be said politically correct. In fact, most of the TTTA's drivers are Russian speaking people. Average driver's salary is about 640 euro per month.

Mr. Leonid Michailov thinks that TTTA's employees are getting rather good salary, on Estonian account. All accusations that Russians are getting less than Estonians are far from the truth, he says. Statistically, on average, local citizens earn more, but they, at the same time, occupy more responsible posts in the country.

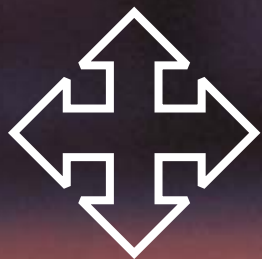


LEONID MICHAILOV: Chairman, Tallinn Merchant Society .

Aripaev daily regularly summarizes accounts of the most successful Estonian enterprises. As to the “top-100” list, there are several companies that are members of the Tallinn Merchant Society, such as Intorex AS, Alvigo AS, Levadia OU and Famar-Desi AS. The turnover of most profitable companies exceeds one billion cronas.

Among most successful in the “the top-500” list, there are the following companies: Bankend Eesti AS, Frelok AS, Anava Eesti AS, Onistar AS, Chr. Jensen Eesti AS and Tsender AS.

The greatest problem, according to Mr. Michailov, lies in the fact that aliens are becoming afraid of the documents written on “foreign” language, which unfortunately not all can master well. Because of low level of language proficiency, most good positions are taken by the locals, acknowledged Mr. Michailov, or by a small percentage of Russians who had learned the language; this is the reason for a disadvantaged statistics. Often TTTA's employees were offered promotions but they refused, he said, because of language problems. •



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Slovak tiger

By Olga Pavuk

Quite often in the foreign press one can come across the expression "Slovak tiger" to denote quick and dynamic development of the Slovak economy. Alexander Skurla, Slovak Embassy's 2nd Secretary from economic and commercial section has told the *BC* about the "driving force" behind Slovak's economy and economic relations with the Baltic States.

BC: Is Slovakia attractive in terms of doing business?

A. S.: Of course, it is. Slovakia is famous not only by its tourism destinations, in particular the ski resorts, but we are rather industrial country with a developed manufacturing sector. In this regard we have supplementary economy structure compared to the Baltic states. Our country is called a "Tatry's tiger" because of high GDP growth rate that reached 9,5% and production growth reached 8,9% in the 4-th quarter of 2006. Slovakia is also called an "Detroit of the East" due to its accelerated growth in automobile production that should put Slovakia on the first place what regards number of cars produced per capita. Final production in Slovakia of such popular brands as *Volkswagen*, *Peugeot-Citroen* and *Kia Motors* stimulated quick development of domestic subcontracting industries connected to automotive sector, like mechanical engineering, plastic and electrotechnic industry etc. We are good at producing various technologies with an excellent price-quality ratio.

BC: How is business developing between Slovakia and Baltic States?

A. S.: Trade between Slovakia and the Baltic states – Latvia, Lithuania and Estonia is constantly growing. Bilateral trade turnover in 2006 increased by 36% compared to the previous year and reached \$273 mln. There is positive trend in increasing share of goods in our trade with higher added value, in particular in electronic and machine manufacturing sectors. There is a space to develop more sophisticated forms of cooperation including investments, manufacturing coopera-

tion and establishing joint ventures aimed at serving the EU markets as well as countries in the East.

BC: What concrete products are most traded between Slovakia and Latvia?

A. S.: The range of goods is really broad but there is still space to grow. From Slovakia come to Latvia at present mostly chemicals, machinery, electric goods, metals and metal products, plastics, construction materials and different consumer goods. What we import from Latvia is mainly metals and metal products, wood and wood products, foodstuff, clothes, machinery etc. But this is just present situation. I see perspectives of mutual business development in many other areas in the near future.

BC: What are these perspectives in the mutual cooperation?

A. S.: At present I see big perspective in technologies. With our technologies we can assist the Baltic States to modernize or expand production, in particular in metal, wood and food processing industries. Cooperation in energy sector looks promising as well. Slovak technologies for building power stations including nuclear ones are at the moment quite actual. Slovakia can offer also technologies to use renewable sources of energy, which is nowadays quite reasonable due to recent objectives of the European Commission to reduce significantly energy consumption and emission volumes by the year 2020. During the trade mission of Latvian companies in the framework of official visit of your President Vaira Vike-Freiberga to Slovakia in July 2006 I noticed reasonable interest to cooperate in information technologies and tourism. I think that our sci-



ALEXANDER SKURLA. Graduated from Bratislava University, Trade Faculty with major in economics of foreign trade. Further studies went on at the Limburg Business School (Belgium) and Scuola Superiore Enrico Mattei (Italy). Before being sent to Latvia he worked in private companies and public organizations including Slovak Investment and Trade Development Agency and Ministry of Economy of the Slovak Republic.

entists, especially in technical fields could successfully cooperate and prepare projects using the EU financial funds. In June this year Slovak businessmen delegation will visit Riga and Vilnius. It will be concrete opportunity to develop our cooperation further.

BC: What would you recommend our businessmen?

A. S.: I think we are living very crucial times nowadays when everything is changing very fast. Slovakia and Baltic countries are relatively small counties what regards territories and number of inhabitants. But we are very dynamic countries with strong will and enthusiasm. This is our advantage. As we both have access to the whole European Union market without tariffs as well as access to cheap financial sources, most important in successful business is a good idea and enough patience. In this way I would like to wish businessmen from Baltic countries as well as from Slovakia a lot of perfect ideas and enough energy to carry on. As it is said: "The sky is the limit."

TRADE TURNOVER BETWEEN SLOVAKIA AND THE BALTIC STATES, MLN USD					
	2002	2003	2004	2005	2006
Lithuania	48.0	75.5	82.4	90.8	129.8
Latvia	32.3	42.8	63.5	67.1	95.6
Estonia	8.4	15.3	22.1	39.8	47.6
Total	88.7	133.6	168.0	197.7	273.0

Source: Embassy of the Slovak Republic in Latvia.

Venture capital guides to the Eastern wilderness

By Rihards Svelpe,
Venture fund PriBalt, Latvia

Latvia, the Baltic States and Eastern Europe have drawn attention of the European venture capital investors. At this point, this is no longer just primary insignificant attention; it has turned into a stable interest. Initial investments are of course being made in Latvia and the rest of the Baltic States. Why is it so, that despite the fact that Latvia is incomparably smaller than, for instance, Russia or Ukraine and accordingly is a less attractive market for investors?

Explanation for this is quite simple: venture capitalists do not seek adventures (meaning they do not seek risk). They are willing to take a higher risk to gain higher profits and please note the word *w i l l i n g*. Venture capitalists are not extremists who make investments according to the principle ‘the crazier — the better’! In an ideal situation, a venture capitalist would like to earn huge profits without any risk whatsoever. However, it is not possible; thus, venture capitalists make their first investments in the Baltic States.

