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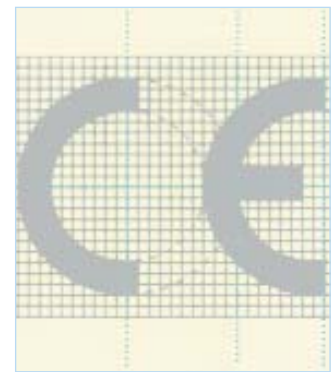
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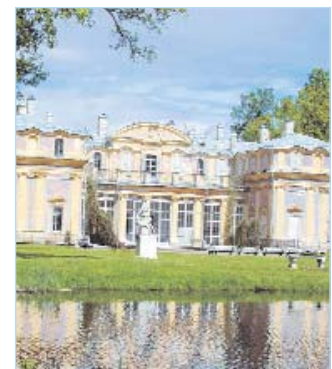
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FOR DECISION MAKERS

**The
BAL TIC
COURSE**

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Present *BC* issue reflects our permanently performed views on urgent and complex Baltic States' problems, alongside those connected to the European Union and countries outside the Baltics.

The Baltic section deals mostly, in several articles, with our magazine's regular topic, i.e. Baltic transport sector's development. The Baltic CEOs know well that more than half

of these countries' revenues stem from region's "transit position" between European East and West. Business community in the Baltics wants this positional advantage to continue. We assist this intention by our analysis of urgent transportation problems both in the Baltics and in neighboring states.

But transport is not the only way the Baltic States can utilize their intermediate position at the Union's borders. There is a growing fear in "old Europe" that the continent has lost its way in terms of economic and political development, and the market may decide that this is not an interesting place to invest. The "new EU members" still can provide a golden opportunity for the long-standing investments, much more attractive than anywhere else in Europe, to say nothing about other regions in the world. Hence, *BC* includes articles on real estate situation in the Baltics and innovations on industrial development, as well as statistics on the Baltic States' economic development.

More than anything else, the Baltic CEOs need strong and an independent view on European economic development. Therefore, in our European Union section we publish a report from Finland on the country's financial market development. This theme was chosen because of the recent EU and the US "attention" to financial sector's stability in Latvia and consequent non-residents' accounts revision in the banks. Finnish financial market, in this regard, is a good example and experience for the Baltic States' businessmen to follow.

Another interesting aspect in the financial sphere is Switzerland's experience revealed to *BC* by recently appointed Swiss ambassador to Latvia and Lithuania. An important answer is provided as to how long one has to work in order to reach a level of a "global financial center", the dream many Baltic bankers still cherish.

Our third section — economic development in the Union's Eastern side — is aimed at reflecting the present state-of-the-art in ports' facilities and infrastructure evolution both in the Baltic region and Russian ports in the South and Far East. It is important to note that while Russian ports are increasing turnover, in particular, in the Baltic Sea, the Baltic ones are dragging behind. But we hope that things will change for the better soon.



Eugene Eteris,
BC International Editor

VILNIUS MEETS RUSSIA HALFWAY



IGOR LEVITIN: We managed to agree on a compromise concerning very vital problems for Russia.

The meeting between co-chairmen of the Russian-Lithuanian intergovernmental commission for cooperation which took place on February 20 in Trakai, Lithuania, was “useful,” said the Russian co-chairman of this commission, Transport Minister **Igor Levitin**. “At the talks with Lithuanian Foreign Minister **Antanas Valionis** we succeeded in agreeing on a compromise concerning very vital problems for Russia, in particular, Lithuania’s unilateral decision to increase railway freight rates for shipments to/from Kaliningrad through its territory by 15% as of March 15.”

Russia also came forth with the initiative to launch a transit tourist train Berlin-Warsaw-Kaliningrad-Vilnius-Riga-St.Petersburg, and Lithuania responded to the idea with a great interest. This issue is included in the agenda for the forthcoming intergovernmental commission’s meeting, said Mr. Levitin. According to the Lithuanian Foreign Ministry press service, the parties agreed to hold regular meeting of the full commission this fall in Lithuania and a forum of Russian and Lithuanian businessmen too. Mr. Levitin’s comments — on page 16.

BUSINESS PARK IN RIGA AIRPORT

The plans for Riga airport in Latvian capital for the coming years include major renovation and expansion as well as development of a business park with hotel accommodations and office blocks built next to the airport. According to preliminary estimates, at least 70 million lats will be invested in the development of the airport over the next 10 years. Riga airport president **Dzintars Pomers** told the press that they planned to take Latvian loans and that of various European banks to finance the project.

LATVIA WILL HELP TURKEY ENTER THE EU

At the end of April within the bounds of state visit to Turkey of **Vaira Vike-Freiberga**, the President of Latvia, there was a business forum among Latvian and Turkish entrepreneurs. Addressing the participants of the forum, the president pointed out the strategic geographical location of Latvia as a transit country between Western Europe, Russia and the countries of CIS.



VAIRA VIKE-FREIBERGA: We are glad to see growing interest of Turkish entrepreneurs towards Latvia as an economic partner.

Ainars Slesers, the Minister of Communication of Latvia, emphasized that opening of direct air flights between Riga and Istanbul as well as activities of Latvian embassy in Ankara will facilitate further economic cooperation between Latvia and Turkey. Slesers appealed to Turkish entrepreneurs to invest into tourism, building hotels in Latvia.

Andris Ozols, the Director of Latvian Investment and Development Agency, informed the participants of the forum about the entrepreneurial climate in Latvia noting that there are a developed infrastructure and a favorable business atmosphere in Latvia, in particular, low rate of enterprise income tax.

RAIL BALTICA IN THE EU PRIORITY LIST

The EU and Baltic authorities are actively preparing for implementation of a major project for construction of a new fast train line from Estonia to Poland through Latvia and Lithuania. If this railway line is built, a trip from Tallinn to Warsaw would take just six hours. The Rail Baltica project has been included in the list of 30 most important infrastructure developments in the EU, with estimated costs of about 4.2 billion euros. The EU is providing most of the funding required for the construction of the European-grade fast railway line.

The maximum train speed on the new railway line is estimated at 300 km/h. Experts think that in the future the fast train line could be extended to St. Petersburg in Russia.

POLAND BACKS POWER BRIDGE TO THE WEST



ANDZEJ MAJKOWSKI: We have to cooperate more actively in the fields of energy, oil and gas.

Advisory committee members to Polish President **Aleksander Kwasniewski** at the meeting in Lithuanian Economics Ministry on February 25 confirmed the president’s positive attitude to the power bridge construction. “We have to cooperate more actively in the fields of energy, oil and gas,” said **Andzej Majkowski**, Polish President’s Chancellery vice-state secretary. “Poland confirmed president’s willingness to make together with Lithuanian President **Valdas Adamkus** a joint appeal to the European Commission about possible ways to implement this project,” said Lithuanian Deputy Economics Minister **Nerijus Eidukevicius**. He added that it was planned to organize a meeting of representatives from the European Commission, the EBRD, Poland and Lithuania to discuss implementation arrangements and sources of funding for the power bridge that would cost about 1.5 billion litas. The negotiations about cooperation with Poland in building the power bridge to the West have been going on for nearly a decade. Until recently, the Polish side did not show much interest in the project which has been included on the list of Trans-European-Network projects. Lithuania would like to have the power bridge which costs are estimated at 434 million euros completed by 2009 when Ignalina Nuclear Power Plant is to be shut down.

BALTIC STATES JOIN NIB

Lithuania, Latvia and Estonia joined *Nordic Investment Bank (NIB)* early this year. The agreement about Baltic states’ membership in the bank has to be ratified by parliaments of all *NIB* member states, i.e. Lithuania, Latvia, Estonia, Denmark, Finland, Iceland, Norway and Sweden. *NIB*’s membership offers various advantages, e.g. unlimited loans at low interest rates. The bank’s capital is 4 billion euros.

GEONAFTA'S ASSETS ARRESTED

Lithuanian Court of Appeals adopted a decision that put an end to a long-lasting dispute between Sweden's *Svenska Petroleum Exploration* and oil extraction company *Geonafita*. The court ruled to arrest *Geonafita's* movable and immovable assets worth 20 million lats, including oil rigs. The Swedes demanded such sanction as a guarantee against *Geonafita* selling off its assets in case of possible bankruptcy procedure.



This decision is a logical continuation of an earlier decision made by the International Court of Arbitration in late 2003 which awarded the Swedish company compensation in the amount of 12.5 million US dollars with a 6 percent annual interest. *Svenska Petroleum Exploration* has not received the compensation yet as the ruling is to be approved by Lithuanian appellate court.

Four years ago *Svenska Petroleum Exploration* initiated arbitration proceedings over the Lithuanian government's decision to hand over to *Geonafita* the oil fields in Kretinga and Nausodis in western Lithuania. The Swedish company claimed that they have the right to joint operation of the oil fields together with *Geonafita*, and the arbitration court upheld their rights.

HALF OF UNIVERSITY GRADUATES CAN'T FIND WORK IN LATVIA

About half of university graduates in Latvia can't find work after completion of studies. They have either to register with the National Employment Agency or to return to studies, this time in a field where they are more likely to find a job. According to the agency statistics, as of October 1, 2004, it had registered 1,127 unemployed university graduates, who acquired their degrees in the previous academic year. The number of jobless people with university diplomas is constantly growing.

ESTONIAN RAILWAY RUNS UNIMOG ROAD-RAILER

Estonian railway company *Eesti Raudtee* has acquired a Unimog (*Universal Motor Gerat*) road-railer, a vehicle for transportation of rail cars and locomotives that can run on both railway tracks and roads. The road-railer, the only of its kind in the Baltic states, can transport cargo of up to 800 tons, i.e. 12 rail cars or 4 locomotives. Its power output is 130 kW. The vehicle can accelerate to 50 km/h on the rail track and to 85 km/h on the motorway.

It has a special power drive for running on rail tracks and reinforced discs as well as an air compressor for rail car brake system. Unimog advantages over other vehicles lie in its agility and economic efficiency. The truck can run on rail tracks, roads and rough terrain, and, contrary to ordinary trucks, the engine can be turned off between jobs and doesn't need preheating either.

KAUNAS FEZ BREAKS OUT OF STAGNATION

Kaunas County Governor **Zigmantas Kazakevicius**, Kaunas District Mayor **Leonardas Gineika** and Kaunas Free Economic Zone (FEZ) Management Company's director **Vytautas Petruzis** in February signed a trilateral agreement that will assist *Kaunas FEZ* out of stagnation.

Under the agreement the FEZ lessee, the Belgian consortium AOI, will pay the 40-year rent for the land in advance. The amount of about 1.072 million litas will be used to buy up privately-owned plots wedged between territory already owned by the Kaunas FEZ, creating a whole plot of 80 hectares.

At present Kaunas FEZ owns 57 hectares of land but the plots are scattered therefore only 23 hectares can be offered to investors. The Lithuanian state has promised to pay landowners from 65,000 to 98,000 litas per hectare depending on the plot's location. Previously the price of land in the Kaunas FEZ territory costed around 20,000 litas per hectare. Lithuanian parliament acknowledged that Kaunas FEZ territory shall be leased only for the period of 49 years while the lease period for Klaipeda FEZ was set at 99 years. Kaunas hopes that the Parliament will amend its decision and extend the lease period for Kaunas FEZ to 99 years as well.

NEW INDUSTRIAL PARK IN RIGA



ELITA MOISEJA: Nordic Industrial Park and Nordic Technology Park successfully operate in Latvia.

Nordic Partners will invest 500,000 lats in development of a new industrial park in Riga, said the company board member and marketing director **Elita Moiseja**. This will be the third industrial park created by *Nordic Partners*. Presently, *Nordic Industrial Park* and *Nordic Technology Park* are already operating successfully in Latvia. *Nordic Partners* has bought 10 hectares of land for the new park and is now working on the construction design. It is planned to build industrial complex, warehouses and office facilities. Investments in the first stage of the project are estimated at around half a million lats. The new industrial park will be strategically located — near the main highways and not far from Riga airport.

Nordic Partners plans to develop several more industrial parks in Riga County, as well as in Liepaja and Ventspils cities in the near future.

NEW PROJECT OF RZD-PARTNER — THE RZD-PARTNER INTERNATIONAL

On March 23 in the framework of the exhibition "Trans Russia-2005" which took place in Moscow, the presentation of a new international project in English — the magazine *The RZD-Partner International* was held. Speaking of the international version's concept, the chief editor's first deputy, **Aleksandr Retunin**, emphasized that the materials of the new project are not an analogue of magazine's Russian version and mainly are oriented on the demands of the international companies — the participants of the transport market. A full picture of transport system development tendencies in Russia and the CIS countries will be presented to the foreign readers in *The RZD-Partner International*. The magazine is published quarterly.

INSTITUTE OF RUSSIA'S RESEARCH IN RIGA



KARL DAUKSTS: Our purpose is to initiate the EU interest towards Russia.

The Institute of Russia's Research was opened in Riga, Latvian capital. The institute, created within Baltic Russian Institute (BRI), is headed by a well-known Latvian political scientist **Karl Dauksts**.

The new institute, he said, will study Russian-Latvian relations in politics, economics, history and culture as well as Russian politics in respect to the Baltic States. One of the institute's objectives is to gather materials that would initiate the EU interest towards Russia. "We use in our work scientific research potentials of Latvian experts, who will participate in various international forums and conferences," said Mr. Dauksts.

Already in April the Institute of Russia's Research participated in setting up the international conference with the title "The Agenda: Russian-Latvian Relations" held in Moscow with the following participant organizations — Open International Forum, Russian forum "Expert," Konrad Adenauer Foundation and the Latvian Trans-Atlantic Organization (LATO).

LITHUANIAN BANKS ASSOCIATION'S NEW PRESIDENT

The Association of Lithuanian Banks has elected a new president, **Rimantas Busila**, 46. He will succeed **Eduardas Vilkelis**, 50, who had headed the association for the last 10 years. The association's president is elected for a term of five years. Mr. Busila was National Stock Exchange's president and its board chairman for many years. At present he is a lecturer at Vilnius University International Business School. The Association of Lithuanian Banks has as its members nine out of the ten existing commercial banks in Lithuania. The only non-member — *Hansabankas* — is Investment Forum's member.

BALTIC SALMON BANNED IN LATVIA

At the beginning of February Latvian chief food and veterinary inspector Mr. **Vinets Veldre** issued an order banning sale of salmon caught in the Baltic Sea and Gulf of Riga. The ban was installed on the basis of tests obtained by a British laboratory showing that dioxin level in this fish species exceeds the maximum permitted limit. Excessive dioxin level was found in five out of nine samples of salmon tested at the laboratory. Latvian



fishermen catch about 40-50 tons of salmon a year in the Baltic Sea. Latvian Fisheries Association's president **Inarijs Voits** told LETA news agency that in 2005 salmon fishing licenses had been granted to 35 vessels, down 40% from 2004 due to restrictions on use of drift nets introduced by the EU. The ban on salmon sale means that fishermen won't be able to exercise their fishing rights until 2008 when the use of drift nets for catching salmon will be banned altogether.

Denmark introduced a similar ban on salmon sales in 2004 but it was amended later, allowing sale of small salmon where dioxin concentration is not so high.

MOST POPULAR BRANDS IN LATVIA

Latvia's Laima chocolate is this year's most popular brand in Latvia, according to a survey conducted by *DDB Latvija* advertising agency. Nokia mobile telephone was at the second place, followed by Latvian Lido network, famous for its ethnographic-style restaurants combining food with various forms of entertainment. Other popular brands on the Top 10 list include Colgate toothpaste, Latvian-made Cido soft drinks, Orbit chewing gum, Latvian mineral water Mangali, products by Latvian fruit and vegetable processing company Spilva, Ariel detergent and Latvian private TV channel LNT.

The survey covered totally 262 brands popular in Latvia, most of them of local origin.

KESKO ENTERS THE BALTIC MARKET



Kesko Food, a company of the Finnish concern *Kesko*, and Swedish *ICA*, the owner of *Rimi* retail chain, have launched joint Baltic market operations, hoping to take 25% of the market in three years and earn profit already in 2007. *Kesko Food* and *ICA* each own 50% in *Rimi Baltic* company which was launched in early January 2005. In 2004 total sales of both companies in the Baltic States market reached some 690 million euros (without VAT). *Rimi Baltic*, which operates about 160 supermarkets across Latvia, Lithuania and Estonia, has the capital of 140 million euros and employs around 8,300 people.

KREENHOLM TEXTILE MOVES TO RUSSIA

The Finnish manager of *Kreenholm* textile plant based in Narva, north-east Estonia, **Matti Haarajoki**, has said that the company intended to move production to regions with cheaper labor costs. He did not rule out the possibility of relocating the manufacture to Russia which would mean the demise of the textile industry in Narva and thousands of people losing jobs.

"Right now we are using Estonian subcontractors of a small degree, but in the future we wish to use increasingly subcontracts from countries where labor costs are lower than in Estonia," Mr. Haarajoki told Estonian newspaper *Eesti Paevaleht*.

Early this year Finland's daily *Kauppaalehti* reported that *Kreenholm* was planning to open a sewing facility in Ivangorod, the Russian city facing Narva across the border river.

Kjell Tornbring, the head of *Kreenholm's* parent company *Boras Wafveri*, said owners were trying at any cost to make *Kreenholm* profitable.

"We need to increase sales and reduce expenditures, that is why taking production to Russia is quite possible," he said.

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Iron-clad Arguments

By Mikhail Tuzhikov

Baltic correspondent, newspaper *Transport Rossii*

Steel and steel alloys' world consumption has increased rapidly during recent years what has also been reflected on the Baltic metals market. Regardless of the overall industrial activity's decline, this market has been growing albeit slowly but steadily.

Analysts have dubbed last year as the Year of Metal. The world metallurgy industry output in 2004 grew by 9.1%, increasing more than two times as compared to overall global economic growth at 4.8%. To put it short, the "Iron Age" continues and does not seem likely to end in any foreseeable future.

ALLOYS ARE OUR STRENGTH

The industry has already crossed the one-billion mark - the world steel production reached 1.035 billion tons last year. Experts estimate further growth by 5% this year and another 3.5% next year.

Metal prices rise along production as metallurgical companies have to compen-

sate for increasing the cost of metal scrap, iron ore and coke. In experts' opinion, iron ore market has always been a battlefield as price competition in this sector often amounted to breaking rules. As if this was not enough, the market players (producers and consumers) also have to deal with trade quotas, tariffs and tough competition. Thus, the metals market depends on a number of factors from geological survey to consumer demand for metal production.

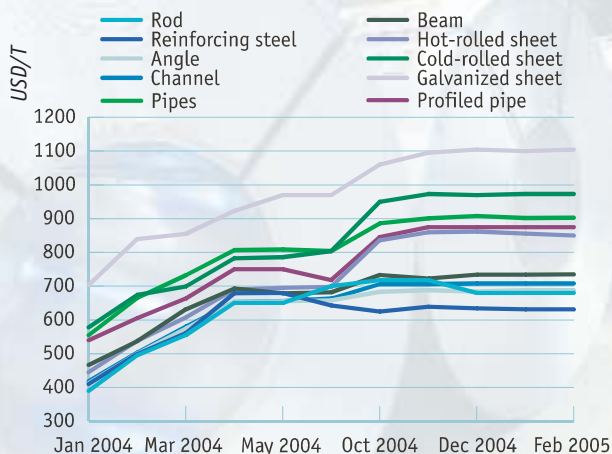
Rapid economic growth in China where GDP grew by 9.5% in 2004 has been accompanied by even more rapid growth of metal consumption in that country which today devours about one-third of the world steel output. The growing demand metal prices skyrocketing, and the world prices for many types of metal products increased 1.5 times or more over history's decade high. At the beginning of 2004 iron ore pellets were still USD 40 per ton but in January of this year the price was already up to USD 90.

Due to the increased demand for metal, the world's largest iron ore producers (accounting for 70% of the world trade) — Brazilian *Companhia Vale do Rio Doce (CVRD)* and British-Australian companies *Rio Tinto* and *BHP Billiton* - intend to invest USD 5.3 billion over four years to expand iron ore extraction by 1.5 times — from 390 million tons in 2004 to 600 million tons in 2008.

CHAIN REACTION

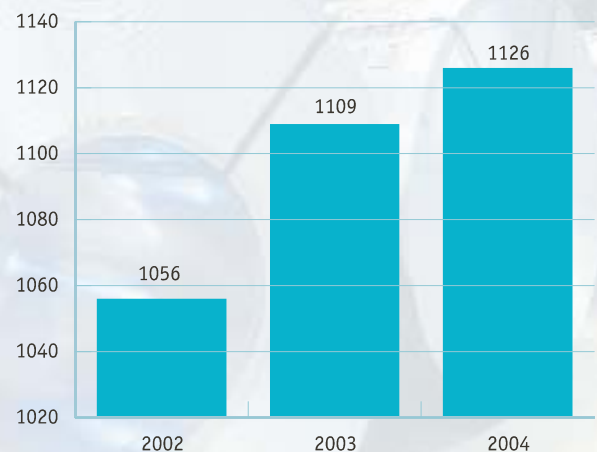
The world's five largest steel producers by 2004 accounts were China (272.5 mln t), Japan (112.7 mln t), the US (98.5 mln t), Russia (64.3 mln t) and South Korea (47.5 mln t).

DYNAMICS OF AVERAGE PRICES FOR ROLLED METAL IN THE BALTICS



Source: Severstallat.

BALTIC METALWORK MARKET, THOU T



Source: Severstallat.

Experts think that metal market is very versatile and it is risky to make any long-term forecasts for its development. For example, in 1998 Russia became the world's leading metalwork exporter. At that time it was Russia's second most important source of foreign currency revenues preceded by exports of energy resources. In less than five years, a new player — China — appeared on the stage. The world's fear of cheap Chinese metals is not at all irrational. In recent years the Chinese metallurgy industry has been growing at a faster rate than the country's economy in general.

The metal boom in China caused a chain reaction throughout the world. As Chinese make steel from Brazilian ore, the fleet responded immediately to the increased demand. As a result, a shortage of ships occurred in other waters and freight rates of dry cargo vessels shot up. Reverberations reached Europe quickly enough, i.e. construction of new ships at European shipyards has already been booked for 1.5 years ahead.

BALTIC SITUATION

In the Baltic States steel is being produced at open-hearth furnaces by the only metallurgy plant in the region, i.e. *Liepajas metalurgs* based in south-western Latvian city of Liepaja. It provides the Baltic market with 20% of its output with the remaining 80% being supplied to other world's regions. Metal processing and foreign sales are mostly done by Estonian companies *Elme*, *Levadia*, *Frellok*, *Galvex* and Latvia's *Severstallat*. In Lithuania, the industry has just started developing therefore the metal business there is done mostly by representatives of Estonian and Latvian holding companies. There also is a local company making hardware (nails, screws) but it belongs to a Russian company.

LATVIA: PRIORITIES AND HOBBIES

Latvian metal's market flagship, i.e. Russian-Latvian joint venture *Severstallat*



was organized in December 1992 with equal participation of both founders — Russia's *Cherepovets Metallurgy Plant* (now *Severstal*) which is the largest in Europe and Latvia's *Felix Holding Co.* The company was founded for the forwarding of *Severstal* metalwork exports by rail and through the Baltic ports in Tallinn, Riga, Ventspils and Klaipeda.

During its first years in business *Severstallat* grew from a small forwarding company into one of the largest forwarders in the Baltic region. Amount of metal shipments through three Latvian ports increased from 197,000 tons of rolled metal in 1993 to three million tons in 1998. But after this achievement, the company's forwarding business started to slow down.

As a result of changes in the tariff policy introduced by Russian Transport Ministry in 1999, it become clear that this kind of forwarding operations have

exhausted their potential and turned unprofitable. *Severstallat* management found an alternative development path and in 2000 came up with a project for creating a service center for metal sales in the Baltic States.

Severstallat general director and board chairman **Aleksei Gogunov** told the *BC*: "After Russia had raised the railway freight rates, our priorities and orientations changed, i.e. metal sales became our main business and metal transportation turned into a hobby."

Severstallat general director said the company had three lines of business:

- Direct sales to major consumers: ship repair and ship building companies in Estonia, Lithuanian refrigerator producer *Snaige* and other European clients for whom the minimum metal delivery equals monthly consumption;

- Warehouse sales, mostly in Latvia as well as in certain Lithuanian and Estonian regions. The warehouses in Riga are the largest in the Baltic States as they contain practically the whole range of required metal products.

- Initial processing of products according to client's demand, i.e. shearing, making of various profiled products and pipes.

For normal operations in those three fields, good logistics both for incoming and outgoing shipments is needed. "Geography factor helped as *Cherepovets* is on the River Volga, Mr. Gogunov said, smiling. All

WORLD STEEL PRODUCTION IN 2004, MLN T

| Region/country | 2004 | 2003 | 2004/2003, % |
|---------------------------------|--------|-------|--------------|
| EU-25 | 193.5 | 183.9 | + 5.2 |
| Other European countries | 28.2 | 25.4 | + 10.6 |
| CIS | 111.8 | 106.2 | + 5.3 |
| North America | 133.0 | 126.2 | +5.4 |
| South America | 46.0 | 43.0 | + 6.9 |
| Africa | 16.5 | 16.2 | + 2.1 |
| Middle East | 13.6 | 12.9 | + 5.9 |
| Asia and Oceania (except China) | 220.5 | 215.8 | + 2.1 |
| China | 272.5 | 221.1 | + 23.2 |
| World total (62 countries) | 1035.5 | 950.8 | + 8.9 |

Source: *International Iron and Steel Institute (IISI)*.

through summer months we can send goods by river transport, saving money that otherwise would have been spent on railway freight. River-marine vessels first traverse a system of channels to St. Petersburg and from there they sail to Riga by the Baltic Sea. Transportation costs are lower and we can make some profit. However, not many Russian metallurgy plants are situated close to water therefore it is rather complicated and costly to transfer products from a plant located in the Urals, for example.”

Nevertheless, *Severstal* sales have increased fourfold in three years: from 107,000 tons in 2003 to 394,500 tons in 2004. The turnover in money terms grew six times during the same period: from 20.5 million lats to 124.8 million lats.

ESTONIA: NEW TECHNOLOGIES

The leading Estonian industrial company — *BLRT Grupp* holding company — is engaged in ship repairs and ship building, railway rolling stock repairs, port services, metalwork, production and sale of industrial gases and metal export. They cooperate actively with such large Russian companies

as *LUKOIL*, *Severstal* and based *Yantar* shipyard.

One of the largest Baltic metal distributors, Estonia *Elme Metall*, is a part of *BLRT Grupp*. *Elme Metall* is based in Tallinn and has branches in Tartu, Parnu, Narva, Riga, Klaipeda, Vilnius, Siauliai and Kaliningrad. The company buys metals in Russia, Ukraine, Belarus, Germany, Poland, Slovakia and the Czech Republic. Russia's *Severstal* has been country's major supplier for many years.

ELME company's director **Igor Berman** said, “Today the production process within the holding company is supported by use of the latest equipment and technologies. In the last 5-6 years *BLRT Grupp* has invested in development of *ELME* infrastructure about 200 million kroons. *ELME*, which was registered in Estonia in December 1993, has evolved into a holding company consisting of *AS Elme Messer Gaas*, *OU Elme Metall*, *OU Elmas*, *OU Elme TKS*, *OU Elme Trans*, together employing about 650 people. *ELME* has own representation offices and subsidiaries in Lithuania, Latvia and Kaliningrad.

In experts' opinion Estonia has another perspective metal processing company — the US-Estonian *Galvex*, which makes galvanized steel. The plant takes up an area that would accommodate several football fields, and the galvanization line stretches for several hundred meters. The entire production process is automatized. The American **Daniel Bain**, who heads *Galvex*, thinks about expanding the company's business in metal transit. “In addition to producing 500,000 tons of galvanized steel, we plan to ship 3 million tons of steel a year. For this purpose, we will develop a logistics support system within our company”, he said.

In general, Latvian and Estonian companies in metal business look in the future with optimism as metalwork consumption in the Baltic region is growing faster than in Europe and metal prices there are higher than in Russia. And, finally, experts think that the Baltic metals market is specific as being rather transparent where market players know each other well and rivalry often turns into a partnership. Thus, the Baltic optimism is supported by iron-clad arguments. •



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Maintaining Good Roads is Expensive

By Mikhail Tuzhikov
By Anzhela Rzhishcheva

Last year brought about changes in the road industry management structures in Latvia. On November 1, 2004 two new state-owned companies, *Latvijas Valsts ceļi* (Latvian State Roads) and *Celū inženieri* (Road Engineers) were created instead of liquidated Motor Road Directorate.



Latvijas Valsts ceļi deputy board chairman **Olafs Kronlaks**, former Motor Road Directorate's general director in Latvian Transport Ministry, told the *BC* about transformations in the industry.

The purpose of reorganization was to provide Latvian road builders with employment. Previously tenders had to be organized for highway engineering works and foreign specialists were invited for technical supervision in European projects even though Latvia had enough its own professionals. "As a result, for example, we had a Finn coming over, recruiting a team of Latvian experts and making money this way, said Mr. Kronlaks. Now *Celū inženieri* makes highway designs and technical supervision itself and our people started receiving money that previously were taken out of the country", he concluded.

THREE FUNDAMENTALS FOR FINANCING

Annual road maintenance expenses per kilometer of Latvian roads equals about 4,5 thousand euros. *Latvijas Valsts ceļi* board chairman **Talis Straume** said that first of all Latvian highways need to be brought up to the European standards. In 2004 only 244 kilometers of roads were built or renovated in Latvia at the total cost of 41 million lats. For comparison, in

2003 construction or upgrading of 244 kilometers cost much less, i.e. about 25 million lats. Mr. Straume finds these figures totally unsatisfactory. It is obvious that the state budget is not limitless therefore additional sources of financing have to be found. He sees three possible options: to introduce in Latvia Eurovignettes or additional duties levied on heavy trucks for roads usage; to have private companies operate certain roads under state concession; and to lease roadside areas to private sector for opening various service outlets.

HOPES REST UPON EUROVIGNETTES

It should be mentioned that almost all countries in "Old Europe" have introduced Eurovignettes. This year Lithuania also adopted the law on introducing the additional duties on heavy trucks on country's roads.

Mr. Straume noted that it was too early to apprehend whether and when Latvia is going to introduce Eurovignettes. At first some estimates have to be made in order to determine whether Latvian transport industry and economy in general is ready for that sort of charges. As to revenue forecasts from the planned introduction, foreign trucks would make about 2 mln lats a year and local trucks — not more than 10 mln lats.

Valdis Trezins, Latvian association of international road carriers, *Latvijas Auto*, president holds some reservations about Eurovignettes introduction: "Of course, we strongly support any increase in financing sources for highways and roads, since many of them require serious upgrading. But one should do some serious thinking before introducing Eurovignettes in Latvia. Under the EU rules, we cannot levy duties only on foreign carriers; ours will also have to pay. In some countries like Germany or Poland, introduction of Eurovignettes is justified because of great flow of transit transport. The situation in Latvia is different as there aren't that many transit vehicles. Therefore the new practice may seriously harm local road carriers' competitiveness; they have already been hit hard by the rising fuel prices. Moreover, I think that even without Eurovignettes Latvian carriers contribute greatly to the state budget, which among other things, finances also the roads.

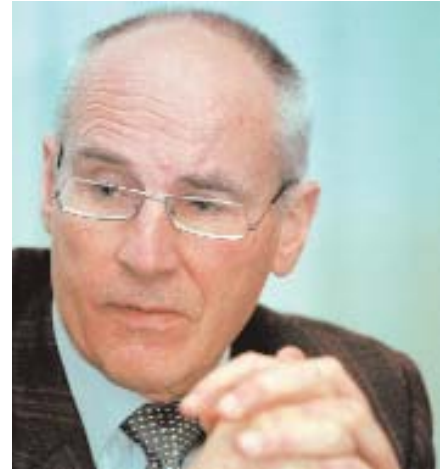
On top of this, Latvian operators have to pay excise tax (raised by 11% from January 1, 2005 and now accounts to 164 lats per ton of diesel fuel) and transport tax (minimum 250 lats per vehicle depending on the transport-type weight). In addition to those extra burdens for Latvian road carriers, introduction of Eurovignettes may also



OLAFS KRONLAKS: Latvian roads are in critical condition.



VALDIS TREZINS: Eurovignette's introduction will result in decrease of Russian transit cargoes.



TALIS STRAUME: Latvian highways are to be brought up to the European standards.

have negative consequence — less transit, first of all Russian cargoes, through Latvia?”

ROAD CONCESSIONS AS THE WAY OUT

Granting private companies concessions to certain roads would be the second additional source of funding. Mr. Straume pointed out that this does not mean toll roads introduction in Latvia, but concessions are quite close to long-term loans. The concessionaire invests his own money in the road he operates under concession agreement. The amount of return payment to the investor by the state is not proportional to investment but rather is calculated on the basis of traffic flow along given road. That means that investor is highly motivated to make his section of the road more attractive for drivers.

According to market analysis done by *Latvijas Valsts celi* experts, Riga-Jelgava highway is currently the most suitable road for concession purposes. It is planned that in two years a tender will be announced to invite first Latvian concessionaires. Mr. Trezins thinks that assignation of roads to private companies using concession system could be a positive option. But Riga-Jelgava road in central Latvia is not of current importance for international road carriers. From the perspective of international road transportation, modernization of roads in the eastern direction, such as Rezekne-Ludza-Terehovo would be much more interesting.

Latvijas Valsts celi also plans to charge companies for using roadsides in order to develop various service outlets. But Mr. Straume regards this source of financing less perspective.

MONEY — ONLY FOR HIGHWAYS

“The overall situation in the road industry has changed for the better after

Latvia's accession to the EU, said Mr. Kronlaks. But problems remain, as there is not enough money for all road maintenance needs. For example, subsidies from the EU Cohesion Fund are intended only for the main roads, and money from the European Regional Development Fund (ERDF) only for Class I roads. That means that funds are being allocated only for major roads and no money is left for winter maintenance of Class II roads. As a result, with the available resources we can develop 300 kilometers of priority roads a year, while the remaining 20,000 kilometers would get only small regular repairs and daily maintenance.

According to our calculations, we would need over 120 million lats annually just for maintaining the roads in normal condition, not taking into consideration the construction of new roads. Moreover, the amount of postponed road repairs has already reached 37 million lats in 2003 and is growing every year along with increasing of costs for road works and road maintenance. To date the road industry is short of 18 billion lats of investment. And this is only for the road maintenance, if we were to upgrade roads, much more money will be needed. Let me give you a simple example: it costs 20 lats to replace one meter of the traffic barrier, and we have to replace dozens of kilometers. That means that hundreds of thousands lats will be required just for barriers' replacement. Repairs of a kilometer of asphalted road will cost 46-60 thousand lats, and construction of a new road — ten times more,” Mr. Kronlaks concluded.

In 2005 it is planned to use 62.4 million lats from Cohesion for road development. The projects include renovation of 127 kilometers of Latvian main motor roads and major repairs of the following sections Jekabpils, Bauska, Skulte, Adazi-Gauja and

Priedaine-Sloka. The ERDF has allocated 29.1 million lats for implementation of Latvian national program — repairs of Class I motor roads.

Transport Minister **Ainars Slesers** thinks that restoration of the liquidated National Motor Road Fund could be a remedy for the current miserable state of Latvian roads. Another way to solve the problem is to increase subsidies to the National Motor Road Fund program from state budget general revenues' section up to 60%, mainly from excise taxation on oil products.

RENOVATION PROGRAM NEEDED

Due to recent years' financial deficit, road maintenance and renovation works were partly postponed what resulted in critical condition of Latvian roads. Experts think that the country needs a program for renovation of motor roads which would provide for development of the entire road infrastructure, i.e. road markings, road posts and signs, road-restraint barriers, parking places, tank-fuel stations, cafes, etc. There is no such program in Latvia and no money for it either.