For international investors the Baltic States are like a unique and precious pearl. It is based on the history and the present complemented by geographical location. In the recent past the three Baltic States were part of the union with other countries of Eastern Europe. That was the Soviet Union. We all together with Belarus, Russia, Ukraine, Kazakhstan and other countries of Eastern Europe were a single nation. However, the Baltic States were distinguishable among other countries as they were the western border and a special place by the Baltic Sea which everyone dreamt to go to on a holiday. The Baltic States and people of the Baltic States were and still are trade marks in the East. They trust us! Today the Baltic States are member states of the European Union, forming the eastern border of Europe. Business and life here goes on in a manner understandable to and habitual for Europeans. Everything is the same as or similar to any other country of old Europe. It is this Baltic synthesis between the East and the West and the special status of the Baltic people that forms the unique and precious pearl for international investors. It is easier and safer to make investments in Belarus, Russia or any other country of Eastern Europe through the Baltic States. It does not raise the costs significantly and helps to remarkably reduce risks. For this reason initial investments in Eastern Europe are made in the Baltic States, a home country and a habitual European environment, and post-socialist countries at the same time. Using this strategy investors make their profits in the Baltic States, get to know the specific features of the Eastern European Region and ensure a future deal flow in a wider region. Survey of a new market and establishing a position in it with-

out additional costs and a rapid rise in the investment risk is the phenomenon of this strategy. This means that investors are gradually moving from a developed market to a developing one, which is the case with the Baltic States, and then on to an emerging market: Belarus, Russia or some other market. This phenomenon has secured the interest of global venture capitalists in Latvia and the rest of the Baltic States, as a result of which in Latvia there have been tens of investments and successful “exits”. Speaking of the size of Latvia and other Baltic States one has to remember that it is the extent of a project not the size of a country that matters to an investor. Projects matching the extent of international private and funded venture capital investment policies are, in their turn, on the menu of the Baltic investment projects.

A liberal tax system is used in Latvia providing for different options as regards the application of taxes. The average tax burden, i.e. the total amount of state taxes payable by an entrepreneur, is 30%. The tax burden can be lowered to 20% through application of the wide system of tax rebate available in Latvia. These are excellent conditions for business, as opposed to the Nordic countries where the tax burden amounts to 50%. It is only tax free zones that offer lower costs than Latvia.

In the Baltic Region, the attractive Latvian tax system is characterised by a company income tax rate or the so called profit tax rate, which is 15% in Latvia, 22% in Estonia and 26% in Lithuania. Estonia lures businesses with the opportunity not to pay taxes for profits which are invested in further development and not paid out. This is an attractive short-term solution, but one has to remember that these 22% — 7% more than in Latvia — will nevertheless be deducted when the profits are paid out.

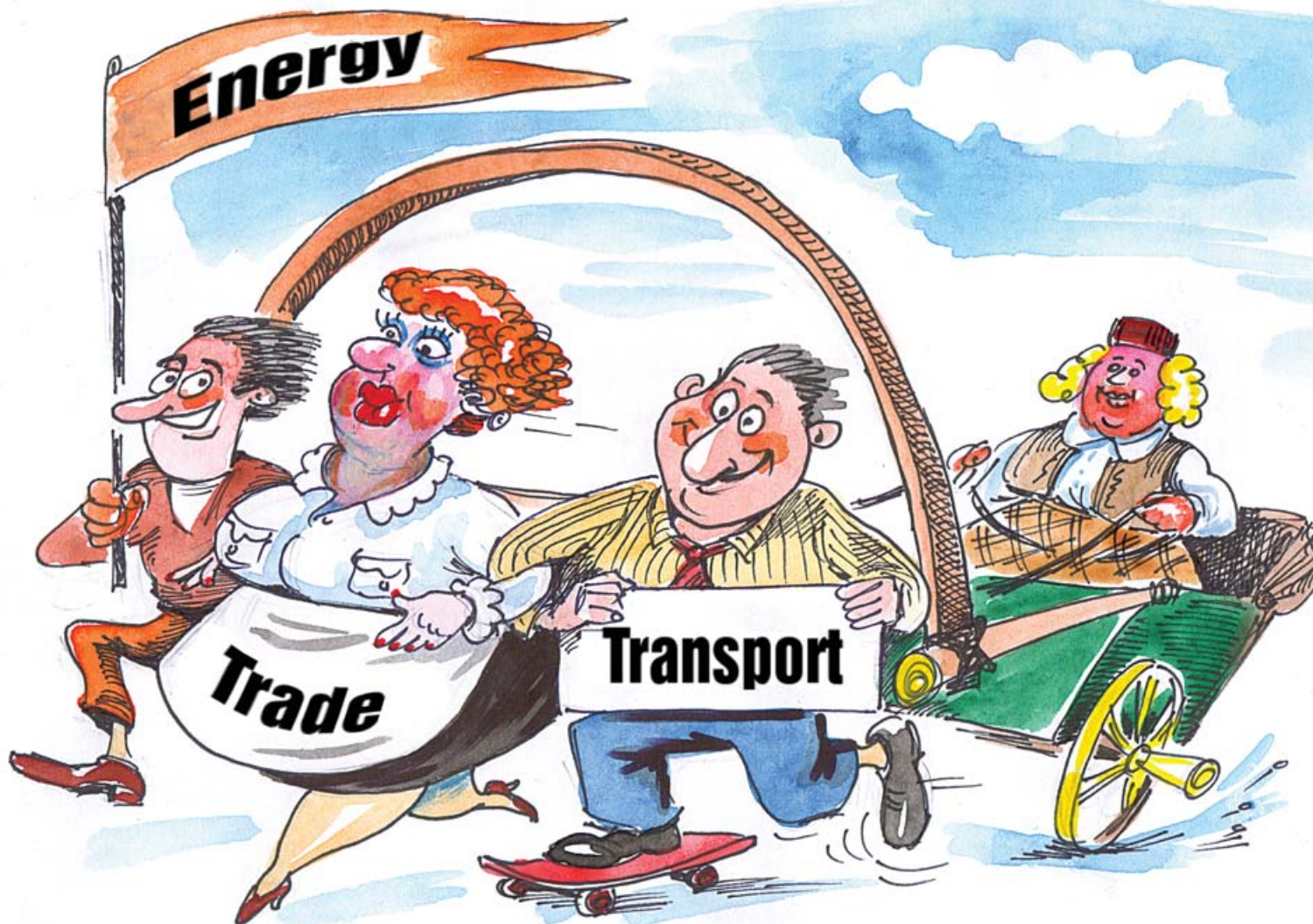
The Latvian legal system is an integrated part of the legal system of the European Union. The system used at the Commercial Register of the Register of Enterprises is particularly convenient. Using a computer, one can check at any time whether a company exists, whether it is not going through an insolvency procedure, as well as check annual reports of the company, verify



authorised signatories of the company, and obtain information on commercial collateral. Title to any real property is registered in a special register called Land Register, including ownership, security and any burdens, including the right of use. This register is publicly available and it features any restrictions imposed by the state regarding the right of use or burdens of any kind. It is also important that this register — the Land Register — is a register that establishes rights. This means that ownership is not acquired as of the date of signature of, say, a real estate purchase agreement; instead, ownership is acquired upon registration of the purchaser’s title in the Land Register. On the whole, the Land Register provides for transparency and security in transactions with real property.

The Latvian venture capital and private equity market has become an organised market, with the Latvian Venture Capital and Private Equity Association, an associated member of the European Private Equity & Venture Capital Association since 2003, operating in it. A Latvian Association of Business Angels was established last year. There are signs of support from the Latvian State as well — three venture capital funds co-financed by the Latvian State were established to finance small and medium enterprises where the state acts as a subordinated investor.

The Baltic Region has historically been the venue for Eastern and Western trade interests. Today, too, it is a place where demand meets supply, including Western capital and Eastern investment projects. Experience and history shows that the shortest way from London to Moscow leads through Riga and that the Baltic people are the best guides to the Eastern wilderness. •



Business champions in the Baltic economy

By Olga Pavuk

Latvian business daily *Dienas bizness (Db)* published this April the list of Top-300 Baltic companies; the rating is based on polls made by business partners' dailies in Estonia (*Aripaev*) and Lithuania (*Verslo zinios*). The *BC* publishes information about Baltic champions in the leading countries' economy sectors using *Db's* data.

Total turnover of the 300 biggest Baltic companies equaled about 34 bln euro in 2005, with a yearly increase of 21.7%. This list included Baltic companies with the turnover of not less than 38 mln euros.

Quite remarkable that Top-300, i.e. biggest companies in the leading economy sectors, accounted for about 76.8% of the three Baltic States' aggregate GDP; a year earlier the figure was 73%. Even in view of different statistic methods in the three states, it is quite clear that the turnover of the leading 300 companies is growing faster than the general regional GDP level.

DIFFERENCES IN APPROACHES

Statistics' variations are explained by the fact that Lithuanian and Estonian dailies' used both consolidated balances and companies' balance-sheets in their assessments. Whereas Latvian daily used the data supplied by the Latvian Company House's register and modified later by the *Lursoft* agency. Another difference is that Latvian companies operate with the so-called effective corporate profit while neighbors with the profits amounts calculated before the taxes are paid. And at last, Lithuanian banks and

insurance companies are not included in the Top-300, which hampered the total picture of the biggest Baltic financial institutions.

PERMANENT LEADER HITS THE RECORD

For the first time in the Top-300 list there is a Lithuanian company, *Mazeikiu nafta* with the turnover exceeding 3 bln euros. The company is heading the Baltic business list already during last several years. The company's turnover for the last 8 years increased 5 times (the *BC* wrote about

the Top-100 Baltic companies already in 1999).

Turnover exceeding 1 bln euro for the second year in track is shown by the retail-traders network, *VP Market*. Two companies, Lithuanian *Achemos grupe* and Estonian *Hansapank* for the first time have shown the turnover exceeding 0.5 bln euro.

It has to be noted that most of the companies in the Top-300 list are companies with the turnover in the rate of 50 to 100 mln euros. Quite remarkable is that a year ago the leaders' turnover has been in the rank of not more than 50 mln euros.

The list is "closed" by a Lithuanian IT company, *Agnos amonių grupe* with the turnover of "only" 38,3 mln euros.

LATVIANS ARE QUICKER AND EFFICIENT

As to the rate-increase in profits, Latvian companies have shown 30.2% increase, Lithuanian ones – 20.4% and Estonian companies – 17.5%. Though Lithuanian companies have been more efficient, i.e. average company's turnover in the country was about 154.2 mln euros, in comparison to 91.4 mln in Latvia and 91.1 mln euros in Estonia.

It was quite interesting to compare present sectoral economy leaders in the Baltics with those eight years ago. At both, the consumers' traders have been the champions, followed by the energy sector, transport and oil-business.

Although, if 8 years ago there was not a single IT company in the information technology sector, there were 4 such companies among the first hundred at present, and 10 IT companies in the whole Top-300 list. As to the booming construction sector, both then and now there are 4 leading companies in the "first hundred". However, 8 years ago among these 4 there were two Estonian and two Latvian companies; presently all four leading construction firms have Estonian origin; Latvian companies did not enter even into the list of the first ten champions.

Estonian company, *Transtrade* (on the 7th place) has been in list of the Top-300 for the second year; the company heads the list of ten best Baltic companies in transport and transit sector. *Transtrade* is a daughter company of *Transgroup Invest AS* (earlier functioning under the title *World-Wide Invest*), and it is affiliated with the Russian *TransGroup* company; the latter is among the fifth largest Russian railway operators. *TransGroup's* Board of Directors' chairman, Maxim Likstuto and co-

owner of *Transgroup Invest*, together with his partner, Sergej Glinka occupy third and fourth place in the list of Estonian millionaires, correspondingly.

Quite exotic for the list of the Baltic champions seemed 145th place occupied by the Latvian company, *Jet Games Eurasia*

SIA dealing with gambling and game-business, e.g. it sells slot-machines.

Among the list of Top-300 there is only one publishing business sector's representative, Lithuanian company *Lietuvos Rytas*, occupying 285th place in the list.

TOP-300 MAJOR BALTIC COMPANIES' TURNOVER, BY COUNTRY, 2005

	Estonia	Latvia	Lithuania
General turnover, bln EUR	9.56	8.17	16.34
Changes as to 2004, %	+17.5	+30.2	+20.4
Average turnover per employee, mln EUR	91.1	91.4	154.2
Changes as to 2004, %	-10	+12.5	+31.8
The number of companies	105	89	106

Source: *Dienas bizness, Aripaev, Verslo zinios.*

TOP-300 MAJOR BALTIC COMPANIES BY TURNOVER'S AMOUNTS, 2005

	Estonia	Latvia	Lithuania	Total
Over 1 bln EUR	0	0	2	2
501 to 1000 mln EUR	1	0	1	2
401 to 500 mln EUR	2	1	1	4
301 to 400 mln EUR	0	2	2	4
201 to 300 mln EUR	3	7	12	22
101 to 200 mln EUR	19	13	26	58
51 to 100 mln EUR	48	31	36	115
38 to 50 mln EUR	32	35	26	93

Source: *Dienas bizness, Aripaev, Verslo zinios.*

TOP-300 MAJOR COMPANIES WITH THE BIGGEST TURNOVER PER EMPLOYEE*, 2005

Company	Economy sector	Turnover per employee, th EUR	Turnover, mln EUR	Number of employees
Neste Latvija	Trade in oil goods	3159.9	208.6	66
Kauno Tiekimas	Whole- and retail consumers trade	2850.0	185.3	65
Lavesta AS	Wholesale trade	2186.8	155.3	71
Neste Eesti	Trade in oil goods	2022.0	111.3	55
G.S.G. Metal AS	Trade in metals	1667.5	98.4	59
Elko grupa	Whole sale in computers' technique	1353.4	473.7	350
Tolmets	Whole sale in metal scrap	1232.2	77.6	63
Tele2 SIA	Telecommunications	1123.6	132.6	118
TD Baltic UAB	Trade in computers and IT	1095.2	100.8	92
Stora Enso Mezis	Trade in wood materials	1078.1	81.9	76

* Only companies with more than 50 employees are included.