“Road users have already paid 150 million lats in taxes but we only got few crumbs from this amount. The entire transport tax should go to road builders, said Mr. Kronlaks. Good roads rest on road-users' money or else we won't be able to develop our road industry. See for yourselves, there isn't a single European-grade highway in Latvia. After all, highways are meant only for vehicles — there should not be any pedestrians, skateboarders, tractors, bicycle riders, cattle or wild animals. A highway must be fenced and must have a developed infrastructure. Presently we do not have money for that,” he concluded. •

Challenges for Lithuanian Road Construction

By Tatyana Komorskaya
Vilnius, special report for BC

Before joining the government service, Lithuanian Road Administration general director **Virgaudas Puodziukas** used to be a scientist, Dr. Puodziukas was the head of the Transport and Road Research Institute. In the interview to the *BC*, he said that his academic background had enabled him to come up with rather unusual solutions to current problems.

According to road construction specialists, Lithuania's status as a transit country has been recognized once again. Thus, at present about 2,000 trailer trucks rumble along the *Via Baltica* highway sector between Marijampole and Kaunas daily. The traffic intensity on this international motorway has increased by 42% for vehicles coming from Poland, and the number of trailer trucks crossing Lithuania has grown several times in past few years.

Traffic on Lithuanian roads grows constantly, i.e. traffic intensity has increased by 20% in general and by 27% on the Warsaw-Kaunas-Daugavpils road (apparently, drivers prefer going to Russia via Latvia, passing Belarus). The extra load on the road surfaces has become a challenge to Lithuanian road builders.

"The situation is aggravated by the problem we have encountered in recent years. According to European rules the permissible maximum axle load is 11.5 tons. Roads in Lithuania were built basing on the maximum load of 10 tons per axle. As the number of trailer trucks crossing Lithuania increases our roads have to withstand ever increasing excess load. As a result, asphalted surfaces develop indentations and cracks, and the latter are quite dangerous both for vehicles and for roads as this causes them to deteriorate quickly"; said Mr. Puodziukas.

SCIENTIFIC APPROACH PLUS MONEY

We are responsible for 1,733 kilometers of trunk highways (coinciding with trans-European corridors), 4,877 kilometers of national roads (linking various parts of the country and we keep them in satisfactory condition) and 14,725 kilometers of county roads with national importance (of which 8,800 kilometers are gravel roads). Optimal road conditions are damaged first of all by traffic intensity.

Development of road facilities also depends on one of the most important European requirements concerning traffic safety. Whenever a road surface needs to be reinforced, an individual decision is made, taking into account the number of lanes, their width, geometrical parameters, installation of road barriers and overpasses. Other factors to be considered include visibility, road accident statistics, etc.

All this requires scientific approach and a lot of money. "Our task, says Mr. Puodziukas, is to determine the condition of the roads, traffic intensity and type of vehicles involved and to produce the optimum solution after analysing of those factors. We don't take any standard solutions as they are more costly, as a rule. Meanwhile new technologies make possible at lower costs and short deadlines the use of existing roads even at recently introduced maximum permissible load of 11.5 tons. The Road Administration has

prepared technical regulations but it is up to contractors to choose the method, and the range of their choices is expanding."

Lithuanian parliament has passed new amendments to the Law on the Financing of Road Maintenance and Development Program. Under this law the allocations for road maintenance and development are planned at 830 million litas in 2004, 835 million litas in 2005 and 772 million litas in 2006 with some of the deficient financing to be compensated with assistance from the EU funds.

It is not planned to introduce road tolls in Lithuania. The Road Administration experts came to this conclusion after analysing all options and possible use of concessions towards increased financing for road construction.

THE GENERAL PICTURE

"The condition of Lithuanian roads is no different from the other Baltic states. Lithuania and Estonia got down to implementation of the *Via Baltica* program first. But the plans of neighboring countries for 2005-2006 have shown that the situation is changing very quickly; thus Poland and Latvia are now investing large funds into this international route. Lithuania will have to work very hard to keep up with them. I would like to congratulate Latvian colleagues on the sizable financing that they received this year both from the national budget and from the EU structural funds. They have more money than Lithuanian road builders," said Mr. Puodziukas.

In 2004 Lithuanian road builders implemented 133.9 million litas from the EU funds. The Lithuanian Road Administration first prepared five projects for assistance from the EU funds, and financial support was granted in the amount of 85 percent of the cost of all five projects. These projects deal with development of Vilnius-Prienai-Marijampole and Vilnius-Lida roads included into trans-European network; transport corridor I (*Via Baltica*); transport corridor IXB; transport corridor IXD, etc. The money will be used for the reinforcement of roads and embankments, construction of safety and sound barriers, light installation. This year Lithuania plans to use 274 million litas from the EU funds for road repair and construction. •



EU Saves Estonian Roads

By Valentin Zvegintsev

Tallinn, special report for BC

People used to praise Estonian roads. But these times are in the past. Gradually good words were replaced by curses, and there was no money for keeping the country's roads in good condition. Strange enough, lately more positive references about Estonian roads could be heard. It's true though that these words mainly refer to highways.

Roads in Tallinn, Estonian capital, are in the worst condition. The current government ruling coalition, first of all, put blame on previous city council team, which did not allocate money even on repairing existing roads, not to mention construction of new ones. The funds earmarked for road repairs have been always spent on some other emergency instances. It was only in 2005 that the new Tallinn City authority decided that something indeed had to be done urgently about the city's roads as driving had become simply dangerous. Suffice to say that several motorists have already filed claims against Tallinn city council for damage of their cars caused by potholes in Estonian capital's streets.

Tallinn residents, are the only people who worry about the poor condition of the city roads, as the state budget simply does not have money for road repairs in the capital. The city authorities keep telling the central government that Tallinn roads are being used by people from all over the country and foreign visitors, and the rundown roads are a disgrace, but in vain. The government strongly believes that Tallinn roads are the responsibility of the city authorities and the state only has to take care of the roads outside the capital city.

At one point some progressive politicians suggested introduction of tolls for usage of certain roads as a way to alleviate the dramatic

situation with Tallinn roads. However, the idea was never put into practice either in Tallinn or anywhere else in Estonia, and still there is not a single toll road in the country.

EU MONEY FOR REPAIRS?

Extensive state road repairs began in 2004 with about 200 kilometers of roads being repaired at the sum of more than 500 million Estonian kroons. Naturally, Estonia did not have such money, but the EU membership aspirations helped. It was, in fact, the EU's practice to help aspiring countries to upgrade their roads. Thanks to ISPA program, Estonia was able to start major repairs of its roads. Under the EU-support program requirements, the minimum cost of a project for repair/renovation of highways has to be 10 million euros with at least a 15% share of national co-financing.

After Estonia had submitted its projects, the EU allocated 309 million euros for the period 2004-2006.

Road Administration, which structurally is a part of Estonian Ministry of Economic Affairs and Communications, will continue repairs of the main roads in 2005. Administration's general director **Riho Sormus** said that one of the major projects this year will be the repairs of Tallinn-Narva highway that will cost 22.2 million euros, as well as repairs of the Johvi-Tartu-Valga road at a cost of 35 million euros.

So far there are no plans concerning the new roads' construction in Estonia. That is the task for the future, but at the moment Estonian Road Administration is to focus on repairs of the existing roads.

LONG-DISTANCE TRUCKERS NOT FORGOTTEN

According to Mr. Sormus, there are leisure areas and special parking lots "right beside fuelling stations" along all main roads in Estonia often used by long-distance drivers. However, these parking lots and areas are often criticized by drivers because of their quite inconvenient location.

One can not say, though, that long-distance drivers are deemed to oblivion. Estonian Association of International Road Carriers intends to build for them new parking areas similar to those common in Western Europe. These will be a sort of truckers' centers where drivers will be able not only to rest, but also to fill up petrol, have a good meal and do some repairs.

EU FUNDS FOR HELP

It should be noted that even in Soviet times international highways in Estonia always were in good conditions. After the collapse of the Soviet Union and restoration of Estonian independence the country roads were neglected for several years. Only its accession to the EU, so to say, saved Estonian roads from total distraction. Today there are 973 kilometers of good roads in Estonia, of which 923 kilometers are state-owned. General opinion is such that it is impossible to keep all those roads in excellent condition on state's account alone.

The EU membership enabled Estonia to seek support from the European funds, and the EU has promised to allocate 30 million euros a year for maintenance of country's international roads. •

How many roads a country needs?

The question is far from being rhetoric: European countries spend large amounts of money on road construction and costs keep growing. Damages to environment should also be considered. In Denmark alone about 36.5 sq.m (10 ha) of meadows and pastures are covered with asphalt every year. And Denmark is the third country in Europe by length of road surface after tiny Luxembourg and Austria (see the Table). The EU has planned to invest 20 billion euros for financing 30 transport development projects during 2007-2013, and this involves only about one-tenth of the total costs. The rest, about 200 billion euros, involves national contributions as such projects are jointly financed by the EU and the member states.

LENGTH OF ROADS IN EUROPE*

| Country | km per 1 mln citizens | Country | km per 1 mln citizens |
|-------------|-----------------------|-------------|-----------------------|
| Luxembourg | 284 | Netherlands | 141 |
| Austria | 205 | Finland | 114 |
| Denmark | 188 | Italy | 112 |
| Spain | 186 | Portugal | 85 |
| Switzerland | 180 | UK | 58 |
| France | 170 | Greece | 45 |
| Sweden | 169 | Norway | 39 |
| Belgium | 168 | Ireland | 32 |
| Germany | 143 | | |

* According to 2002 data.

Source: OECD-International Road Traffic & Accident Database.

Meeting of Transport Ministers in Kaliningrad and Lithuania

By Natalya Vostrukhova

RZD-Partner

On the initiative of Russian Transport Minister **Igor Levitin**, a summit with participation of German Minister of Transport, Construction and Housing **Manfred Stolpe**, Lithuanian Minister of Transport and Communications **Zigmantas Balcytis** and Polish Infrastructure Minister **Krzysztof Opawski** was organized in Kaliningrad at the end of this February. Afterwards, the meeting of the Russian-Lithuanian intergovernmental commission's co-chairmen for trade, economic, scientific, technical, humanitarian and cultural co-operation took place in Vilnius, the capital of Lithuania.



TRAKAI (LITHUANIA), FEBRUARY 2005: Sitting from left to right: Krzysztof Opawski (Poland), Zigmantas Balcytis (Lithuania), Igor Levitin (Russia), Manfred Stolpe (Germany). Standing in the second row: Yury Sukhin (Russian international road carriers association — ASMAP).

In Kaliningrad the ministers reached a number of agreements on international cooperation projects in transport industry, including issues concerning Kaliningrad. In Vilnius the intergovernmental commission co-chairmen, Russian Transport Minister Igor Levitin and Lithuanian Foreign Minister **Antanas Valenis** discussed issues of mutual interest to both countries, among them the problem of freight rates for transportation to/from Kaliningrad through Lithuanian territory.

LITHUANIA MAKES CONCESSION TO RUSSIA

In early February Lithuanian railway company *Lietuvos Gelezinkeliai* announced its intention to increase transit freight rates for main types of cargo carried to/from Kaliningrad

through the territory of Lithuania starting from March 15, 2005. The freight rates for oil and oil products, ferrous metals and perishable goods were to be raised by 15%. Russian transport minister asked Lithuanian side to put off introduction of the increased rates at the border checkpoints. Having discussed the request, Lithuania made a concession to Russia and agreed not to put the new rates in effect on the planned date.

Both meetings' details are commented by Russian Minister, Igor Levitin.

TESTING GROUND FOR INTERNATIONAL PROJECTS

The summit was an important step towards strengthening mutual trust and development of transport cooperation in the Baltic Sea region. The choice of the

venue was not accidental as Kaliningrad is a major transport hub that has become the connecting link between Russia and European countries. In my opinion, it is very important that during the recent years Kaliningrad region has already become a testing ground for a set of international transport projects and regulations within transportation systems' interaction.

After May 1, 2004, Kaliningrad region became surrounded by the EU member states the situation that required from us and our partners the development of new schemes for mutual relations. It was Kaliningrad, which has become the center of the field where "common denominators" between Russia and the EU" were tested out. This is why we agreed from the beginning that the meeting should be quadrilateral. And

I would like to underline that each of the four ministers were in favour of such dialogue. Colleagues-ministers have upheld another my proposal connected to the future development perspectives in our relations. We agreed unanimously that our countries should hold transport ministers' summits annually.

SPECIFIC DOCUMENT SIGNED

Among positive outcomes of the meeting in Kaliningrad, besides successful discussion and elaboration of main principles for cooperation in the new circumstances, was also putting these ideas down and signing a specific document. This document has outlined fundamentals of cooperation towards developing railway connections between Russia and three other states, i.e. Germany, Lithuania and Poland. Development of railway infrastructure in the southern part of the Baltic Sea region, including international transport corridors No. 1 and No. 2, and branch B of the corridor No. 9, have been discussed by the High-Level Group organized on the initiative of the European Commission. The above mentioned signed document reflected our cooperation efforts in order to develop maritime shipping in south-east Baltics, including ferry traffic and creation of "sea motorways". The document has also touched upon strengthening of practical cooperation regarding safe navigation, organization of search-and-rescue efforts connected with aircraft and ship accidents as well as measures for prevention and elimination Baltic Sea pollution. We consider it to be very important that during our meeting several agreements have been reached concerning such issues as simplification and improved efficiency at cross-border checkpoints and border-crossing procedures for railway and motor transport as well as increased technical and technological compatibility of railway and road transportation systems in the region.

WE MANAGED TO REACH THE LEVEL OF TRUSTFUL RELATIONSHIP

Kaliningrad four countries transport ministers' summit laid down at the same time foundations for mutual understanding at bilateral levels. For example, during Russian-Lithuanian and Russian-Polish dialogues we succeeded in reaching the level of trustful partnership relations. We have understood each other better, and informal

meetings got under way too. I think that these bilateral talks started to show the first signs of trust which were very important for us personally and, as a consequence, for the adoption of important decisions.

In this respect I think it was very positive that Germany joined our meeting because Germany also suffered from the uncertainties in Russian-EU relations. The high-speed railway line between Berlin and St. Petersburg was expected to stretch through the Baltic States; but several still unsolved issues prevented us from launching this fast train project according to the planned schedule. Therefore we asked Poland and Lithuania to cooperate in Talgo project implementation. Preliminary response was positive and Lithuania, for example, said it was willing to be more closely involved in the project.

I believe it was very important that we were building cooperation in transport industry with other EU member states too. The EU has created a High-Level Group for solving transportation issues, and Russia was admitted to this influential European group. It means that we managed to convince the European Commission about the need to include in this group Russian Federation which acquires the biggest transport system in Eurasia. This international cooperation has already made possible to discuss creation of the two above-mentioned railway "side-lines" stretching off already adopted pan-European corridors. These lines are directly linked with Kaliningrad region, Lithuania and Latvia.

TRANSPORT POLICY IS ALSO A TARIFF POLICY

Transport policy means first of all optimal tariff policy which is based on each country's interests. If these interests lack logic success becomes quite problematic. Regretfully, we have often seen this happening in bilateral relations with the Baltic States as we have been cooperating with them regarding tariff policies.

On the one hand, Russia is accused of introducing high tariffs at border crossings. On the other hand, we also object our partners in Lithuania, Latvia and Estonia concerning complicated transit procedures they introduced after accession to the EU, such as insurance arrangements for our cargos, deficiencies regarding phito-sanitary and veterinary control. As a result, the Baltics loses traditional cargos which are being diverted

to Ukraine, Hungary and other countries. Obviously, all countries make complaints to each other from time to time. Very often such complaints are not even economically substantiated. Let us take, for example, Lithuania's intention to increase unilateral cargo transportation tariffs for goods to/from Kaliningrad. The decision was based on the political rather than the economic reasons, especially considering that Russia did not raise the tariffs at the border crossings starting from January 1, but transferred the entire cargo load to Russian ports. However, Kaliningrad summit helped to remove this unfair political decision. The day after the meeting in Kaliningrad, Lithuanian party agreed to freeze increased tariff for cargoes sent to/from Kaliningrad through Lithuanian territory. We regard this as a mutual and hope-inspiring success.

Of course, every country is trying to protect its market, and we are not an exception. But should any difficulties arise, we have to sit down at the negotiating table and together discuss the problems which hamper transportation process. It concerns more complicated issues as well, such as taxation in each country, forms of hidden state subsidies and different investments' levels. For example, what are loan interest rates for



IGOR LEVITIN: Kaliningrad summit of ministers from four countries has also laid foundation for mutual understanding on bilateral level.

investments in our ports and that of foreign ports? In order to understand it, these things shall be transparent, e.g. who receives hidden subsidies and whether the loans are issued on equal terms. Our companies still are not able to receive loans at those favorable rates that exist in Europe. Therefore we cannot speak about any equality at present. Nevertheless, we count on mutual understanding and trust. •

Based on interview materials published on the web-site www.rzd-partner.ru.

The Main Area of Research in Logistics. European Context

By Igor Kabashkin

President, Professor of Transport and Telecommunication Institute, Riga

The basis for transport logistics research is analyses of the quick changes on the market and correspondingly within the logistics field, where new applications and concepts for better logistics efficiency occur all the time. In such a dynamic surrounding there is a need for research that explains the factors behind and contributes to a long-term competence build-up in academy and industry.

The long-term view is implied by good and stringent analyses of well-defined competence areas, developing our knowledge and explaining what's behind trends and concepts, but also how industry can put our practice in its operative reality. In other words, we have to know the logic of business so that we can estimate potential effects from changes in logistics via our research. Based on this dynamic business environment, the following areas for future research may be defined.

THE INTERPLAY BETWEEN LOGISTICS AND MARKETING STRATEGIES

The more dynamic surroundings with rapid changes in demands and keen competition, the more important is the interplay in the development of strategy and operative efficiency. In this context marketing and product development have the role of creating growth, while profitability is created in the operational processes in the field of logistics. One common denominator is that logistics not only shall make a contribution to low costs and high service level, but also by means of well designed logistics platforms supporting new market positions.

The main research in this area:

1. Define best practice in terms of costs, delivery time and lead times, by industry/branch, including key figures for operational performance.
2. Describe the marketing context and from that demands on operational and strategic flexibility in the logistics strategies, structures and systems.
3. From 1-2 above, predict future changes in supply chain design and design of logistics platforms by industry. (In this context, further research on the impact from E-commerce and IT development on logistics development is motivated.)
4. How can operational efficiency and effectiveness as well as the response on market changes be improved from further development of IT and the use of E-commerce in logistics?
5. What are the effects of different logistics' structures and strategies on environmental issues and recycling logistics?