Source: *Dienas bizness evaluations from Top-300 in Baltics.*

TOP-300 MAJOR ECONOMY SECTORS BY TURNOVER, 2005

Sector	Turnover, mln EUR	Increase as to 2004, %	Number of companies
Retail trade	3633.2	+20.3	19
Energy	2677.4	+28.8	17
Transport and transit service	2675.2	+24.6	23
Trade in oil products	2640.9	+57.6	22
Food-stuff industry	1862.4	+26.3	22
Telecommunication	1752.9	+10.2	10
Financial service*	1435.5	+30.8	13
Construction	1332.6	+42.5	20
IT-sector	1089.2	+39.4	9
Wood industry	961.5	-1.10	13
Metal- and machine- manufacturing	847.7	+26.6	9
Retail sale in medicinal industry and drugs	627.1	+13.7	8
Car sales and services	668.8	+23.2	9
Trade in construction materials	399.7	+9.4	3
Construction materials' production	352.6	+22.2	7
Consumers' light industry	205.0	-20.6	4

* Lithuanian banks and insurance companies are not represented in the list of the Baltic Top-300.

Source: *Dienas bizness, Aripaev, Verslo zinios.*

Leading 10 Baltic companies are represented in Top-300 economic sectors

TOP 10 IN RETAIL TRADE

Rank	Company	Turnover, mln EUR	Country	Rank in the Top-300
1	VP Market	1269.0	LT	2
2	Palink (IKI's chain)	337.4	LT	10
3	VP Market	330.9	LV	11
4	Norfos mazmena	298.6	LT	13
5	Rimi Latvia	279.5	LV	14
6	Tallinna Kaubamaja	183.9	EE	39
7	Rimi Lietuva	138.2	LT	53
8	CBA Aibe	134.3	LT	57
9	Prisma Peremarket	76.0	EE	138
10	Stockmann	71.2	LV	148

TOP 10 ENERGY COMPANIES

Rank	Company	Turnover, mln EUR	Country	Rank in the Top-300
1	Eesti Energia	452.9	EE	6
2	Latvenergo	353.3	LV	9
3	Lietuvos energija	269.4	LT	16
4	Rytu skirstomieji tinklai	247.8	LT	23
5	VST	244.0	LT	25
6	Latvijas gaze	189.8	LV	36
7	Lietuvos dujos	176.0	LT	42
8	Ignalinos atomine elektrine	166.0	LT	45
9	Vilniaus enermija	107.0	LT	87
10	Rigas siltums	84.0	LV	114

TOP 10 COMPANIES IN TRANSPORTATION SECTOR AND TRANSIT SERVICES

Rank	Company	Turnover, mln EUR	Country	Rank in the Top-300
1	Transtrade	419.9	EE	7
2	Lietuvos gelezinkeliai	318.6	LT	12
3	Tallinnk Grupp	259.7	EE	20
4	Latvijas dzelzceļš	245.1	LV	24
5	MT Transiit	153.0	EE	50
6	Air Baltic Corporation	120.4	LV	67
7	Eeste Raudtee	112.3	EE	74
8	Alpa Centurms	92.7	LV	101
9	Rigas satiksme	90.8	LV	102
10	Ventspils ekspedicija lomistika KS	83.5	LV	117

TOP 10 COMPANIES IN OIL-PRODUCTS' TRADE

Rank	Company	Turnover, mln EUR	Country	Rank in the Top-300
1	LUKoil Baltija	416.0	LT	8
2	Mazeikiu Nafta Trading House	259.4	EE	21
3	Mazeiku Nafta Trading House	221.1	LV	28
4	Neste Latvija	208.6	LV	31
5	Latvija Statoil	207.5	LV	32
6	Lietuva Statoil	187.2	LT	37
7	Eesti Statoil	135.2	EE	55
8	LUKoil Baltija R	123.1	LV	65
9	Neste Eesti	11.3	EE	77
10	Kurzemes degviela	80.9	LV	124

TOP 10 FOOD-STUFF PRODUCING COMPANIES

Rank	Company	Turnover, mln EUR	Country	Rank in the Top-300
1	Plunges kooperatine prekyba	200.1	LT	34
2	Rokiskio suris	137.0	LT	54
3	Pieno zvaigzdes	129.3	LT	62
4	Latvijas balzams	111.7	LV	76
5	Zemaitijos pienas	107.0	LT	88
6	Svyturys-Utenos alus	102.4	LT	89
7	Rakvere Lihakombinaat	94.7	EE	97
8	Biovela	77.0	LT	137
9	Kraft Foods Lietuva	74.0	LT	140
10	Rigas piena kombinats	62.4	LV	164

TOP 10 TELECOMMUNICATION COMPANIES

Rank	Company	Turnover, mln EUR	Country	Rank in the Top-300
1	Omnitel	248.1	LT	22
2	Latvijas Mobilais telefons	239.7	LV	27
3	TEO LT	212.4	LT	30
4	EMT	196.8	EE	35
5	Lattelecom	182.9	LV	40
6	Elion Ettevotted	165.4	EE	46
7	Bite Lietuva	151.5	LT	51
8	Tele2	132.6	LV	59
9	Tele2 Eesti	90.3	EE	104
10	Elisa Mobiilsideteenused	89.0	EE	105

TOP 10 CONSTRUCTION COMPANIES

Rank	Company	Turnover, mln EUR	Country	Rank in the Top-300
1	Merko Ehitus	206.7	EE	33
2	Skanska EMV	118.6	EE	69
3	Eesti Ehitus	107.0	EE	85
4	YIT Ehitus	94.4	EE	98
5	YIT Kausta	81.5	LT	122
6	Ranga IV	65.7	LT	157
7	Kauno dujotiekio statyba	58.4	LT	179
8	Panevezio statybos trestas	55.5	LT	189
9	Koger&Partnerid	51.1	EE	202
10	Teede REV-2	50.3	EE	207

TOP 10 COMPANIES IN WOOD-INDUSTRY AND CONNECTED SECTORS

Rank	Company	Turnover, mln EUR	Country	Rank in the Top-300
1	Latvijas finieris	145.4	LV	52
2	Nelss	109.4	LV	79
3	Latvijas Valsts Mezi	97.9	LV	95
4	Stora Enso Timber	88.3	EE	107
5	Stora Enso Mezs	81.4	LV	120
6	Vakaru medienos grupe	73.2	LT	142
7	RMK	70.8	EE	150
8	Metsaliitto Latvia	61.6	LV	167
9	Metsaliitto Eesti	50.3	EE	206
10	Pata AB	48.6	LV	217

TOP 10 COMPANIES IN METAL- AND MACHINE- MANUFACTURING

Rank	Company	Turnover, mln EUR	Country	Rank in the Top-300
1	Latvijas metalurģs	219.5	LV	29
2	BLRT Grupp	179.7	EE	41
3	Kuusakoski	75.3	EE	139
4	Eesti Talleks	60.5	EE	169
5	Vakaru laivu gamykla	59.9	LT	171
6	Kuusakoski	55.6	LT	188
7	Krasainie lejumi	53.3	LV	194
8	Baltik vairas	49.8	LT	209
9	Galvex Estonia	48.2	EE	220
10	Rigas kugu buvetava	38.6	LV	293

TOP 10 COMPANIES IN IT SECTOR

Rank	Company	Turnover, mln EUR	Country	Rank in the Top-300
1	Elion Ettevotted	165.4	EE	46
2	GNT Lietuva	107.0	LT	86
3	TD Baltic	100.8	LT	92
4	TD Baltic	94.0	EE	99
5	GNT Latvia	84.5	LV	113
6	Acme grupe	79.9	LT	129
7	Sonex Group	79.0	LT	131
8	Acme kompiuteriu komponentai	64.9	LT	160
9	GNT Eesti	47.2	EE	232
10	Alnos amoniju grupe	38.03	LT	300

BIHE to form tolerant student's environment

By Alexander Fedotov

Tolerant environment can be best made with foreign students' exchange programs.

Demographic problems, which experts in Latvia have predicted long ago, can be felt already now. According to Education Ministry, there were about 38 thousand students in the system of higher education in 2006/2007. However, there were only 19,6 thousand first-class pupils. It seems that quite soon there will hardly be any students in the high schools. That was one of the reasons that Bank High School has been developing programs to attract foreign students through various exchange programs.

Presently, at the time of information technologies, specialists prefer cross-border activities. This is why for Latvia, as a country with high scientific potentials, it is important to conquer a respectful place in the high education's niche. However, as Banking Institution of Higher Education (BIHE) rector, **Tatjana Volkova** argues, the school has been already for several years working on the problem, with due respect, at the same time, for Latvian students' intentions to study in international environment.

Foreign students have been involved in the BIHE's modules during last four

years and their numbers are constantly increasing. There are presently 32 students from France, Lithuania, Austria, Czech Republic, Portugal and Germany in the school. At the same time, 63 students from the Banking Institution of Higher Education went for studies abroad; they usually stay in foreign universities for several semesters and take part in practical work's exchange programs. Such international exchange program, called Socrates/Erasmus is usually financed by the European Union. The program's aim is to activate European integration and youth's better understanding of the surrounding environments.

Foreign students study the same subjects as their Latvian counterparts, with the business administration as the general major. Several modules are included, e.g. inter-cultural management, economics, finances, strategic management, etc. A general lecture is given to students on Latvian history and culture. Therefore, for foreign students returning back home Latvia ceased to be "a white spot" on the world map. General language of instruction is English, which has become already the language of international communications.

It is not by accident that students from SNG/CIS often choose BIHE. For example, this May we expect Moldova prime-minister's official visit to Riga; BIHE



representatives are invited for official discussions. Moldova is very interested in educating their students in financial issues. It is for the fourth year in a row students from Uzbekistan are coming to our school for so-called "summer sessions", which last two weeks. The program is financed by Uzbekistan. With the same idea rector Tatjana Volkova visited Kazakhstan recently. There is, certainly, an interest to study in Latvia. The contacts in this direction will be developing further on.

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Economic integration in the Union

By Eugene Eteris

A view from the inside of the Commission's headquarters is always interesting. It reveals more than just an official opinion; it provides a new dimension to the whole EU development. The *BC* offers an interview with the member of the Economic and Monetary Commissioner's Cabinet, Mr. Benjamin Angel.

Among the present EU-27 commissioners the post of the Commissioner for Economic and Monetary Affairs (**Joaquin Almunia**) is without doubt one of the most important: it oversees, among other obligations, the whole economic development of the Union. The Commissioner's Cabinet consists of 7 extremely qualified persons; one of the Cabinet's members, Benjamin Angel gave interview to *BC* this spring.

BC: Your portfolio is the only one out of the 27 commissioners that contains in the title the words *economic development and monetary affairs*. What is exactly the Commission's mission?

B. A.: The Commission — more precisely, Commissioner Almunia — is mainly in charge of the coordination of national economic policies. It is the Commission for instance, who prepares the European broad economic policy guidelines or the various steps of the implementation of the famous stability and growth pact, our main instrument is to ensure that public finances are managed as seriously as any good homemaker would. The word “monetary affairs” does not mean that we deal with monetary policy -this is obviously the task of the ECB and of the various National Central Banks — but rather it refers to some responsibilities related to the euro, from the various questions linked to the enlargement of the Eurozone up to very technical issues related to euro coins.

BC: What is the organic structure of your Cabinet, how it “runs the show”? Can 15 or 20 officials in the DG really manage the colossal tasks?

B. A.: A cabinet is a very small team of 7 officials, assisted by some



BENJAMIN ANGEL

- Education: Master degrees in management, political science and public administration, PHD in Law.
- Lectured in several masters' courses; published numerous books and articles on the EU issues.
- Since 1996 member of the Cabinet in the Commissioner for economic and monetary affairs (Yves-Thibault de Silguy). Member of the Pedro Solbes' cabinet and presently, member of the Cabinet of the Commissioner for economic and monetary affairs (Joaquin Almunia).

supporting staff. Its main task is to advise the Commissioner on all portfolio and non-portfolio issues (don't forget the Commission is a College, unlike national governments) and to organize a smooth link with the services. We must make sure that the DG follows the orientations given by the Commissioner and we must keep the Commissioner informed of the ongoing work in the DG. The Directorate General is obviously much larger. The size of the various DGs varies greatly in the Commission. A DG can go from 200 people, up to more than one thousand. But they all have one thing in common: the recruitment is based on very high standards, through EU wide competitions. When talking of staff, quality matters

more than quantity. The administration of the Commission is very small, especially if you compare it with large Member States, but fortunately, we have a very competent, hard working and dedicated staff. Moreover, I must add that it is a work like no other: it is a work with a soul. People are not here to do administration: they are here to build Europe.

BC: How productive are the present talks about the “Union's economy”? Is it not just the sum of the “27 ingredients”?