THIRD PARTY LOGISTICS

For the past ten years we have developed wide knowledge of third party logistics, concerning underlying driving forces, obstacles and how the service companies can be conducive to different positive effects. Furthermore, research has been done on the service companies' strategic positioning.

The definition from the EU-research programme states that: "Third-party logistics (TPL) are activities carried out by an external company on behalf of a shipper and consisting of at least the provision and management of multiple logistics services". Today these activities are offered in an integrated way, not on the stand-alone basis. The term has become somewhat of a fashionable word and is wrongly used also for simple services. For that reason, concepts like Integrated Third Party Logistics, Fourth Party Logistics, are now emerging. Even if these concepts imply the same meaning as Third Party Logistics, they indicate a development of higher value services, in order to increase the service-content and from that increase the profit margins in the business. The result is the new IT-based middlemen, between the shipper, and the traditional warehouse, and transport providers.

Based on this development in the field of Third Party Logistics following research areas may be suggested:

1. Define opportunities of IT/e-commerce applications for new intermediaries to enter a supply chain or to eliminate existing parties in a supply chain. Do new applications improve the transparency and matching of real-time demand and supply of logistics services and transport?
2. Explain and better understand the new forms of middlemen in the field of third party logistics, based on concepts of 4PL, Control Towers.
3. In theory SME's with small volumes should gain most from TPL, but most TPL-concepts are for large corporations, with large volumes. Therefore it is important to define how TPL can be more acceptable for SME's in the future.

INNOVATIONS IN TRANSPORTATION AND FREIGHT INTEGRATORS

In logistics development it is important to have instruments that enable us to prioritise innovations in terms of their contributions to policy objectives such as sustainable transport, transport efficiency and the reduction of road congestion and the environmental impact of transports etc.

1. Innovations and diffusion of innovations: how to improve innovative behaviour of companies related to sustainable transport and how to improve the diffusion of "preferred" innovations.
2. Bottlenecks and ingredients for success for intermodal transports, as well as opportunities for alternative intermodal transport concepts and prevention of transport from integrated product design, innovations in packaging etc.
3. Opportunities from real-time transparency in the market matching supply and demand of logistics and transport services across all modes of transport, in order to identify optimal logistics and transport solutions based on the (transparent) availability of all combinations of unimodal/multi-modal transport services and chains.
4. Based on above, how IT/e-commerce tools in this field can be available for small players on the market to find niches on the European logistics provider market.

White Paper on European transport policy for 2010, recognised that further integration of transport and logistics is needed to maintain the efficiency of the transport system and that of one-stop-shop freight integration. In consequence, the freight integrators ideally need to balance the relative strengths of each mode of transport. This gives the research question: which role will the freight integrators have in the supply chain, and how could the process be efficiently and effectively carried out in terms of price and other attributes that customers value (e.g. reliability, transit time, absence of losses through damage or theft and added value logistics services)?

IMPLEMENTATION OF LOGISTICS CHANGES

Many companies need to develop their organisational capacity for system changes, i.e. how to manage a dynamic world around by high internal change capability, which is not the same as affective driving of change processes (which is the dominating view among established change management theories). The traditional linear thinking built on decisions and directives, for example implementation thinking, need to be supplemented by process and circular change thinking with continuous changes based on systemic learning.

To get the most out of logistics changes requires organisational change and methods for support or further development of change processes. The research in following areas is suggested:

1. What does the implementation process look like before during and after the implementation?
2. How could the implementation process in logistics be improved, in terms of shorter and more accurate implementation times as well as improved involvement from strategic and operational personnel?
3. What is needed from measures and key figures in logistics to provide for better support of fast and accurate implementation of logistics changes?
4. How can the implementation process for TPL be improved?
5. How can simulation and visualisation tools be used to speed up the implementation processes?

Globalisation and other economic dynamics have put the logistics system under several recent structural changes. The main trends having place in the recent times have been the restructuring of logistics; the realignment of supply chains, the rescheduling of product flows, and changes in transport management and product design. The restructuring of logistics is a consequence of the spatial concentration both in production and inventory, while the suppliers and consumers are widespread all over the world. At the same time, the transport sector has seen a move towards the concentration of transport in distribution hubs and therefore the development of hub and spoke systems, linked through transshipment, has been achieved. Regarding the supply chain management, the most relevant changes are the increasing customisation of the product closer to the end consumer (postponement) and the concentration of international trade in major hubs, connected with other areas by spokes and transshipment systems.

All these change processes have been accompanied of equivalent reformulation of the Supply Chain, leading thus to a new system configuration that requires in-depth analysis of real world practice in order to answer the following questions, which are determinant for any policy formulation:

1. What is the current state of logistics and supply chain management trends across the EU?
2. How is it likely to evolve over the next 5-10 years on a 'business-as-usual' basis?
3. To what extent might supply chain and transport performance be improved over this period given our knowledge of best practice and optimisation potential?
4. What policy initiatives will be required to achieve this potential and foster the sound development of effective and efficient logistic chains?

Supply Chain Management requires different companies to take some form of co-ordinated action in a consistent and coherent manner. However, the practice of each individual company or unit from a company in optimising its own logistics decisions does not provide the optimum solution for the whole supply chain. To cope with this problem we need to improve the information flow through the whole decision-chain. Optimal solution can only be found by having complete information on every relevant aspect at each key node of the decision chain. This situation can only be reached when all the participants in the chain share information flows agree in joint decision making.

Regarding supply chain configuration, it was found that the process of vertical disintegration, which reverses the prevailing trend during the 1960s and 1970s, is adding extra links to the supply chain and might be increasing the transport intensity of the production process. These trends create also a new environment in freight transportation and distribution systems in Europe, largely characterised by:

- Deregulation of the freight transport services across all modes.
- A strong trend towards privatisation of transport

operations and public/private partnership for the financing of transport infrastructure.

- Stricter environmental regulations.
- Strong policy inclination towards the use of intermodal transport.
- Increase of the transportation services market size in terms of geographical spread, goods transported and services provided.
- Technological advancement and increase in the use of information systems and telematics applications.

Moreover, the analysis of the relationship between SCM trends and freight transport system utilisation suggests that there is a visible trend towards:

- More rational development of the fleets.
- More efficient utilisation of the transportation resources.
- More rational utilisation of the transport modes.
- This new environment characterised by the interaction between Supply Chain. Management and freight transport systems is favourable for:
 - Better and more efficient utilisation of resources (vehicle and infrastructure).
 - Policy pushes for the use of environmental friendly modes and use of intermodal transport.
 - More intense competition for the provision of freight transport services.

To sum up, the configuration of the supply/distribution networks will provide private sector decision makers with the necessary input information for developing suitable policy measures for steering of the transportation and logistics sector. Hence it is important that EU policies are underpinning the evolution of logistics and supply chain management trends. •

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From Incubator up to International Enterprise

By Anzhela Rzhishcheva

British company *Grant Instruments* and Latvian firm *BioSan* signed the investment contract providing more than one million lats capital for scientific research in microbiology, biochemistry, and genetic engineering. According to the contract, *Grant Instruments* purchased 50% of *BioSan* shares with the aim of further investments. This co-operation has become a "strong push" for works' renewal on creation of science and technology park in Latvian University (LU) in the region of Klejsty.

"Genius and genetics", was the title of the article published in *BC's* No 25, 2003 about Latvian microbiologist **Vasilij Bankovskij** and *BioSan*, his enterprise. More than a year has passed since, but he and other Latvian scientists have made outstanding efforts to implement their plans concerning creation of innovative H-T enterprise.

SCIENCE AND LIFE

BioSan company was founded by a group of scientists from Microbiology Institute at then Latvian Academy of Science in 1992 and it develops innovation products for researchers in natural sciences. At present, the company offers more than 50 innovative products for mixing and combining laboratory ingredients in thermosetting patterns, as well as for cells' cultivation and DNA — protection. The instruments developed at *BioSan* help to solve some applied problems of biological safety, e.g. to annihilate different viruses and pathogens in the air, including these producing flu, tuberculosis and other dangerous diseases.

"My personal experience shows that about 90% of experimental works' mistakes in microbiology, biochemistry, and genetic engineering arise from underestimation of standards existing in preparation of bio-samples for subsequent analysis (especially at microgram-level) that can lead to failures in reproducing results already achieved", noted Vasilij Bankovskij, *BioSan* Board of Directors' Chairman. "Therefore, our efforts are concentrated on the projects that lead to creation of compact and multi-functional personal instruments for mixing and thermo-blending".

Up to 10 new "instruments" are worked out in *BioSan* each year. Its experimental and production department sells more than 30 serial instrument types and marketing department sells the products either directly or through constant dealers to more than 20 countries throughout the world.

Such internal company's structure allows to arrange straight and effective contacts between the market and producers and to react promptly to the demands of the developing biotechnology market. This is what exactly happened with other unique *BioSan* products — a centrifuge-vortex (*combispin*) and a 3D-shaker. All other innovation designs follow e.g. new micro-processor shaker using cyclical principle combining variety of complex movements organized in certain programmed repeated cycles. This trend, called *intelligent mixing for cells culture and organs* can have a revolutionary impact upon technology of cellular culture growing and 3D organs out of stem-cells.



VASILIJ BANKOVSKIJ AND LUDO CHAPMAN: Co-operation agreement has been concluded this year.

ON THE WAY TO SUCCESS

The combination of creativity in new products and efficient marketing has helped *BioSan* to be successful both in scientific development and in business. When it started its activity, the firm occupied a small room in Latvian Technological Center. *BioSan* rented new rooms in 2002 in the Institute of Microbiology and Virusology in LU on long lease terms. Now the total area of the enterprise constitutes 1500 m². The number of staff has increased from 12 to 50 people. *BioSan* is a profitable business. In 1993-2004 company's turnover has been growing constantly: from about 126 thousand lats in 1999 to 890 thousand in 2004. More than 93% of *BioSan* products are exported.

In 2004 *BioSan* quality management system has been certified and now it is in full compliance with ISO 9001:2000 standard. Company's system of ecological management has been certified too and now has complied with ISO 14001:1996 standard.

GOOD CHANCES FOR A CREATIVE COMPANY

As Vasilij Bankovskij noted, *BioSan* has gone the whole way from an incubator up to the international enterprise. In the very beginning the firm managed to get financial support from Latvian Ministry of Science and Education for its program "Market Oriented Research" and it provided good opportunities for the creative company to survive as company's scientists successfully used acquired resources in order to create production technology and to arrange selling of its products. Afterwards private investments have been involved.

At the same time *BioSan* took part in Latvian national export state program (LEMAP). Due to that support activity the firm could get a chance to represent its products on international professional exhibitions and increase its exports.

And at last a cooperation agreement has been concluded this year with *Grant Instruments*, leading producer of lab instruments in Great Britain (firm's annual turnover is 5 mln pounds).

As **Ludo Chapman**, executive director of *Grant Instruments* noted, they were attracted by sweeping development and *BioSan* perspectives; that is why they decided to buy 50% shares of that Latvian company.

SCIENTIFIC AND TECHNOLOGICAL PARK

Latvian University's Institute of Microbiology exists since mid 1930s; during this period vaccines against different infections and highly effective biotechnologies have been created there. At present it houses both University's Institute of Microbiology and Virusology — a platform for biomedical studies and a scientific-research center, also and private companies specializing in genetic engineering and biotechnology research, e.g. *BioSan*, *Asla*, *Genera* and *Larifans*.

The idea to create a scientific and technological park in Latvian University appeared in 2002. By such a park leading Latvian scientists decided to unite their research potentials. In 2003 the project was supported by Latvian Agency of Investments and Development (LAID).

Creation of the present Latvian-British joint venture provided a starting point for Research Park for Natural Sciences' development. As *BioSan* is enlarging its activities, the total area of rented laboratories would increase to 2.000 m². Not only scientists but also students of Latvian higher educational institutions could perform their research there.

"It is a first Ministry of Science and Education and the Ministry of Economics' joint project. It is important not only for further development of science, increase in exports and competitiveness of Latvian products on the EU market and

throughout the world. Personally, I am happy about the fact that students of Latvian higher educational institutions can make their first professional steps in the science and technology park", said **Ina Druviete**, Latvia's Minister of Science and Education. "Young and talented students receive a stimulus. Now they know they can have a hand in and bring their creative ideas to life. It means a new stage in development of Latvian science."

"Latvian Investment and Development Agency has supported many creative ideas. We hope that the establishment of science and technology park will contribute to further development of innovation technologies in Latvia", added **Andris Ozols**, LIDA director. •



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Non-residents in Latvian Banks — Is it of Ill Omen?

By Olga Pavuk

If foreigners take away their deposits from Latvian banks, it will be painful, first of all, for mortgage lending. Mass non-residents' withdrawal from Latvian banks will result in problems both for financial institutions and for real estate market. That is an expert opinion from real estate market. Bankers, on the contrary, stick unanimously to a view that there is no pessimism in realtors' forecasts. The *BC* made its own assessment of the intricate situation.

For many years about half of Latvian banks' deposits belonged to non-residents mostly living to the East of Latvia. Namely, this fact explains a relatively large number of commercial banks (23) for such a small country. Let us recall that in the beginning of 1990s the number of banks reached 65. Some years ago, Russian authorities even included Latvia in the list of offshore zones (under No 46) among other taxes-haven's territories in the world. We have to say that it is all in the past now.

Latvia joined the EU and Latvian banking legislation is regarded as an example for many countries. As for non-residents' deposits, their share has increased further on in the deposit portfolio since May 1, 2004 and by January 1, 2005, it reached 54%. Up to now, this fact was very much welcomed in Latvia. Everybody knows that banks supply "vital blood for economy" and Latvian financial sector has a strong influence on country's economic growth.

THE US HAVE ALREADY WARNED

Announcement at the beginning of the year about closing American correspondent accounts in some of the Latvian banks (it is said not less than in seven banks) seemed to agitate business community and raised numerous discussions. At the end of January, a representative of the US Financial Department has confirmed an official US warning against Latvia with possible sanctions to follow in connection with country's money laundering activity in the banking sector. The point was, in fact, that exactly from non-residents' accounts in Latvian banks such suspicious transactions took place. It came out somehow that the US efforts to combat money laundering and that of Russia, blaming their citizens for big capital outflow — these two things have, so to say, occasionally coincided.

MORTGAGE LOANS WARMED UP REAL ESTATE MARKET

A rapid growth of mortgage credits has been already noted for the last two-three years in Latvia. According to Latvian Commercial Bank Association, mortgage credits issued by the banks totaled by the end of 2004 in about 888 mln. lats, which was by 82.5% more than at the end of 2003. According to some forecasts, mortgage market will continue to grow, and an increase of 55-65% is expected this year. The growth of population's well-being coupled with open private profits' accounts and, what is more important, constant decrease of credit rates has facilitated the process. At the same time, apartment and houses' prices are growing with each passing year.

Rumors that the realty market is being overheated were heard already last year. At that time these rumors were cut short by arguments that Latvian people were lagging behind average European figures in mortgage credits. Today this question arose again. **Robert Shkapars**, the head of the Latvian National Economy Institute has warned that if mass outflow of non-residents' deposits from Latvian banks takes place, the banks will be left short of money and they would consequently rise credit rates. In their turn representatives of such banks as *Hansabanka*, *Parex banka*, and *NORD/LB* have assured that they did not see any overheating of the realty market and were not going to take any additional precautions in this connection.

OUR UNDERSTANDING OF THE PROBLEM

It's true that presently banks issue more and more credits, constantly simplifying obtaining procedures. However, sources of credit resources in various banks differ substantially. The banks with western capital, and they are, in fact, the main creditors, have acquired operational capital from their main

overseas financial structures. It is well-worth remembering, in regard to this dramatic fall in credit rates almost in all Latvian banks after Scandinavian *Nordea Bank* has appeared on the market with its attractive offers. Just after that *NORD/LB* (with German capital) offered even better rate terms in 2003. Some banks use syndicated credits for their customers. There is no point in worrying about these banks either.

However, some other credit establishments have recently intensified mortgage activities. And as the main source of credits they use existing deposits. Non-residents constitute most of the customers in such kind of banks. Some successfully growing banks mentioned in our magazine about five years ago that the share of non-residents was at the level of 90-95% of all their customers. There is good ground to believe that today the share of non-residents in those banks is bigger than the average level in the sector.

It is exactly the point where the problems can arise. After all, deposits are generally issued for a rather short period of time: 3, 6, 12 months, whereas mortgage credits are issued for 10, 20 or even 30 years.

BC's experts warn that intensive selling out of short-term resources and acquisition of the long-term ones is extremely dangerous, keeping in mind the conditions of mass untimely credits' repayment when both bank's assets and liabilities are reduced simultaneously. We would suggest to pay attention to bank's deposit portfolio as most likely it is going to shrink.

Under risky bank authority's behavior, bank's assets and liabilities would reduce gradually, and the process could lead either to closing of a bank, or to its acquisition by a more successful financial credit institution.

There could be another scenario, i.e. some new foreign "players" can enter Latvian financial market. The option is quite real considering recent western banks' increased activity in acquiring local banks. In this situation the golden rule is "buy while it is cheap". For some banks, it may be the only opportunity to put a brave face on the matter. •

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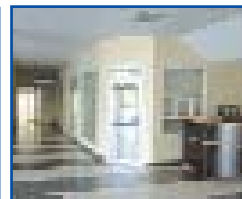
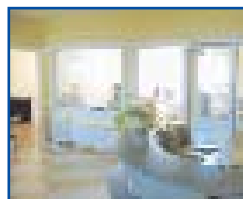
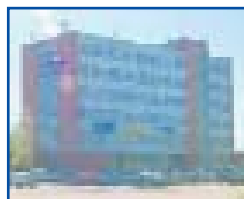
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A Private House Near

By Tatjana Andrejeva, *Riga*

By Tatjana Komorskaja, *Vilnius*

By Valentin Zvegintsev, *Tallinn*

To buy real estate abroad, when continuous growth of dwelling prices in Jurmala, Palanga or Pjarnutakes place, that is something a well-off person can really afford. Warm Spain is considered to be the most popular region for that. However the market of foreign dwellings is poorly organized in the Baltics, so the Internet is here to help ...

LATVIANS ARE TEMPTED BY HEALTH-RESORTS

There is no any open or even closed for that matter data concerning where exactly abroad Latvians prefer to buy real estate. Practically there are no companies in Latvia specializing in searching for such properties abroad.

“Our company’s experience showed that Latvians are mostly interested in real estate in Switzerland, Spain, Czech Republic and England”, says **Elena Koroljova**, *BaltHaus* Company Director.

Warm Spain is considered to be the most popular region due to the following reasons:

first, there are many good offers, second, the houses are relatively cheap, and at last, favourable climate. “Our company has started to co-operate with the Spanish firm, *Iberville*. Since Spain became the EU member, it became much easier to acquire property as well as to register officially a housing estate, confirmed E. Koroljova.



ELENA KOROLJOVA: The main thing is not to stick to any fashion trend but to follow your own intentions and particular circumstances when buying a real estate abroad.

There are four kinds of offers in Spain: bungalows, apartments, studio apartments and cottages. It is rather difficult to say to which of these Latvians give preference, as every thing depends on the purpose of acquiring property.

As to England, real estates there are considered to be one of the most expensive ones not only in Europe, but also in the world. London is most expensive, e.g. if an average price in England comes to 187 000 pounds, the one in London could be at 280 000 pounds. However, England is considered to be one of the main investment direction for Latvians, E.Koroljova explains.

Some East European countries, in turn, are attractive by their real estate low prices. For example, return on capital investment in a year basis can come up to 40%, i.e. quite good profit in comparison to that of Western Europe. Proper advertising eradicate any problems with acquiring real estate property. If foreigners do not buy, the Czechs do due to availability of mortgages and lending. Bulgaria is also attractive in the sense of investment. Prices in Bulgaria have been also growing as it was in Latvia two years ago. Co-operation in acquisition of housing estates in Bulgaria is also established.

In E. Koroljova’s opinion, it is quite easy to comment, the main reasons for buying property abroad by our citizens. “I doubt whether their motives differ much from that of, for example, people in Sweden or Czech Republic”, she said. First, it is the change of the place of living due to change of working or studying arrangements. Next, it is profitable and reliable long-term money investment (exclusive real estate for more than 500 000 pounds is usually bought in the West part of London). And at last, investment into real estate abroad is justified as an alternative source of income. Mainly, we talk about resorts in Spain or

expensive real estate in London. Ordinary people cannot afford buying an apartment in London, so renting is well-developed.

“There are a lot of investment options. The main thing is not to stick to any fashion trend but to follow your own intentions and particular circumstances when buying a real estate abroad. Everything depends on what exactly you are planning to get and how much you are ready to invest”, says E. Koroljova. “If you are thinking of reliability of investment and are planning to put up a pretty penny, choose states with stable economics, e.g. France, England, or Austria. Happy choice of investment of capital would be real estate in the centre of the US “golden” state California — Silicone Valley. It is one of the most expensive regions in the USA and in the world, too.



the Warm Sea



Real estate prices here are only comparable with that of the Beverly Hills, Hollywood, Los Angeles, or Manhattan, the most fashionable region in New York. Silicone Valley is the center of the biggest computer companies and research centers. As a result, there is a constant flow of highly paid specialists and growing demand for apartments.

If you are interested in getting income, choose any resort region — Spain, Greece, Malta, Dominican Republic will do. If prices on real estate attract you and deals look pretty good, you can think of such regions as Croatia, Bulgaria and Slovakia," she added.

In any case, one should be oriented towards well-known companies that have good showing on the market. Only realtor,

having many years of experience or the one who has been working for a long time with partners abroad, can make a good offer. In some cases such foreign partners provide a business trip for finding future property and residence for the period of choosing and registering a bargain.

Another kind of help is a timely presentation of information to clients about coming changes in the alien country's legislation for non-residents, owning expensive real estate there.

Oswald Shushkevich, *Vinters* company director considers that it is quite difficult for an "average Latvian" to believe in the possibility of buying real estate abroad. "Many think it is too expensive, others don't know anything about such offers at all," he says. "However, some have already

purchased cottages. Those people live there for a few months a year and rent it out for the rest of year. Moreover, it all goes rather well. For example, we are offering real estate in Spain, by the sea. The cottages situated there are in high demand due to their reasonable prices"

Lilita Letlande, a representative of *Land Fond* Company, notices Latvian people's high interest in getting real estates in Dubai. "The city is swiftly developing. We offer apartments in many-stored blocks of flats (50 and more) with the average price of 2 000-2 500 \$ per square meter." It is noteworthy that the service in such projects is high and it is a very important point when buying real estates in the United Arab Emirates.

ESTONIANS ARE NOT READY FOR PURCHASING ABROAD

Estonian Department of Statistics reported a constant growing average salary at the beginning of the year. It comes out that Estonians already get more than 7 000 crowns a month on average.

Statistics is a good thing but, on the other hand, in practice, it is incorrect — there are few such salaries in Estonia. In fact, people get much less, however, if to sum up the officials' and office cleaners' salaries, the result would be smart — 7 000 crowns. Namely slow growth of salaries is the main reason for the undeveloped real estate market abroad, **Janus Laugus**, the representative of Estonian Brokers' Union said.

There are usually many offers on Russian Internet to buy a house somewhere on the coast of Spain or in some other warm country. However, there are no such offers in the Estonian one. We decided to find out if an Estonian can buy real estate abroad and how many firms offer such service in Estonia.

The results were quite poor, i.e. only one or two firms are ready to offer a house in warm countries. "Up to now people have been thinking about other things, not about houses abroad. Actually, it is a rather expensive venture for them," says J. Laugus. However, there are people who can afford it. "Mostly, well-off people would like to buy real estate in Costa Blanca or in Spain," says J. Laugus. It can be explained by the facts that real estate there is not the most expensive in Europe, next, there is rather good infrastructure, then there are many free houses and, at last, it is very warm down there. An average price of a moderate house (two bedrooms and a pool) in Costa Blanca is about 200 000 euro.

There is some demand for real estate in Latvia and Lithuania, however houses are most likely bought for business not for living there," says Laugus. Practically speaking, there is no demand for real estate in Russia, France, Italy, and the USA. "Speaking about Russia, most likely there is a reverse demand, i.e. the Russians are interested in buying real estate in our country," claims Laugus.

According to experts' opinion the market of foreign realty in Estonia has not yet been formed. However, we think that the demand will grow gradually and in some years' time many citizens will apply for a house in a warm country to spend old age there," believes Laugus.

IT'S A LONG WAY FROM A LITHUANIAN COUNTRY HOUSE TO A DWELLING IN SPAIN

Promising supply of real estate in Lithuania is supported by a number of factors. As foreign realty firms confirm that the apartment market in Spain is rapidly developing. However, the English and the Germans prevail among foreign purchasers of the apartments. Ever increasing interest in property acquisition in Spain is noted by the Norwegians and the Swedes. Last year in Spain was marked by the increase in prices on real estate which exceeded any expectations. Now the price of one square meter here is about 2.000 euro and of an apartment starting from 150 000 euro. Local experts believe that the demand for new apartments for vacation in Spain will exceed 60 000 units this year.

And how quick are the citizens of the Baltic States in moving to Spain? It seems that the process has started. Just recently, **Stasis Brunza**, the former famous Lithuanian road racer and now a car dealer, and his wife **Audrone Brunzene** spoke on television about their own dwelling in Spain motivation: it is possible to secure holidays' convenience without noise, crowds and foreign smells. Psychology here is to run away from fuss to eternal, to the washed coast, to the sounds of waves. Philosophy has the main impact here as well. It is especially felt under influence of the local culture and the way of living being far from fuss, evils, and pricks of everyday life. Even famous Trakai Castle, in Lithuanians' eyes, living in their own flats in Spain, does not seem so considerable, especially if compared with centuries-old Spanish culture objects. And a really great life-lesson one can learn even only temporarily to become a citizen in Spain — the

ability to rejoice at living with four generations sitting at the dinner table.

However, those single cases of Lithuanians buying flats in Spain don't make a trend. But the realty companies would like to provide the service and some of them are really ready to present customers with possible choices. The only thing needed is a computer. **Zigfrid Rachkovskis**, an assistant director of a solid *Centracubas* company, working on a real estate market for a long time, said: "Our company's work is dramatically changing literally in front of our eyes. Internet and computer allows anyone to choose everything he/she needs. Only distrustful people or those well-off ones don't want to deal with the problem themselves and go to consultants. They turn to realty companies.

I got in touch with *Aristo Developes*, a representative of a Cyprus realty company and a participant of "Litexpo Centrokubas" realty exhibition. As a result we signed a contract on information and accounting system. As to selection of available real estate objects it is enough to enter each other's home pages. Exchange of the data base is also foreseen by the contract. Unfortunately, up to now we have not great bargains yet there are inquiries and questions about property in Cyprus, Spain, and Italy by the phone.

We have started working with Moscow. There are 60 countries in the data base of our Russian partner and if, for example, they have only one real estate object in Mongolia, our clients can buy it. Computer and internet work has always been carried out but recently it has become predominant. By the way, there are a lot of Russian companies' home pages in the Internet?"

It could be said that virtual supply, at least on realty market, exceeds demand. It is especially true for Lithuania. Russians heavily invest into realty abroad, this information is based on a number of realty companies and coverage of foreign markets.

There are scanty of web pages in Lithuania offering realty abroad though. One of them is "Arudodas". When simply pressing "Latvia" in the section "realty" and immediately appears the home page "realty.lv"; if in Israel — "israelinfo.ru". And here you are, Israeli market of realty in pictures, have a good time!

Saulus Vagonis, an expert on realty market in the *OberHaus* company, tells about somewhat different methods used in their firm. The company works on the markets in Latvia, Lithuania, Poland, and Estonia.

Each of the subdivision works on internal market of its own country. However

if, for example, a Lithuanian entrepreneur looks for a place of 1-2 hundred square meters in Riga for a shop or an office, the client is handed over to Latvian colleagues that are able to work with the client most effectively. All the Baltic *OberHaus's* subdivisions can use each other's database dealing with purchasing real estate in these four countries.

I managed to meet **Dainjus Rudzjavichus**, who started on the market a week ago. He is the follower of a more active approach in buying real estate, for example, in Spain by Lithuanians. He has as rather big experience in working



DAINJUS RUDZJAVICHUS: There is a certain real estate market but it is difficult for me to judge its real magnitude.

with Spain and he is the representative of many Spanish firms. An approach to the affair is complex. If a businessperson has a serious intention to buy real estate in Spain, there is always a wide range of opportunities to offer for business or for pleasure.

In the nearest future D.Rudzjavichus is going to Spain with a group of businessmen to do some business and to have a look at recently built real estate for summer holidays, so to say, to see it with his own eyes.

"There certainly is a market but it is difficult for me to judge its real magnitude. There are offers for rent of used apartments but not of something new. Will Lithuanians buy real estate there? The question is open but, to my mind, they should," says D.Rudzjavichus.

It is true that the process needs time to develop. Nobody knows how much time it can take. It is a long way from a collective garden in a Lithuanian suburb till an apartment somewhere in Santa Cruz de Tenerife or Murcia. •

It's Too Expensive to Live on the Narrow Streets in Riga's Downtown

Alla Petrova

According to 2004 Arco Real Estate Company data in a review on housing market, the highest price for a dwelling-space square meter among the Baltic States' capitals was marked in Old Riga region. Its upper limit reached 3 000 euro which is twice the price in the year 2000

Prices, anyway, are extremely high in the old historical centers in all the capitals.

In the last years' third quarter the prices of repaired apartments "in the old downtown streets" in Riga made up 1 800-3 000 euros/sq.m. The prices in Old Tallinn were about 1 400-2 600 euros/sq.m. and in Vilnius — 1 000-2 500 euros/sq.m. The price-growing tendency is quite clear: just compare the prices in 2000. In Old Riga — 700-1 400 euros/sq.m., in Old Tallinn — 770-1 300 euros/sq.m., in Vilnius — 450-800 euros/sq.m.

Looking at the prices in the cities' center districts, the most expensive dwelling's price was in Vilnius — 1 000-2 500 euros/sq.m. Riga's center is still the most expensive one among the Baltic capitals; it is getting somehow cheaper, i.e. a repaired or a new apartment could be bought here at 1 400-2 300 euros/sq.m. In Tallinn the price is much lower — 900-1 600 euros/sq.m.

The market of standard blocs' flats in the sleeping districts is less different: in the third quarter of last year the price of a square meter in Riga was 500-800 euros whereas in Tallinn — 550-700 euros, and in Vilnius — 330-600 euros. The market of newly-constructed buildings was the most expensive in Riga (950-1 400 euros/sq.m.) and about 900-1 600 euros/sq.m. in Tallinn. It was seemingly cheaper in Vilnius — 700-1 000 euros per sq.m.

Among resort towns in the Baltics the palm of supremacy in expensive apartments

belongs to Latvian Jurmala. Arco Real Estate experts say that a two-room flat can be bought here for 20 000-60 000 euro. A similar flat in Lithuanian Klaipeda costs 25 000-50 000 euro, in Estonian Pjarnu — 22 500-45 000 euro. However, prices on real estate in Latvian province are lower than that of its neighbors. A two-room flat in the centre of Tartu can cost 22 500-40 000 euro, in Elgava — 15 000-25 000 euro and in Kaunas — 25 000-33 000 euro.

That proves that provincial life in the neighboring countries is more active and real estate is more expensive than in Latvia where the rest of Latvian cities are, to say, in Riga's shadow.

RIGA'S FORECASTS

Arco Real Estate experts forecast that the price of apartments in Riga will rise up to 5-15%. Maris Lukkaleis, the representative of the company, has said that in the year 2005 10% of the total amount of flats in the city would come from dwellings in newly-constructed buildings in the suburbs. Moreover, leveling in development of new projects is expected; they will appear in the regions of Riga where construction was not very active, e.g. in Vetzmilgravis, Bolderaja and Kengarags.

Last year the price of a serial flat in Riga increased by 25-50%. The level of prices in different regions has evened out. However, the final sale price can decrease

dramatically in comparison with the initially claimed one. It means that sellers often ask an excessively high price hoping that somebody will buy the flat after all, Mr. Laukkaleis suggested.

Arco Real Estate forecasts that problems can appear in standard serial flats with bad planning and poor environment, as well as in flats with no interior trim. The demand for such flats might fall. Private houses will rise in price up by 10-15%. It is possible that the demand for such apartments will diminish.

It's quite real that prices for private houses will increase by 10-15% and experts predict the start of some rather cheap country houses' construction.

REAL-ESTATE BOOM IN ESTONIA IS OVER

At the end of 2004 Estonian Bank managers declared the end of real-estate boom in Estonia. "We think that there is no boom at all", commented Wahun Kraft, the President of Estonian Central Bank, on recession trends in real estate market. The Central Bank of Estonia forecasts decline in private consumption and decrease in loan growth rates in 2005-2006. Presently, 13% of borrowers spend 30% of their net-income on loans' repayment. "The balance of most housekeepers is in the red zone", W. Kraft commented on the ratio of property and private persons' liabilities.

If unemployment increases, real estate prices will fall, but interest rates will rise and the situation will become problematic, Estonian Bank has envisaged. •

For more details on real estate prices, see p.47

COMPARISON OF REAL-ESTATE MARKET DEVELOPMENT IN THE BALTIC STATES, 2004

| Tallinn | Riga | Vilnius |
|--|--|---|
| Interior trim included in apartment price | Most of the new apartments sold without interior trim as "white" and "black" box | Most of the new apartments are sold without the full interior trim |
| Development activities moving to suburbs | The demand for new apartments is higher than the supply | The demand for new apartments is higher than the supply |
| Average price level as to demand 900-1200 EUR/sq.m. | The average price level of the demand 600-800 EUR/sq.m. (without interior trim) | The average price level of the demand is 700-1000 EUR/sq.m. (without interior trim) |
| Most of the apartments sold on the early stage of construction | The price level is mainly based on the construction prices rather than on location | Most of the departments are sold in the early stage of construction |
| The most demanded are 2-3 room apartments | The most demanded are 1-2 room apartments | The most demanded are 1-2 room apartments |
| Older and new apartment price level is almost equal | Some new apartments are built according to old projects | Older and new apartment prices are almost the same |

Criminal Offence: a Prison to Stay for

more, he would have got a probation term. That is the paradox of Latvian judicial system. The same year **Uldis Mugin**, a former State Revenue Department servant was sentenced to five years in prison for 55 000 lats' bribe... on probation.

Daugavpils Court of Justice issued a verdict to four customs officers for criminal case concerning petroleum products smuggling, i.e. 102 rail oil-tanks had been removed through customs with pie's total sum of 2 million lats. Public prosecutor demanded from 3 to 4.5 years imprisonment but... some extenuating circumstances have been found. As a result, one of the customs officers was sentenced to two years, the others got away with a fine of 25 minimum month-wages. **Nadezhda Ercite**, the director of Liepaja school, was sentenced to four probation years for repeated money misappropriation and accounts' documents forgery.

At the beginning of this year, Riga District Court sentenced **Imant Burvis**, former MP to a fine of 2 800 lats and 6 years of probation. While being an MP (Deputy in the Saema) Mr. Burvis received from a businessman 15 000 dollars for the "needs" of Latvian Social Democratic Party, a member of which he had been at that time. As the public prosecution established, Burvis and his two colleagues — **Aigars Parms** and **Maris Dinduns** — spent the money on their personal needs. All defendants denied any wrongdoings. Burvis appealed to the Supreme Court.

Ventspils Court' verdict seems to be completely unreasonable in comparison to such serious level of corruption,

By Anzhela Rzhishcheva, *Riga*
By Tatjana Komorskaja, *Vilnius*
By Valentin Zvegintsev, *Tallinn*

LATVIA: SIX YEARS OF IMPRISONMENT FOR A CAN OF MILK

Just a few years ago several well-known businessmen served imprisonment terms in Latvian prisons. There are quite a few of them, in fact, today. It does not mean that there are less swindlers and less corruption in the country. But the matter of fact is that about 92% of civil servants arrested for taking bribes can get away in court on probation. Such "conditional punishment" follows more than 53% of cases where property and real estate gerrymandering is involved. It is clear that nobody wants to go to prison. What is more, there are no specific places to detain the representatives of Latvian elite circles.