B. A.: Being French and therefore rather fond of cooking, I could answer that many ingredients are needed for a good recipe! Each ingredient has its own flavor and importance, but at the

problems and realities

end, they all matter for the success of the final preparation. EU economies are increasingly integrated. For instance, on average, 2/3 of our trade is done within the Community. This proportion even rises to more than 3/4 for the 10 new Member States, including Latvia, and peaks at 85% in the Czech Republic. Whatever the differences in terms of development or GDP, it makes us very inter-dependant. When your partner is having a cold, you tend to sniff and are more susceptible to getting sick. When their situation improves, you import part of this improvement through an extra dynamism of your exports. Obviously, some "ingredient-states" – like Germany – are more important than others in the finale recipe, simply because of their size, but at the end of the line, they all matter.

BC: While striving for European-dimensional economy, are the member states' independence and sovereignty on the economy side preserved?

B. A.: Undoubtedly. We are coordinating national policies; we are not setting them. Moreover, if the Commission proposes the content of this coordination, it is up to the Council to decide. The main common objective is to make sure that everyone follows the basic principle of sound management and prepares themselves for the big challenges, e.g. financial impact of aging. However, each Government remains in charge of its own policy. The fine-tuning is then a question of collective choice. Here is an example: you can have a balanced budget with a very big welfare system and public spending at 60% of the GDP or a balanced budget with a small welfare system and public spending at 30% of the GDP. The EU will ask for the balanced budget, but will leave countries free to decide provided that the balance is sustainable.

BC: What is the European economic role and influence in the world?

B. A.: It is huge. We used to complain about the EU problems that we tend sometimes to forget how important we are. The EU includes only 7% of the world's population, but represents 31% of the world's GDP (more

than the US); it has 25% of the world's trade and it attracts 37% of world's foreign direct investment. The question is, how does our political influence match our economic importance? When we have a unified representation, like for instance for trade, it does. When we do not, our role tends in practice to be not as important as it should be.

BC: The Communities for about half a century explored the motto "ever closer union"; what is the economic sense of that? Moreover, what is going to change when the Draft Constitution suggested a new motto – "united in diversity"?

B. A.: Mottos are more a question of political symbolism than economics! From a political point of view, I would say that there is no contradiction between the two principles: you can build an "ever closer Union" without denying diversity. You are not more European by being less Latvian, German or Italian. The European identity tops up the national one, it does not replace it. Euro coins offer a perfect materialization of the "unity in diversity": you have one common European side of the coin and a huge variety of different national sides. This is Europe. We are not building the Union from scratch: most European States have a thousand years of history. We have to take this into account.

BC: Is the "Union's project" a political or rather an economic endeavor?

B. A.: It's both. It is a political project, which started with the establishment of an economic community. As R. Schuman said in its famous declaration on 9 May 1950: "Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity". There was indeed an attempt in the early 1950s to speed up the pace, creating from scratch a common army and a political union, but it failed. This failure has had lasting consequences and shaped what is called the "Monnet" method: "one small step, calling for another one, calling for another one..." After many small steps, we have started besides the economic

field to reach for political aims. Significant efforts are for instance being made to build a common foreign and security policy and a common policy for justice and home affairs. The EU is today far more than a mere economic area. It has been estimated for instance that 70% of the law enforced in France and other states has a European origin. The EU is not a federal state, but it is already much more than a confederation. It is an original sui generis model, to which nothing can really be compared.

BC: What, to your mind, are the main stumbling blocks on the EU economic integration process in its perspectives?

B. A.: We still have many challenges ahead. We must for instance keep working on improving the functioning of the single market, particularly in energy sector and services. We still have to make the coordination of economic policies more effective, particularly for the euro-zone. The reform of the stability and growth pact has so far given very good results. We are closing down excessive deficits one after the other. However, the experience is still recent and we need more time before being able to claim a complete success.

BC: And the last question: how difficult it is to work for the Commission? Is there a spare time for your family, friends, hobbies and leisure?

B. A.: It is both a hard and also very rewarding job. To give you an example, I was fortunate enough to start working on the euro issues in the mid 1990s, when no one believed in it. At that time it was called ecu, a different name, and the stability and growth pact did not exist...Being able to see the evolution from the inside and to contribute directly to the success of a major historic event – Europe has not had a common currency since the fall of the Roman Empire – is an extraordinary experience. It is worth making some sacrifices for it. However, this does not mean people in the Commission are unable to have a normal life. Thank God, we have families, lovely kids, leisure time; indeed life in Brussels is more pleasant than it may seem at first glance. •

Fall in economic growth poses greater threat to euro zone than inflation

According to *Economic Outlook*, made by experts of *Euler Hermes Group* in January 2007, global inflation level is expected to decrease in 2007, which will be followed by the subsequent economic growth in 2008.

“Theoretically, global market evolves according to the capitalistic game rules, i.e. everyone’s gains match their opportunities. In fact, goods reach only those who wish to have them, even when consumers are not able to pay for them and consequently are involved in high debt commitment,” tells **Frank Ville**, Head of *Euler Hermes Kreditversicherungs-AG* Representation Office in the Baltics. There are two possible scenarios of further economic development: 1) overheating with the global inflation around 2009 – 2010, and 2) reduction of inflation in most countries. “Past two years’ global trends indicate that the latter scenario is more likely to happen,” points out F. Ville.

The world economic cycle was very strong in the 2006 first quarter, with excellent figures in all of the three biggest economic zones — the US, Japan, and the euro zone — but this gradually deteriorated thereafter under the impact of slowdown, from the second quarter onwards in the US, and then from the third quarter in Japan and Europe. The situation improved at the end of 2006, leaving hope for growth of the order of 2% in the three zones in 2007. The world GDP deflator rose by 1.5% in 2006 (against 1.6% in 2005), and should fall back to 1.3% in 2007, with demand slowing and

with commodity prices on average likely to head slightly downwards. *Euler Hermes* experts believe that deflation in 2007 will gradually improve quarterly GDP indices in most countries, which will lead to GDP increase in 2008.

However, even in this case the global economics will remain unbalanced. The contrast seems likely persist between over-consuming countries with deepening current account deficits (principally the US, and to a lesser degree Spain, the UK and France), and those countries with excessive exports (China, but also Japan and Germany). This situation could lead to tensions on the currency markets or on the present system of free trade in goods.

GLOBAL TRADE

Moderation in world economic growth should in turn trim world trade growth to below 7% in 2007, primarily because of dampening in domestic demand in the US and a weakening in intra-EU trade, the latter slowed by the expected deceleration in the German economy.

FINANCIAL MARKET

Inflation in Europe is lower than predicted by the experts of the European Central Bank and is likely to keep falling in

2008. Fall in economic growth poses to Eurozone a greater risk than rise in inflation. Therefore, the European Central Bank must maintain solid rates.

In 2006 the rate of euro against dollar increased by 11%, whereas the value of Japanese yen slightly decreased. Euro increase was caused by the US internal deficit and rapid drop in interest rates in spring 2007. Market experts predict a drop in interest rates in the USA and a significant increase in European rates in 2007.