Dzintars Strautmanis, a former police controller at Riga Airport was sentenced to four years imprisonment when in 2004 he intended to extort 200 lats for issuing a permit for Devy Jones's juvenile son to leave Riga. If he had demanded



IMANT BURVIS: Riga District Court sentenced the former Latvian MP (Saema ex-deputy) to a fine of 2 800 lats and to six years' imprisonment... on probation.

Some, Probation for Others

when in winter this year it sentenced two men to six and eight years of imprisonment for... three stolen aluminum cans, one of which was with milk.

Nevertheless, not all representatives of Latvian elite are able to escape penalty. It is almost 10 years since the beginning of a criminal lawsuit against *Banka Baltija* (BB). **Alexander Lavent**, a former Chairman of the BB' Supervision Council, **Talis Freimanis**, BB's ex-President and **Alvis Lidums**, their colleague-financier, have already served their sentences in prison, however, they consider themselves to be not guilty in recurring legal proceeding. New court sessions are planned to begin this year unless new evidences can appear.

According to **Karlis Serzhants**, press secretary of State Prison Department, civil servants ("white collars") serve their sentences under the same condition as average criminals. **Dainis Zhagars**, ex-Director of Department of Realty and Municipal Economy of Vidzemes district, will face the same fate: a court of justice sentenced him to four years imprisonment for the repeated bribe extortion of 3 000 lats. **Lauris Shteinbergs**, an accountant, got a five year sentence for an attempt to wring VAT from a fake bargain in forest exploitation and for document forgery. By the way, most of today's prisoners in Latvian prisons accused of illegal financial deals are businessmen and second-rate state officials.

Totally there are 15 prisons in Latvia, one of them in Ilguciems is for female criminals. All prisons are overcrowded; there is 2.5 square meters per one convict instead of 4 minimal ones in European prisons. Nourishment of a convict accounts to 4.5-5 lats a day: porridge, bread and tea for breakfast; for lunch they can get a soup for the first course, garnish and a small piece of fish or meat for the main course, stewed fruit for desert; porridge, bread and tea for the evening meal. One can also buy something in a prison shop for a sum of 50 lats a month. However, the assortment here is scanty. The only thing to do is to come to "an agreement" with the guard and, they say, it is not at all a difficult thing to do.

At present convicted ex-officials of law-enforcement bodies are an exception from rules, i.e. they serve their imprisonment terms in Matiss Prison where infamous **Alfred Rubiks** was detained. **Aivars Avgustinovich**, Assistant Chief of Latgal regional customs Department who was detained by

NUMBER OF RECORDED CRIMES, THOU

| | Latvia | Lithuania | Estonia |
|--------------------------|--------|-----------|---------|
| Total, January 2005 | 4.1 | 8.2 | 4.4 |
| serious crimes | 1.6 | n.a. | 4.1 |
| very serious crimes | 0.3 | n.a. | 0.3 |
| Total, % of January 2004 | 122.2 | n.a. | 103.2 |
| serious crimes | 121.7 | n.a. | 103.5 |
| very serious crimes | 113.7 | n.a. | 98.4 |

Source: The Latvian Central Statistics Office.

the police for a bribe of 3 000 lats is going to serve his terms there. The investigation is being carried out presently. **Diana Van Deilem**, an officer of the court, was guilty for unlawful property auction sale; she is going to serve in prison two and a half years.

LITHUANIA: REFORMATORY NO. 1

There are about 8 000 prisoners in various Lithuanian prisons, correctional colonies, and detention houses. Although the number of convicts has reduced during last years by two thousands, imprisonment places in Vilnius, Kaunas, Pravenishkes, Alitus, Marijampol, Panevezhis are overcrowded, according to European standards. Only a small number of convicts can get a job, most don't do anything at all for years.

Vilnius No 1 reformatory is a somewhat special institution. It is designed for 120 prisoners, while only 80 places are occupied and there is no tendency for numbers to increase. The former famous politicians, state civil servants and law-enforcement officials, and sometimes crony businessmen



serve sentences here. There is not a special prison for convicted businessmen, they serve their sentences in any prison; besides, as the rumors go, “serious” businessmen can never be found there.

Among present Reformatory No. 1 prisoners the hottest social response in press was caused by **Antanas Bartusjavichus’** case, lawyer himself, was detained for taking bribe (or, as it is said, he took a bribe without doing anything in return). Another “famous” former prison’s convict — Mr.



ARVIDAS STASHAITIS: Well-known prisoner of the current decade.

Audrus Butkjavichus, former Environment Protection Minister, served his sentence for taking money from a businessman. Mr. Butkjavichus was seen among businessmen in President of Georgia’s circles lately.

A well-known prisoner of the current decade is **Arvidas Stashaitis**, a businessman, who was detained for 5 years during his case investigation, although in other prison. However, “ideological ground” in the case was somewhat adventurously-idealistic, i.e. refusal to pay illegally high to his opinion taxes.

Mr. **Gennady Konopljov** was another “idealist” indirectly connected to Vilnius reformatory, situated on Snego Street. Being a bank officer, a financier, he was a former head of *Tauro Bankas*. He did not serve his sentence in a prison, because he had committed suicide before a verdict appeared and the bank started facing huge problems. However, **Darjus Konoplevas**, his son is presently serving his sentence (for about half a year already) connected to the same bank case,

together with another “connection”; Mr. **Gintaras Terljackis**. Both cases are still under investigation and are not completed, although court proceedings started in 1997. Presently, for about half a year already, *Tauro Bankas* is under liquidation and Konopljovs’ property has been used to pay the damages.

According to Mr. **Zdislovas Subachus**, the reformatory No. 1 director, while the case of Konoplevas and Terljackis is still under investigation, they are being summoned to the court almost every day. However, it does not prevent them from attending a prison library and reading plenty of books brought from homes. There are no separate cells for them, nor has anybody else there. They live like in a hostel, director said. There are about 6 to 20 convicts living in a prison room (“cell”). However, beds are single-decked now.

Everybody has to work. The two bankers, who are not yet so to say “permanent-residents”, peel potatoes in the canteen and do other jobs. Other convicts involved in producing furniture. Z.Subachjus asserts that the inhabitants of the colony are “emphatically offered” to take a work. At first, they work as apprentices and in a week’s time begin working on their own. At the same time everyone is allowed to get a TV from home; some get computers from home which is not forbidden, either. Director is proud to note that his institution won a tender program and as a result they had received 8 computers.

As to prison’s separate sells, they can only be found in *Lukiskes*, famous Vilnius prison and they are for criminals, who committed serious crimes. Books are not in large demand there. However, the prison is famous for running different experiments. One of them, for example, is three convicts were granted permission for distance studies at Vilnius Pedagogical Institute; so they the teachers, social work specialists, and lecturers visit them several times a week. **Gintautas Stalnenis**, State Prison Department press-secretary, told *BC* reporters that three more convicts will start studying social worker’s profession. General public, however, is not very satisfied with such humanism and objections are often heard in press against wasting money on those who hardly have the right for a free study. However, the Ministry of Education believes that there should be more programs and projects in the universities, conviction rehabilitation included.

ESTONIA: A CRIMINAL BELONGS IN PRISON!

Exactly these words were pronounced by the late actor Vladimir Visotskiy in a famous movie known from Soviet times “The meeting place can’t be changed”. However, Estonian legal system does not agree with it and is trying to act in its own way.

For example, in one of the latest cases concerning Estonian national fund, *Eesti Kultuurkapital* where **Avo Vijol** worked as an executive director, managing fund’s assets as his own. During the two years he spent on his own personal needs and on casino gambling more than 5 million crowns (more than 335 000 euros). In order to hide embezzlements he often forged financial documents. The documents were detected by chance, when Mr. Vijol fell ill. He was arrested, a terrible scandal occurred and resulted in Minister of Culture’s dismissal. According to the law he could face up to eight years of imprisonment, however, got only three. The embezzler was quite busy in prison; he started delivering lectures on entrepreneurship to his cellmates. According to



AVO VIJOL: In prison a squander lectured business management to his cellmates.

Andrus Khire, Tartu Prison's director, Vijol delivered lectures fully in line with the adults' professional education program, receiving at the same time salary for that from Tartu Center of Professional Education. Needless to say that these lectures were very popular among convicts. Interesting enough that in one and a half years in prison, Mr. Avo Vijol was released because of his good behavior.

As a matter of fact, officials and businessmen, whose activity is connected with money, are tempted occasionally by to "borrow" others' assets. "Officials are generally caught in such kind of crimes"; said **Christi Kjunnapas**, press-secretary in Estonian Ministry of Justice to the *BC* reporters. Statistics proves these facts. For example, in the year 2002 proceedings were instigated in 49 criminal cases connected with financial embezzlement. Economic police investigators note that often embezzlement takes place when there is a combination of two positions a cashier and an accountant in "one face". However, Estonian officials not only embezzle, but are involved in smuggling goods too. At the end of last year, for example, Tallin City Court issued a guilty verdict to **Kaale Kuuzik**, the head of administrative department in Estonian Foreign Office, for smuggling and documentary forgery. According to indictment, Mr. Kuuzik helped to deliver three cars to Estonia presenting faulty documents for customs' declarations with the aim of escaping excise-duty payment and turnover tax. Besides, when declaring and registering the cars, Kuuzik used false documents.

In general, Estonian Foreign Office has no luck since lately. Quite recently terrible nuisance happened to **Christine Ojuland**, Foreign Affairs Minister; she was accused of disappearance of documents containing State secrets. However, as the Minister herself was not guilty (the documents disappeared long before she took an office), no criminal proceedings were brought against her but she was forced to resign. One can say she got away easy; but the country's Minister of Defense was not so lucky.

If state civil servants are mostly involved in embezzlement, country's ministers are involved in "losing papers" of State importance. Thus, on the way home Mr. **Margus**

Hanson, Minister of Defense, took with him some strategically important documents. According to the law, he could not take them away from the ministry. Everything would have been all right, unless the documents had been stolen that night. He was trying to persuade the court that his apartment was robbed; however, some strongly believed that he lost his briefcase in an "entertainment institution".

The Minister was dismissed, of course, and Estonian security police instituted criminal proceedings against him. Nobody knows what was the end of the case, however most Estonians believe that the ex-Minister would not be heavily penalized for violation of the law concerning stolen state secrets. In administration of justice in Estonia it is not an accepted practice to punish its own people too severely. •



Switzerland and the Baltics: Businesslike Relationships

By Eugene Eteris

For common Baltic directions in economic strategies positive examples from other European states are of decisive importance. Switzerland is one of the countries the Baltics can emulate good experience. Both sides have certain common denominators: small population, territories and resources, the countries are multinational with export-oriented economies. Businessmen and politicians in the Baltic States have always regarded Switzerland — *Confederation Suisse* — as a “dream country”.

In various respects, e.g. in general well-being, as one of the richest countries in the world, in highly respected and reliable financial services, in delicious foodstuff (famous Swiss chocolate), beautiful resorts and in pharmaceuticals, Swiss dream has come true. It's not only that Swiss' Davos is a recognized world center for strategic economic decisions, the country itself has shown a proven record of a micro-economic “success story”. *BC* asked **Anne Bauty**, recently appointed Swiss Ambassador to Latvia and Lithuania, to share her view on Swiss-Baltic business relations.

THE KEY TO SUCCESS

In Switzerland pronounced differences in nature and landscape harbor with a small country's area (See: Country's profile). The Alps occupy about 60 % of the country's territory; and there are scarce natural resources except water, hence abundance of electricity, and granite. As in the Baltic States, these countries are deemed to regional cooperation and production based on added value and export. Switzerland's key to success is based on a long-standing priority to rely upon “service sectors” development, i.e. banking, tourism, research, engineering and processing. In Swiss and Baltics alike, home market is limited, so in most national sectors of economy almost all manufactured goods and products have to be sold abroad.

COUNTRY'S PROFILE:

- **Territory** — 41,3 thou sq. km (borders with 5 countries, i.e. France, Germany, Austria, Liechtenstein and Italy).
- **Population** — 7,2 mln. It's one of the most densely populated countries in Europe — 176 inhabitants per sq. km. About 600,000 Swiss permanently live abroad, e.g. about 359 thou in Europe, 155 thou in America. More than 1,5 mln foreigners live in Switzerland (20%).
- **Three official languages:** German, French and Italian (plus Rhaeto-Romanic language).
- **Switzerland federation consists of 26 autonomous cantons, which enjoy a high degree of political and administrative autonomy.**
- **Since September 2002 — the UN member;**
- **Close and trustful relationships with the EU, e.g. free access to internal market, free movement of persons, cooperation in all sorts of matters, like environment, education, science, statistics, transport, etc. based on bilateral agreements, starting from 1999.**

SWISS BUSINESS IN THE BALTICS

Presently, there are in total about a 100 Swiss firms in the Eastern Baltics, and about 2/3 of them are in Latvia and Lithuania. Import and export facilities are arranged in the following way:

- **Switzerland's exports to Latvia** in 2004 (in mln CHF) include such items as pharmaceuticals — 66; machinery — 11,5; chemicals — 5,9; vehicles and air planes — 4,4; watches — 4,1; agricultural products — 3,9; textiles, clothing and plastics — 3,5 instruments — 3,2; metal goods — 2,1.

- **Latvian import to Switzerland** in 2004 is rather modest (in mln CHF): wood products — 1,9; chemicals — 1,4; textiles — 1,35; furniture — 1,0; metal goods — 0,92; energy sources — 0,8; and goods of stone, ceramic and glass — 0,5.

As it's seen in the table (See: Table “Trade statistics”), Latvian trade balance with Switzerland has remained negative during the last five years and more than doubled during that time.

- **Switzerland's export to Lithuania** in 2004 (in mln CHF) includes vehicles/airplanes — 21,1; chemicals — 15,8; machinery — 16,6; pharmaceuticals — 8,3; goods from stones, ceramics and glass — 5,1; plastics — 3,9; instruments — 2,1.

- **Switzerland's import to Lithuania** in 2004 (in mln CHF) includes furniture — 19,8; textiles and clothing — 5,4; agroproducts —



AMBASSADOR'S CV:

- **University degree in Political Science (Geneva University, 1971)**
- **Entered Swiss Diplomatic Service in 1978**
- **Swiss Mission to International Organizations in Geneva (from 1988) and Paris (UNESCO) — 1984**
- **Embassies in Ukraine (1992) and Moscow (2001)**
- **Switzerland's Ambassador in Latvia and Lithuania since Summer 2004**
- **Languages: French, German, Italian, English and Russian.**

3,6; metals/metal goods — 3,1; machinery — 2,6; wood/cork — 1,7; energy sources — 0,7

COUNTRY'S SERVICEMEN

Switzerland has a unique *financial service* network within nation's service industry, which contributes 13% to GDP. Presently, there are about 3 thousand bank branches (!) in the country with over 120 thousand employees. Swiss banks operate worldwide: there are 106 foreign branches. Cumulative Swiss banks' balance sheet total CHF 2,2 trillion, including CHF 940 billion in savings and investments 40% of which originated abroad. About CHF 3,4 trillion of assets is held in securities deposits. Switzerland is tightening up its provisions against money laundering recently: there are two key points in this direction — identifying the origin of the funds and the identity of the persons behind them. But Swiss banking secrecy and customers' protection has never been challenged. See: Swiss Banking Association: www.swissbanking.org/en. “Baltic financial center is a reality and can surely be developed further, reflects Swiss ambassador. Compared to Latvian financial center, the Swiss one is in the lucky position to

be able to look back on a century long practice and good reputation, factors which enhance confidence in customers. In the long run Latvian economy could also benefit from development of a solid, trustworthy and competitive international banking activity; 100 years' experience helps to build a global financial center?'

Insurance is another elaborate service sector in Switzerland, which consists of about 200 insurance companies: 30 provide life insurance and 44 are re-insurers. These companies foreign activity contribute CHF 2,3 billion yearly to national GDP and employ about 50 thou people.

Tourism contributes to about 6% of Swiss GDP and is the 3rd largest export sector, after metal processing, engineering and pharmaceuticals. Tourism employs about 250 thou people; foreign visitors spent yearly about CHF 12,7 billion. There are about 35 million overnight stays in Swiss yearly with about 19 mln foreign guests. About 700 thou people cross Switzerland borders daily. Latvian tourism to Swiss grows at 10% yearly.

BACKBONE OF SWISS ECONOMY

Swiss economy is based primarily on small and very small companies; the number of small firms with less than 10 employees is growing. About 98% of all Swiss companies have fewer than 50 employees; and only about 765 companies employ more than 250 people.

Industry & trade. Engineering, electrical and metal industries, which employ about 333 thou people, are major contributors to Swiss economy and account for about 45% of its total export. Swiss textile machinery manufacturers, with subsidiaries abroad, dominate the market. Among other important manufacturing sectors are machinery production for paper industry (second largest in the world), and textile and packaging machinery (fourth largest). Machine tools manufacturing and that of electrical equipment occupy fifth place among world's exporters.

ENERGY: SELF-SUFFICIENCY

Swiss energy policy is aimed at further reduction of country's dependence on oil and energy sources' diversification with increased use of renewable sources. About 22% of energy consumed in business and privately is electric. 60% of domestic electricity is produced at about 1,300 hydroelectric power stations; 500 largest can produce max. 12 mln kWh. In 1969 the first nuclear power station (NPS) was built in the country — Beznau-I. Presently 5 NPS produce about 1/3 of Swiss electricity. Nine natural gas transit pipelines, including one from Netherlands to Italy, ensure growing country's gas consumption. Gas presently accounts to about 10% in total energy consumption and is the third largest source of energy.

EU AND SWITZERLAND: BILATERAL APPROACH

The EU is Switzerland's most important trade partner: about 60% of Swiss exports go to the EU and 80% of Swiss import origins in the EU member states. The two sides' relationships are based on bilateral agreements in seven major fields: research, public procurement, technical barriers to trade, agriculture, air and road transport, and free movement of persons. These agreements entered into force in June 2002. We have to add nine new bilateral agreements concluded in 2004 in such important spheres as taxation on savings, fraud combat and Swiss participation in Schengen/Dublin agreement. They are presently within Swiss ratification procedures. •

USEFUL SWISS WEB SITES FOR BUSINESSMEN:

- General information about business with Switzerland:
www.ocs.ch; www.swissworld.org.
- Swiss Chambers of Commerce:
www.cci.ch.
- Swiss Investments support: www.sofi.ch.
- Swiss Customs: www.zoll.admin.ch.
- Swiss Tourism:
www.switzerlandtourism.ch.
- Swiss Embassy in Riga:
www.eda.admin.ch/riga_emb.

TRADE STATISTICS: SWITZERLAND — LITHUANIA, IN MLN. CHF

| Year | Import from Lithuania | Export to Lithuania | Trade Balance |
|------|-----------------------|---------------------|---------------|
| 1999 | 12.6 | 66.4 | 53.8 |
| 2000 | 17.2 | 63.4 | 46.2 |
| 2001 | 20.7 | 75.6 | 54.9 |
| 2002 | 24.9 | 75.2 | 50.3 |
| 2003 | 27.9 | 93.8 | 65.9 |
| 2004 | 45.9 | 94.9 | 49.0 |

Source: Swiss Embassy in Lithuania.

TRADE STATISTICS: SWITZERLAND — LATVIA, IN MLN. CHF

| Year | Import from Latvia | Export to Latvia | Trade Balance |
|------|--------------------|------------------|---------------|
| 1999 | 7.4 | 62.8 | 55.4 |
| 2000 | 11.6 | 65.9 | 54.3 |
| 2001 | 13.2 | 83.4 | 70.2 |
| 2002 | 10.9 | 101.2 | 90.3 |
| 2003 | 7.8 | 103.6 | 95.8 |
| 2004 | 11.6 | 123.1 | 111.5 |

Source: Swiss Embassy in Latvia.

SWISS-BALTIC CHAMBER OF COMMERCE SBCC PROVIDED:

- The SBCC facilitates the transfer of Know-How, acquires current economic data and fosters informal connections with economic leaders. It produces, arranges and accepts mandates and commissions. It organizes and provides translations of collaborating activities between Switzerland and the Baltic States.
- It encourages and promotes relations between the Baltic States of Estonia, Latvia and Lithuania and Switzerland in the areas of Trade, Industry and Finance.
- The SBCC informs clients of recent developments and represents them to firms and organizations.
- It facilitates official documents, addresses and contacts.
- It fosters relations to political, scientific and cultural institutions.
- It promotes tourism between Switzerland and the Baltic States.

SEVERAL EXAMPLES OF PAST ACTIVITIES OF THE SBCC

IN TALLINN INCLUDE:

- Representative of the Swiss import promotion programme (SIPPO) during till the Baltic states would be member of the EU.

- Organizing participation of scores of exhibitions in Riga, Vilnius and Tallinn.
- Organizing the Prime Minister's and Defense Minister's trip to Switzerland and their meetings with industrial leaders.
- Organizing President Meri's trip to Switzerland and his agenda with the Swiss Congress and economic leaders.
- Direct participation in numerous exhibitions throughout the Baltic States.
- Promotion of humanitarian projects focussing on street-children and children's hospitals.
- And a multitude of cultural projects keeping us at the SBCC in Tallinn busy since its inception.

Swiss-Baltic Chamber of Commerce SBCC

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Service Directive Draft: Expected Effect for Business

By Eugene Eteris

The issue how freely services can move around the member states has become a hot potato. At the end of the last Commission term in office (1999-2005) the general idea was to prepare a Union directive imposing on member states certain duties in the way services could be rendered in the EU. The final draft under presently aroused discussion was prepared and published in January 2004; major figure behind the directive draft was a former liberal EU internal market commissioner **Frits Bolkestein**. But the task appeared to be more complicated than it seemed earlier. The fact that member states, according to the new draft constitution, would have possibilities to reshape labour markets sphere, where they can act alone, does not help in making such market "real European".

BRUSSELS' RETREAT

In March 2005 European Commission watered down almost all proposals to open up the EU market in services as the issue has become both too political and economically controversial. As **J. M. Barroso**, Commission's President put it, the directive was "politically and technically unworkable" with too many opposing views from France, Germany and the European Parliament. Main idea behind service directive was to increase growth and the number of jobs in the Union.

Service directive's redrafting would include the "country of origin" principle allowing company offering service to operate under its own legislation. Most of the "old EU members" were afraid that service directive would promote Eastern European companies with cheap labour-force work everywhere in the EU and endanger already worse employment situation there. Some countries, France in particular, would guard most sensitive spheres, it wants in particular to support and protect national public services. The EU enterprise commissioner **Gunter Verheugen** at the meeting of the leaders of Europe's Social Democratic parties in Stockholm at the end of February tried to tackle concerns about services directive, stressing that the EU Commission was prepared to discuss how wage and social dumping can be avoided. "The directive will not be adopted as it is now, there will be very far-reaching changes", he added.

MAJOR PROBLEMS

Liberal EU commissioner for internal market **Charlie McCreevy** stressed potential benefits of free cross-border service provision in the Union: services

account for 70% of wealth and jobs. Major area with the most acute problem is the directive's principle of "country of origin control".

This would allow services such as architects, business consultants or IT specialists to do business in any EU state, where they had no permanent office, purely on the basis of their own country's control. And if such kinds of services are provided through internet, providers would avoid completely such requirements as extra deposits or guarantees imposed by national rules. No doubt "home country" can control and stimulate competition, and it could freeze it as well, as it happened with the service directive draft.

Liberalizing services was always a harder task to achieve than free movement of goods. But real the EU internal market cannot be optimal without adequate free movement of services and their providers. A final word in the directive's destiny will be put by the EU Parliament and the 25 member states by majority vote in June this year. Liberal approach to services directive can create about 600 thousand new jobs in the Union, and about 4-6 thousand in such small states as Denmark.

WHAT'S TO BE DONE?

Although there is no doubt that such directive is needed, the countries want to make the one that suits all. The only way to do so is through presently

increased EP's functions, that is through report of the EP's internal market committee, chaired by the British socialist Phillip Whitehead, and expected in June 2005. The EP's opinion is that country of origin principle would survive with many reservations, e.g. healthcare and medicine, utilities, lawyers, auditing and several other spheres of profession would be almost fully exempted.

Some contradictions already exist in two main approaches to "freedoms" to provide services.

ANTIDOTE TO DECLINE

Close attention to a year-old preceding Prodi Commission directive's draft has revealed protests from the member states, major trade unions and some EU institutions, i.e. Parliament. The general opinion is such that the draft was hastily drawn up by the former internal market commissioner Frits Bolkestein. The original idea behind the draft was good enough — to stimulate the EU service market by allowing companies and individuals to offer services on the whole 25 Union states' market, provided that they comply with the rules of their home state.

Perspectives for growth in the Union have roots both in the EU and member states' efforts. The only thing the EU can do is to drive reforms by freeing up service sector, the member states' efforts are both complicated and numerous. It makes sense for European governments to improve competitiveness not by fighting trade unions and their interest groups but by changing the conditions in which they operate. That means more trade liberalization, bigger efforts at deregulation markets for goods and services. For old EU members the new ones offer opportunities to cut costs, reach fast-growing new markets and improve global competitiveness. The service directive can provide its impetus in the right direction. •

Pros and cons in "freedoms" of services:

- **Service directive: country-of-origin rule, i.e. a company in the host country operates according to its national rules;**
- **Freedom of movement: posted workers directive, i.e. companies posting workers to other EU states have to apply in their contracts the receiving country's rules on minimum wages, holidays and rest periods, health and safety at work regulations.**

Regulation and Law in the EU: the Way to Efficiency

By Eugene Eteris

Both regulatory authorities and business community in the Baltic States are worried about growing pace of Union legislation which very often reminds them of the old Soviet-type central planning though presently initiated and imposed from Brussels.

WHAT MIGHT SEEM WRONG?

Two trends are in collision in the EU, one in favour of cutting bureaucratic red tape and regulatory burden for business, the other one is almost completely opposite as the trend for accelerated and more complicated regulatory backlog for all EU activities, both shared and exclusive. Present EU "legislative file" encompass presently about 16 thousand pages of directives and regulations, so called *acquis communautaire*.

Presently, in each of the EU member states there are three main sources of regulations that impinge business and citizens: the EU institutions, national parliaments and national regulatory agencies, for example trade and financial authorities. In order to reduce regulatory burden, efforts shall be imposed that fewer new regulations are adopted; the existing ones (and their enforcement) are made simple.

In most "old EU members" over half of all new legislation in, for example financial field, is derived from the EU headquarters. As it concerns regulatory simplification, some serious and radical steps are required.

THE WAY TO EFFICIENCY

First, the EU legislation shall be applied without further interpretation by the member states. The transposition of these laws into national legislation has become both difficult and mostly different, according to specifics in national approaches. Present internal market state-of-the-art suggests clear and unanimous application of its rules. In all otherwise circumstances regulatory effects would be minimal if not adverse.

Second, it's important to introduce regulatory impact assessments for all EU-effective business laws. Such procedure, according to British researches (T. Amber and K. Boyfield) is aimed at establishing reasonable

balance between the benefits from a new regulation and the costs of compliance. The EU trade commissioner **Peter Mandelson** once said that the cost of the EU-generated red tape was roughly double the economic benefits generated by the internal market.

Third, the deadline shall be installed in the EU laws' implementation procedures that would specify whether the goals have been achieved after three years of laws implementation.

Fourth, the Commission must be obliged to report annually to the European Parliament on the total EU legislation's costs and benefits.

Fifth, evaluation procedure for all significant legislative proposals shall be established in the EU Commission in order to assess the total costs and benefits of the EU legislation.

Sixth, most of the EU laws, in particular in financial sphere shall be simplified and re-drafted, such as first investment directive, the capital adequacy directive, the money laundering directive, to name a few.

Among the EU Presidential Initiatives for 2005-2007 the priority is aimed to single out non-effective Union laws and abolish damaging business regulations. •



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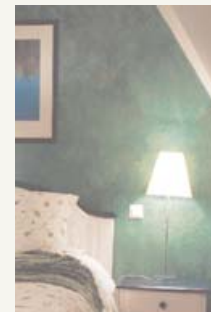
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Finnish Financial Market: Useful Examples

By Eugene Eteris

Special report from Helsinki

Finland is a spectacular country; it has bravely entered the European and modern world from a below-the-average level economic performance into the most advantageous and successful. Finland has become a recognized global leader, for example, in such spheres as children's education, mobile technology, level of competitiveness, to name just a few. And GDP's growth rate is much higher here — about 3.7% in comparison to the old EU members with modest growth rate of about 1%.



MARKUS FOGELHOLM: Deposit banks employed 23,4 thousand people.

On invitation from *Finnfacts*, a Finnish PR company, we explored another important feature of the country's "success story", — its financial market, banking and insurance sectors. Finnish experience in this field is of decisive importance, as we think that it can be channeled into a certain common Baltic course development.

FINANCIAL MARKET: A STABLE BASIS FOR INVESTMENTS

The structure of the Finnish financial sector has changed substantially in the last 15 years. Partly as a consequence of the banking crisis in early 1990s, subsequent integration and

technological advancement occurred. Partly, due to specific Finnish innovation, "financial conglomerates" or

"banking groups"; these bank groups employed about 26,8 thousand people.

One of the major Finnish financial system functions, according to country's experts, is to channel savings of financially stable economic units into those with deficit but quite perspective in developing progress. A large part of this financial flow in the country comes via the banks. Finnish specifics is such that developmental credits are granted both by deposit banks (and other credit institutions) and by insurance companies. Ever closer integration of Finnish banking and insurance sectors is seen in recent years. And all that is closely connected to the investment climate in the country.

MAIN PLAYERS ON THE FINANCIAL MARKET

Finnish Bankers' Association managing director **Markus Fogelholm** confirmed that in the country's banking sector there were 343 banks, 1564 branch offices, 163 service points and about 2 thousand cash dispensing ATMs. Deposit banks employed 23,4 thousand people.

Finland is the only country in Northern Europe that joined the euro zone (Sweden and Denmark preferred to opt out) which enabled manifold liquidity of the market when compared to nations with a single-currency market.

OP Bank Group is the recognized leader in Finnish financial market as a financial conglomerate with 242 banks and 677 branches. Then, there are *Nordea Bank Finland*, the group of saving banks and the system of local cooperative banks. Main driving force

OUR NEIGHBOR FINLAND — SUOMI COUNTRY

- Population — 5,2 mln with 17 persons per sq. km. density. About 67% of Finns live in urban areas, the rest — in rural areas. Helsinki, the capital and the neighbouring townships Espoo and Vantaa, form a fast growing metropolitan region with about a million citizens.
 - Territory — 338 thou sq. km. (7th largest country in Europe); a quarter of its area lies north of the Arctic Circle. Forests cover about 75% of the country, rivers and lakes — 10%.
 - GDP per capita — about 27 thou euro. About 79% of women are employed outside their homes.
 - Life expectancy: men 75,1 and women 81,8 years.
 - 65% of Finnish households own a personal computer, 52% have Internet connection. More than 95% of households have cell phones.
 - VAT -22%, corporate taxation — 27%; average level of taxation — about 44%.
- Source: Statistics Finland; Finland Focus on Economy & Technology, 2004.

for the Baltics

behind *OP Bank Group* with about 3 mln customers is *OKO Bank*. Its first Executive vice-president **Timo Ritakallio** said that *OKO Bank* was founded in 1902 as a Finnish commercial bank. The bank has 4 divisions: corporate banking, investment and retail groups and treasury division.

INSURANCE — A LIFE STYLE!

Insurance has become an important part of Finnish financial life only during the last 10-15 years, confirmed **Esko Kivisaari**, the managing director of the Federation of Finnish Insurance Companies. The sector's turnover is presently about 13 bln. EUR and 10 bln of written premiums; about half of the market — employment insurance and pension funds.

Major player on the market — *Pohjola* insurance group with 1,6 mln customers and 1,2 bln EUR turnover. The group paved the way to mutual funds' activity in the country, the field which is going to be popular soon in the Baltics.

SUPERVISION AND CONTROL

Supervision “pressure” is performed, alongside national efforts, from two main sources, i.e. from the EU regulations (Lamfalussy Process and Accounting standards reform in the EU, effective from 2005) and internationally. As for the latter, Basel I and II framework Regulations will help in gradual implementation of new rules for calculating capital adequacy in 2006-2007.

National Financial Supervision Authority (FSA) was created in 1993 and it functions in close connection with the Bank of Finland. It exercises supervision over 500 entities in 2 sectors, i.e. in financial market and securities. “Quite often supervision authorities in Finland wanted to unite the first two together, so sooner or later they will be united”, was Ms. **Kaija Kilappa's** opinion, head of Institutional Supervision at FSA. Probably, there are good grounds for that and the Baltic States should take that into consideration.

Insurance sector is supervised independently by and authority in the

Company *Pohjola* was established in 1891 and already in 1912 its shares were quoted on Helsinki Stock Exchange. Presently the company has about 19 thousand shareholders and 2,6 thousand employees in Finland. The *Pohjola* group includes non-life insurance *Seesam* companies in the Baltic States with 100 employees. The head of the Baltic division **Toomas Abner** was invited to join the group from Estonia.

Ministry of Social Affairs and Health. The latter also controls various pension funds.

FSA relies upon financial institutions' “reporting activity” which means that all banks report their suspicions to central authority. Several hundred “cases” are reported yearly although only 10-15 end up in the court, added K. Kilappa.

TRANSITION TO EURO

The country has got through the euro-transitional turbulence quite

smoothly due to distinctly planned steps and various “transitional” actions initiated by government and taken both by banks and companies. Three popular brochures were published explaining major aspects of euro introduction. Almost all dispenser machines within four days were transferred to euro-payments. So, the whole “operation” was accomplished within two weeks. But most important prerequisite was that Finland has fulfilled all the obligations for a country to join the euro zone, the task that all Baltic States are still to face. •

THE NUMBER OF BANKS' BRANCH OFFICES IN THE EU PER MLN INHABITANTS, 2003

About 200 — the UK, Sweden, Ireland, the Netherlands.

About 300 — Greece, Finland, Norway.

About 400 — Denmark, France, Germany, Luxembourg.

About 500 — Belgium, Portugal, Italy, Austria.

About 420 — average in the EU.

More than 600 — in Iceland and about 1 000 in Spain.

Source: European Banking Federation.

FINANCIAL INSTRUMENTS ISSUES IN FINLAND, IN %

| Year | Bank deposits | Shares | Bonds | Money market instruments |
|------|---------------|--------|-------|--------------------------|
| 1990 | 50 | 15 | 20 | 15 |
| 2001 | 10 | 70 | 15 | 5 |

Source: Statistics Finland & State Treasury.



HELSINKI: Finland's Central Bank's Building.

EU Trade Mark: Made in the European Union

By Eugene Eteris

European Integration Institute, Denmark

The EU trade marks and designs provide an equal goods/services protection on the market with more than 450 million consumers and is an ideal instrument to guarantee the highest quality.

Common or internal market, according to the EU Treaties (art.14) and a new constitutional draft (art.III-14), is “an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured”. That goal set in 1985 was additionally stressed and took final effect in the beginning of 1993. But the task of removing various technical barriers to trade is still extremely urgent. Such technical barriers can occur because of different national regulations for industrial products and food stuffs and quite often could be used to protect the national markets from other EU member states’ products. The EU trade mark system (TM) design registration since 2003 provides an ideal instrument to guarantee quality and protection.

TM ADVANTAGES

The main idea behind the EU trade mark -TM (often called CTM -Community Trade Mark), is to provide its invariable protection among the EU member states according to a single registration procedure with the EU Office for Harmonization in the Internal Market.

All national producers have to be aware of the EU requirements on trade marks. There are two ways presently of how companies can protect their trade marks from use through the EU: nationally and on the Union scale. As for the first, national registration is compulsory; the latter, if the

country is a party to the Madrid Agreement (or Madrid Protocol), is almost identical to national registration. The difference is such that the national trade mark offers protection limited to the frames of national territory, while the EU trade mark makes it for the entire Union; international registration provides protection outside the EU. Since EU accession to the Madrid Protocol at the end of 2004, the Union’s trade mark is internationally recognized and protected.