EUROZONE COUNTRIES

In 2006 economic growth in Eurozone countries exceeded the previous expectations thanks to improvement of the situation in Italian and German consumer markets, as well as strong export growth. However, the impact of these factors is likely to weaken in 2007. Slow-down of euro interest rates will slacken household investments, especially in Spain and France. According to analysts, 2008 will bring more success due to reduced inflation and renewal of international active trade.

“Slovenia’s accession to Eurozone this January would seriously test other candidate countries and would partly affect the Baltic States,” emphasised F. Ville. On the other hand, the public’s enthusiasm regarding transition to euro, especially in Poland and the Czech Republic, is fading because the Maastricht Criteria restrict budget policy in all countries. •

Economic Outlook provides detailed analysis of all major economic factors in the world’s largest countries — the USA, Canada, Japan and the European countries — Germany, France, Italy, Spain, the Netherlands, Belgium, Greece, Finland, Portugal, UK, Sweden, Denmark, Norway and Switzerland.

Euler Hermes Group is the global leader in credit insurance and one of the leaders in bonding and guarantees. *Euler Hermes* offers a wide range of trade receivables management services. The company has offices in 49 countries and employs 5,500 employees. In 2006 its sales reached 2 bln euros. *Euler Hermes* is a subsidiary of *AGF* and a member of *Allianz Group*. The company’s shares are quoted in Euronext Paris. The company and its subsidiaries have been awarded *Standard & Poor’s* AA-rating.



2007 — Russian Language Year

By Olga Pavuk

Russian president, **Vladimir Putin** at an official public-state reception in the Kremlin devoted to the Peoples' Unity Day last November announced that 2007 would be celebrated as the Russian Language Year in the country and around the world. All those who know, respect and cherish Russian language, he stressed, would take part in festive events.



It is well known that Russian is acknowledged as an official communication language in the United Nations. By about 300 million people on our planet it is regarded as a commonly used every-day language. It is the fourth language in the world on the account of practical use; tens of millions Russian-speaking people live outside Russia. Russian is taught presently to about 180 million people in the world.

FESTIVITIES STARTED IN PARIS

The start to festive events for the “2007-Russian Language Year in the World” occurred in Paris, on 24-27 January at the 25th Languages and Cultures Anniversary Saloon — Expo-langues. This Saloon takes place traditionally in Paris under the slogan of “Languages of the world and the world of languages”; it is dedicated to the international education development and languages’ diversity in the world.

Russia was invited to the 2007 Expo-langues’ events as a guest-of-honour country. Russia took part in the exhibition under the slogan: “Russian as the first language of communication in cosmos”. First ladies of the two countries, i.e. Madam L. Putin of Russian and Madam B. Chirac of France presided over the event.

COMPETITION FOR TEACHERS AND PUPILS

During 2007-Russian Language Year the VII-th International Pushkin Competition for teachers from the Baltic countries and SNG-CIS will take place. The Pushkin-award was created in 2000 in order to render moral and material support to most energetic and gifted Russian-language teachers in the countries surrounding Russia. The competition’s organisers invite all those teaching Russian and Russian literature, as well as other lecturers involved in Russian culture and history studies and, in fact, all teachers in the CIS and the Baltics to take part in the competition and write a pamphlet on a chosen subject-theme.

The 2007-theme is “Language.ru. Does the computer generation need Russian language?” The results of the competition will be known on the 6th of June, A.Pushkin’s birthday.

As a unified event within “2007-Russian Language Year in the World” celebrations, another written-essay competition, among those learning Russian as the foreign language, not native one, will take place too. The essays’ themes are the following: “Russian as

the first communication language in cosmos; “Russia: its language and culture in my life” and “My famous Russian writer”.

It was decided that for each country there would be only one winner. As an award, the winners will be invited this November to Moscow for the final Russian Year celebrations.

HOSPITABLE RIGA CITY COUNCIL

Russian Ambassador in Latvia, **Viktor Kalyuzhny** on 2 March opened in the Riga City Council the “2007-Russian Language Year in the World” celebrations. Latvia, he said, was among more than 30 countries for the moment, which already started festive events concerning the occasion. On the eve of the City Council’s opening, Russian Embassy in Latvia organised a round-table discussions under the theme: “Russian media sources in Latvia: priorities, problems and means of support”; which took place in the Russia House in Riga. The BC’s staff participated in the event.

At the ceremony in the City Council, Mr. V.Kalyuzhny, Russian Ambassador said: “Latvia has been always famous for her magnificent centres in learning Russian language and literature. We are very glad that Latvian youth is showing recently some interest in Russian Language and in the opportunities provided to acquire higher education in Russian”.

Riga’s Metropolitan and Latvian Patriarch, **Alexander** underlined that each language in the world is God’s providence and that from the time immemorial Russian language co-existed with the Latvian one on her territory. When we talk about Russian language, he said, we mean more than just Russia, we mean a tremendous geographic, cultural and spiritual Russian world’s entity, which is preserved and multiplied by the Christian Church, and first of all this preservation occurs through Russian language.

Latvian Social Integration Minister, **Oskars Kastens** underlined Russian language’s strong positions in Latvia. The mission to secure Russian language positions from globalisation challenges and other threats has been put on the country’s intelligence and Russian-speaking organisations the number of which is constantly growing. The Ministry’s secretary would support in the future Russian publishing projects, Russian holidays and the Slavic Culture and Literacy Holliday.

COFACE COUNTRY@RAITING: COMPANY'S TIMELY ABILITY TO FULFILL ITS SHORT-TERM FINANCIAL OBLIGATIONS

	2007 March	2006 December	2005 December		2007 March	2006 December	2005 December
	Rating watch	Rating watch	Rating watch		Rating watch	Rating watch	Rating watch
Australia	A1	A1	A1		Romania	A4	A4
Austria	A1	A1	A1		Saudi Arabia	A4	A4
Belgium	A1	A1	A1		Tunisia	A4 positive	A4 positive
Canada	A1	A1	A1		Bangladesh	B	B
Denmark	A1	A1	A1		Benin	B	B
Finland	A1	A1	A1		Burkina Faso	B	B
France	A1	A1	A1		Cameroon	B	B
Germany	A1	A1	A1		Cap Vert	B	C
Hong Kong	A1	A1	A1		Costa-Rica	B	B
Iceland	A1 negative	A1 negative	A1		Dominican Rep.	B	C
Ireland	A1	A1	A1		Egypt	B	B
Japan	A1	A1	A1		El Salvador	B	B
Luxemburg	A1	A1	A1		Gabon	B	B
Netherlands	A1	A1	A2		Guatemala	B	B
New Zealand	A1 negative	A1 negative	A1		Indonesia	B	B
Norway	A1	A1	A1		Iran	C	B
Singapore	A1	A1	A1		Jordan	B negative	B negative
Slovenia	A1	A1	A2		Kazakhstan	B	B
Spain	A1	A1	A1		Lesotho	B	B
Sweden	A1	A1	A1		Mali	B	B
Switzerland	A1	A1	A1		Mozambique	B	C
Taiwan	A1 negative	A1 negative	A1		Papua New Guinea	B	B
United Kingdom	A1	A1	A1		Peru	B	B
United States	A1 negative	A1	A1		Philippines	B	B positive
Botswana	A2	A2	A2		Russia	B	B
Chili	A2	A2	A2		Senegal	B	B
Czech Republic	A2	A2	A2		Sri Lanka	B negative	B negative
Estonia	A2 negative	A2	A2		Tanzania	B	B
Greece	A2	A2	A2		Turkey	B	B positive
Italy	A2	A2	A2 negative		Uruguay	B	B
Korea	A2	A2	A2		Vietnam	B	B
Kuwait	A2	A2	A2		Angola	C	C
Malaysia	A2	A2	A2		Argentina	C	C
Portugal	A2	A2	A2 negative		Armenia	C	C
Qatar	A2	A2	A2		Azerbaijan	C	C
Thailand	A3	A2 negative	A2		Congo	C	C
U.A.E.	A2	A2	A2		Djibouti	C	C
Bahrain	A3	A3	A3		Ecuador	C	C
China	A3	A3	A3		Ethiopia	C	C
Hungary	A3	A3	A2 negative		Ghana	C	C
India	A3	A3	A3		Honduras	C	C
Cyprus	A3	A3	A3		Jamaica	C	C
Latvia	A3 negative	A3	A3		Kenya	C	C positive
Lithuania	A3	A3	A3		Lebanon	C negative	C negative
Mauritius	A3	A3	A3		Libya	C	C
Mexico	A3	A3	A4		Macedonia	C	C
Namibia	A3	A3	A3		Madagascar	C	C
Oman	A3	A3	A3		Mauritania	C	C
Poland	A3	A3	A3		Mongolia	C	C
Slovakia	A3	A3	A3		Niger	C	C
South Africa	A3	A3	A3		Pakistan	C	C
Trinidad	A3	A3	A3		Paraguay	C	C
Algeria	A4	A4	A4		Sao Tome	C	C
Brazil	A4	A4	B positive		Serbia Montenegro	C	C
Bulgaria	A4	A4	B positive		Syria	C	C
Colombia	A4	A4	B		Togo	C	C
Croatia	A4	A4	A4		Uganda	C	C
Israel	A4	A4	A4		Ukraine	C	C
Morocco	A4 positive	A4 positive	A4		Venezuela	C	C
Panama	A4	A4	A4		Yemen	C	C

	2007 March	2006 December	2005 December
	Rating watch	Rating watch	Rating watch
Zambia	C	C	C
Albania	D	D	D
Belarus	D	D	D
Bolivia	D	D	D
Bosnia Herzegovina	D	D	D
Burundi	D	D	D
Cambodia	D	D	D
Central.Afric. Rep.	D	D	D
Chad	D	D	C
Cuba	D	D	D
Georgia	C	D	D
Guinea	D	D	D
Haiti	D	D	D
Irak	D	D	D
Ivory Coast	D	D	D
Kyrgyzstan	D	D	D
Laos	D	D	D
Malawi	D	D	D
Moldavia	D	D	D
Myanmar	D	D	D
Nepal	D	D	D
Nicaragua	D	D	D
Nigeria	D	D	D
Rwanda	D	D	D
Sierra Leone	D	D	D
Sudan	D	D	D
Turkmenistan	D	D	D
Uzbekistan	D	D	D
Zaire (Congo)	D	D	D
Zimbabwe	D	D	D

Source: COFACE.

COFACE COUNTRY RATING'S DEFINITION

A1 The steady political and economic environment has positive effects on an already good payment record of companies. Default probability rate defined as very weak.

A2 Default probability is still weak; even in the case when one country's political and economic environment or the payment record of companies is not as good as in A1-rated countries.

A3 Adverse political or economic circumstances may lead to the worsening payment records that are already lower than in the abovementioned categories. However, the default probability of payments is still low.

A4 Already noticed patchy payment record could be further worsened by a deteriorating national political and economic environment. Nevertheless, the probability of a default is still acceptable.

B: An unsteady political and economic environment is likely to affect further an already poor payment records.

C: A very unsteady political and economic environment could deteriorate an already bad payment record.

D: The high risk profile of a country's economic and political environment will further worsen a generally very bad payment record.

WAGES, EUR

Monthly average, Q3 2006	Latvia	Lithuania	Estonia
Gross wages	434.0	479.0	580.0
% to Q3 2005	122.8	119.9	116.5
Min. wages, January 200	171.0	174.0	230.0
% to January 2006	133.3	109.1	120.0
Old-age pension, monthly average, Q4 2006	147.0	147.0	225.0
% to Q4 2005	119.2	113.7	128.6

Source: Central Statistical Bureau of Latvia.

FOREIGN TRADE, MLN EUR

2006	Latvia	Lithuania	Estonia
Export (FOB)			
total	4641	11240	7632
to EU-25	3466	7098	4936
% of total	75	63	65
Import (CIF)			
total	8915	15371	10349
from EU-25	6796	9596	7607
% of total	76	62	74
Balance of foreign trade	-4274	-4131	-2717

Source: Central Statistical Bureau of Latvia.

POPULATION, TH

	Latvia		Lithuania		Estonia	
	Jan – Dec 2006	Jan – Dec 2005	Jan – Dec 2006	Jan – Dec 2005	Jan – Dec 2006	Jan – Dec 2005
Births	22170	21497	31094	31094	14819	14302
Deaths	33070	32777	43799	44732	17435	17393
Natural increase	-10900	-11280	-13638	-13258	-2616	-3091

Source: Central Statistical Bureau of Latvia.

AVERAGE PRICES FOR GOODS AND SERVICES, EUR PER KG

	Latvia		Lithuania		Estonia	
	January		January		January	
	2007	2006	2007	2006	2007	2006
Beef	3.09	2.83	3.37	3.08	2.97	2.95
Pork	2.75	2.66	2.68	2.58	3.56	3.40
Chicken	2.19	2.01	1.84	1.73	2.48	2.37
Butter	3.66	3.50	4.68	4.56	4.21	4.02
Milk, 2.5% of fat, 1l	0.58	0.54	0.50	0.48	0.44	0.44
Eggs, 10 pcs	0.98	0.91	1.00	0.80	0.83	0.80
Rye bread	1.01	0.80	0.87	0.70	0.92	0.86
Wheat bread	1.08	0.95	1.06	0.88	1.06	0.91
Sugar	1.01	0.94	0.89	0.85	0.97	0.95
Potatoes	0.47	0.27	0.47	0.30	0.52	0.31
Vodka 40% alc. vol., 1l	8.45	8.04	7.60	7.24	9.18	8.50
Petrol A-95, 1l	0.81	0.83	0.79	0.85	0.79	0.82
Electricity, per 100 kWh	7.26	6.40	9.86	8.98	8.05	7.86

Source: Central Statistical Bureau of Latvia.

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