The main trade mark advantages are the following:

- To identify the origin of goods and services;
- To guarantee consistent goods/services’ quality at the EU level and consumers’ trust;
- To provide communication means for advertising and publicity.

TRADE MARK’ PURPOSE

The EU trade mark can be used for three different purposes, such as a) manufacturer’s mark; b) a mark for trading company’s goods; c) as a service mark. There is, on top of this a so-called collective trade mark which can guarantee for an association (and its members) the origin, the nature and the quality of its goods and services.

A newly-created sign in various EU member states’ languages may be protected by applying for the first registration as a Community TM (CTM) either at national or the EU level, or both what just makes such protection more effective and manage-

able. Opting for the EU TM does not imply the abandonment of a national TM. In case the national TM is cancelled or surrendered, valid EU TM registration still allows the company to enjoy adequate protection.

The EU TM must meet two conditions: first, a TM is a sign which can be represented in graphic form; second, it must make it possible to distinguish goods/services from those of another firm or company. The TM signs may include all possible letters and words, names and acronyms, designs, portraits of people, graphic elements, colours and sound marks, etc.

The EU trade mark (TM) is obtained by registration in OHIM’s Register; it is valid for 10 years and may be renewed indefinitely.

All natural or legal persons who are domiciled or have their seat within the EU member state may register an EU TM. They are entitled to deal directly with the OHIM.

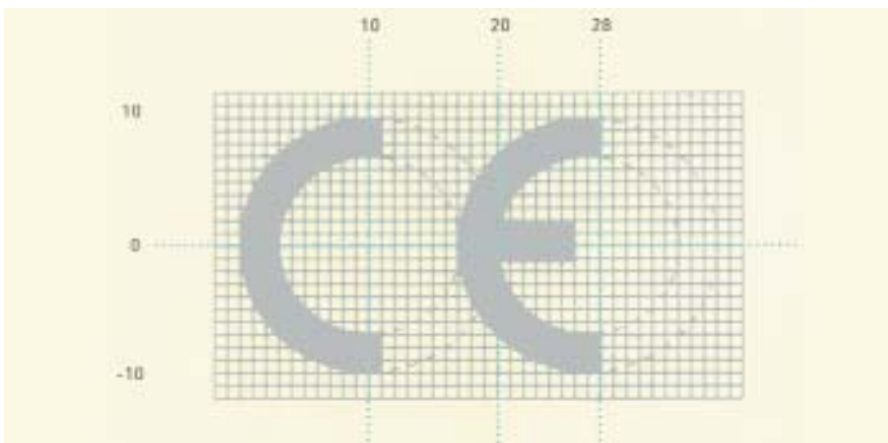
From January 2003 the OHIM started registering Community designs; by the end of that year about 37 thousand applications were filed and around 24 thousand designs were registered. In 2004 about 40 thousand applications were filed.

Each year about 45-50 thousand TM applications are filed at OHIM, in 2003 — 57,6 thousand, a record since the EU TM system was launched; about 35-38 thousand TM are registered each year.

OHIM

The Office for Harmonization in the Internal Market — OHIM - is situated in Spanish town of Alicante in Valencia province. OHIM President — Mr. **Wubbo de Boer**. The Office annual report can be obtained in Internet.

The Offices’ languages are Spanish, German, English, French and Italian. It has been done deliberately by the EU law in order to ease operational burdens. Although, an application for the EU TM may be filed in any of the EU official languages, any post-registration proceedings must be in one of the 5 Offices’ languages. All necessary translations are done by the EU Translation Center in Luxembourg. The EU TM is filed either directly at OHIM or at a national industrial property office in the EU member state. In case of direct filling at OHIM, the dossier may be sent by post, fax or e-filing (on-line application).





<http://oami.eu.int/en/mark/mar-que/efentry.htm>. Each application is subject to basic fee payment and class fee where the class of goods/services exceeds three. In case of collective marks the fees are doubled.

Jurisdiction of EU TM rights' infringement lies with the EU trade mark courts and not with the OHIM. The plaintiff may choose between two courts: the court of the member state in which infringement was committed or the court of the member state in which the defendant is domiciled. The latter has the advantage of combining all the disputes in a single proceeding.

EU TM LEGISLATIVE ACTS

Unification and standardization in the EU started at the end of 1993 with the adoption of first Council Regulation (No 40/94 of 20.12.1993) usually referred to as "the basic Regulation" or the CTMR. Due to complexity issues in TM registration, there was a special Commission Regulation No 2868/95 of 13.12.1995 for CTMR implementation, and Commission Regulation No 2869 of the same date on TM registration fees. Another important Commission Regulation No 216/96 laid down procedural rules for the Board of Appeal. These and other documents may be found in OHIM Official Journal.

Among legal norms there are as well regulations issued by various European standardization organizations that work out common, harmonized regional standards concerning electricity, technology, construction, children's toys, medical equipment, etc. There are more than 25 "sectoral" EU directives providing standards to different industry and manufacturing products obliged to hold a CE-mark. At the same time transparency on technical regulations and standards is ensured in the EU. Special rules implied in printing such marks, not to be confused with others, e.g. China Export, etc.

ECO-LABEL AS AN EXAMPLE

Some sectors of industry and economy develop their own marks and labels. Thus in such a sensitive sphere as ecology there are more than 15 different eco-labels among the EU member states; although its developmental history is not longer than 10 years. The EU wants to respect diverse cultural approaches in consumers' quality and has developed four so-called quality logos:

- The logo for protected designations of origin (PDO); a product with PGI logo has a specific characteristic or reputation associated only with a given area or region
- Logo for protected geographical indications (PGI); a product with this logo has proven records that are a result only of the natural environment and producers' abilities in that region
- Traditional specialty guaranteed (TSG); such logo means that the foodstuff is produced using approved organic methods that respect environment and animal husbandry standards.

The EU takes very seriously the issue of managing and controlling risk in changing food market. For example, enlarged to 25 members the Union means greater diversity in foodstuffs but the quality standards must be high at the same time. •

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Russia and the EU Need Each Other

By Eugene Eteris

Russia and the European Union already for several decades are trying to build lasting and productive relationship based on the long-term European perspective. The EU is constantly improving cooperation with Russia, as both sides need each other: they are bound geographically, and have common cultural heritage. Russia and the EU are already good partners in various economic fields, and the representatives meet at summits twice a year. Among the latter energy issues are of utmost importance.

ECONOMIC BACKGROUND

The first “cooperation and partnership” agreement between Russia and the European Union entered into force in December 1997; the EU financial assistance program for Russia covers 2000-2006 period. For the last 12 years the EU rendered about 3 billion euros to Russia through various spheres of technical and economic assistance.

The 25 member states Union with 445 million citizens and 10 trillion Euros GDP is a solid economic partner for Russia. Already about 40% of Russian foreign trade is connected with the Union’s member states. As for energy sources, Russia is the largest energy supplier to the EU territory. On the other hand, the EU member states are the most important source of foreign direct investments in Russia. The EU has offered Russia the status of “most favored nation”, which ensures that export of Russian goods can benefit from the lowest Union tariffs. This reduction can provide Russian trade partners with direct benefits in about 300 million euros yearly.

The EU has developed a close energy dialogue with Russia — a major

source of fossil fuel supply presently (and electricity, in perspective). Such cooperation in energy trading includes both direct investments and transfer of know-how in energy production and transportation. Russia tries to conclude particular agreements with the EU institutions and bodies; the last EU-Russia summit took place at the end of November 2004 with the new Commission’s staff. Each time Kremlin pushes for special relationships with the Union. For Example, President Putin’s representative for relations with the EU said that Russia was too important for the EU and deserved special attitude. In fact, no other EU neighbor had relations as intense with the EU as Russia, with summits twice a year and broad-based economic agreements.

ENERGY IS A TOP PRIORITY

The European Union heavily depends on imported energy resources, mostly crude oil, coal and gas, which are in abundance in Russia, e.g. about 80% of energy the EU consumes is from fossil fuels. A significant and increasing proportion of this comes outside the EU. The European Commission estimated in

its reports in September 2004 that by 2020 about 70% of the EU primary energy needs, including 90% of its oil requirements, will be satisfied by imports. No doubt that political and security components of such supply are very sensitive issues.

GERMAN GAS INITIATIVE

European energy issues are, according to the new Draft Constitution, of shared competence. That means that energy problems are decided on a certain common basis by the EU decision-making bodies together with all 25-member states. The EU member states also heavily depend on gas from Russia, first of all, Germany. In July 2004 German chancellor **Gerhard Schröder** and Russian President **Vladimir Putin** reached an agreement to increase gas supply for Western European countries. Major partners behind the agreement are German energy development body *E.on AG* and Russian *Gazprom*, which formed a joint venture to make a pipeline from Russia to North Europe. Total project costs are about 6 billion euros and its first stage would cost about 2,5 billion euros; the pipeline will be fully operational in 2007. The pipeline’s

length is 3 thousand km up German border with sidelines to Finland and Sweden. *Gazprom* delivers 1/4 of all gas consumption in Europe. Several European companies participate in construction of future gas infrastructure. Russia promised to double gas export to Europe in the next 10 years.

LATVIA: ENERGY TRANSIT FROM RUSSIA TO EUROPE

Since regaining its independence, Latvian government established a national priority, i.e. Russian goods' transit to European states, mostly through Latvian ports (mainly through Ventspils port and its *Ventspils Nafta-VN* facilities) and existing pipelines. For more than a decade, *VN* was the largest on Western Baltic transit oil terminal. Besides, it processed 2,5 times more cargoes than St-Petersburg's port in Russia and 1,5 times more than Tallinn port. At the same time, it was the most expensive port in the Baltics, its tariffs were about 2 times higher than in other ports in the region. Russian side decided to build its own new oil terminals in Primorsk and Ust-Luga. As a result Latvia's neighbor states increased their ports' turnover: Lithuania by 8 mln t, Estonia - by 18 and Finland - by 23 mln t. That has led to oil transit reduction in Latvian budget from 10,2 to 6,4%, or 240-mln lats reduction. And turnover of Latvian ports presently has reduced also: St.Petersburg's port processes two times more cargoes than Ventspils.

Following transit oil reduction, Latvian consumers can feel strong Russian competition in car petrol supply. Thus, Latvian petrol consumption for cars is estimated at 600 thousand tons a year. Up to January 2005 the demand was covered by supplies from Lithuanian Mozeikaj refinery. And since a new supplier appeared on Latvian market, i.e. Russian company from Jaroslavl city with its Premium Euro-95 petrol corresponding to Euro-4 quality standard. Experts say that such car petrol is going to be cheaper than the one from Lithuanian refinery.

RUSSIAN OIL AND GAS EXPORT

- **Oil:** Russian oil export to Europe is expected to increase from present 128-mln t to 160-mln t in 2020. Oil export to CIS states will increase during the same period from present 17-mln t to 50-mln t.
- **Gas:** Presently, about 20% of natural gas consumed in Western Europe (out of total 415 mln. m3) comes from Russia. Out of 75% sources of imported gas consumed in Germany about 32% are imported from Russia, 26% — from Norway and 17% — from the Netherlands (the last two sources are from Northern Sea deposits). Russian gas export to Europe is expected to increase from presently 134-mln t to about 165- mln t in 2020.
- **Transneft:** the biggest Russian company transporting oil; it pumps along its 48,2 thousand-km pipelines about 94% of Russian oil. The company wants to build a new pipeline to avoid any troubles connected with Ventspils port facilities.
- Russian companies *Gazprom* and *Itera* have started working in the Baltics a while ago and they have 50% shares in *Latvijas Gaze* assets.

WHAT'S AHEAD?

It's true that the Union works on both sides, i.e. it works with the United States in creating effective multilateral system against terrorism, and is building a partnership relations with Russia in securing European stability, in resources, in particular. Prosperous and reliable Russia is good for the European Union, as it means continuous trade, growing investments and lasting security. The EU-Russia relationships are mutually beneficial: Russia gets good trade facilities on the EU market, the EU, in return, supports Russia's efforts to join the World Trade Organization. The EU wants Russia to improve its investment climate, protect property rights and prevent further capital flow-out from the country. Besides, foreign companies in Russia are still often subject to higher taxes and fees than national companies.

Newly elected for the post of European Commissioner for energy, Latvian representative **Andris Piebalgs** is facing a lot of problems tackling the European Union energy issues as they are closely connected both to Latvian economy and that of its big Russian neighbor. The EU is vulnerable to supply cuts or higher energy prices resulting from regional and international instability. On the other hand, the EU needs to use less fossil fuels, save energy, and to use renewable and alternative energy sources more actively. The EU has an ambitious plan to generate about 20% of electricity from renewable sources by 2010 and saving at least 1% more energy each year than it was over the last five years. The ultimate goal for the EU is twofold: on the one side it is vital to cut fossil fuel consumption by using energy more efficiently (e.g. buildings' energy certificates), on the another — to base the EU economy on alternative sources. At the same time, a single energy market in the EU is being created contributing to the efficient use of energy in Europe, the aim to be met by mid-2007. Important for the Union, is that it is not over-dependent on a few countries for energy supplies and that political instability does not endanger imports in foreseeable future. •

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Sea Freight Through Russian, Ukrainian and Baltic Ports



Alla Petrova

Turnover of goods in Russian ports has increased in 2004 by approximately 67 mln tons. It was for the first time ever that the turnover of goods in Russia's Northwestern ports surpassed by two and a half times the cargo turnover in the Baltic ports.

According to Sea Trade Ports' Association annual report, more than 420 mln tons of Russian foreign trade cargoes were processed in Russian ports and the neighboring states in 2004. It was an 18% increase in turnover compared to 356.6 mln tons in 2003. The transportation of dry cargo increased by 20%, oil products by 15% and reached, correspondingly, 191.9 mln tons and 228.5 mln tons.

THE BACKBONE OF RUSSIAN EXPORT

As well as in the previous year, the main bulk of Russian exports included crude oil and oil products, coal, mineral fertilizers, wood and metals. A trend from the previous year has remained, substantial foreign trade growth through Russian freight ports with a corresponding decrease in turnover of Russian goods processed in neighboring states' ports. The share of export-import cargoes processed in Russian ports has grown by 66.8 mln tons; whereas

freight turnover in Ukrainian and Baltic ports decreased by 3 mln tons.

The share of national foreign trade cargoes processed in Russian ports has reached in 2004 approximately 80%, compared to 75% in 2003. "General" foreign trade goods' turnover in Russia increased by 25% and amounted to 336 mln tons.

Foreign ports processed 84.4 mln tons of Russian cargoes, which was by 3.4% less than in the previous year. The decrease was due to the drop in the volume of tankers' shipments by 23.6%, at the same time, freight volume of coal increased by 48%.

Cargo turnover through Baltic ports reached 57.3 mln tons (+3.4%). The rise was due to the increase in coal shipment, but oil cargoes processing fell by 12%. The Ukrainian ports processed 27.1 mln tons (-15.3%) with the growth of dry cargoes against drastic reduction in oil and petroleum goods' shipment. The increase by 13% in coal, metals and fertilizers shipment

could not compensate for decrease by 57% in tankers' cargoes processing.

TOTAL TURNOVER IS GROWING

The total Russian ports cargo turnover, including internal transportation, has grown by 23.4% up to 355.9 mln tons (+676 mln tons). Dry cargoes reached 157.3 mln tons (+17.6%) and bulked cargoes — 198.6 mln tons (+28.5%).

In particular, bulk-oil volume shipment has grown by 28.5%, coal — by 33%, and timber cargoes — by 10%. Russian sea-ports transported in 2004 about 17 mln tons container cargoes that made up to 1.4 mln TEU. The increase in container shipment reached 60% due to the growth of container transport through ports in St. Petersburg (+34%), Novorossiysk (+23%), and Vostochnij (+30%).

According to data of Sea Trade Ports' Association (STPA), export share in total cargo turnover of Russian ports reached 85%, that of import — 6%, of transit goods — 3%, and coastal shipments' trade — 6%. Railway transportation share of goods destined for seaports reached 46.9%, that of pipelines — 43.7%, road transportation — 4.4%, and river transportation — 5%. About 83% of dry cargoes were transported to seaports by railway, 73% of liquid cargoes — by pipelines.

One fifth of Russian cargo turnover falls on Russian ports in the Far East. In 2004, more than 70 mln tons of cargo were processed there, 12% increase compared to 2003. The growth was attributed to the increase in coal export by more than 20%, as well as metals, and timber cargoes.

The share of dry cargoes in the ports freight turnover reached 80%. The major port of the region is Vostochnij; its stevedore companies processed about 45% of exported Russian coal.

Freight turnover of Russian ports in the South grew by 14.6% and exceeded the amount of 142 mln tons. At present, the share of the region constitutes 56% of the total national ports' oil and oil product export. In total, more than 106 mln tons of tanker cargo (+14.7%) and more than 36 mln tons of dry cargoes (+14.2%) were processed in Southern ports in 2004; about 70 mln tons were processed by stevedore companies in the port of Novorossiysk.

Russian Federation Seaport Trade Association was established in 1987 and unites more than 70 Russian sea transport organizations and enterprises. It includes trade seaports, shipping and agents companies, scientific-research institutes, sea transport education, and training institutions. Association's main task is co-ordination sector's professionals to create conditions for effective sea transport development and realization of Russian transportation potentials.

RUSSIA'S NORTH-WEST PORTS BREAK ALL RECORDS

Cargo turnover in Russia's North-West ports increased presently by more than 42 mln tons (+41.5%). In 2004, these ports' share in the total Russian ports' turnover was 40% and reached 143.2 mln tons. Such considerable growth was achieved due to rise in tankers' processing by 64%, or 30 mln tons, mainly due to cargo shipments share increase in the port of Primorsk. By the end of 2004, *Spetsmornefteport Ltd* had increased cargo turnover by 2.5 times and had processed more than 44.5 mln tons. For the first time Russia's North-West ports' cargo turnover exceeded by more than 2.5 times that of the Baltic States' ports. More than 77 mln tons of tanker cargoes and 65.6 mln tons of dry cargoes were processed here.

GOOD INVESTMENT ACTIVITY

During 2000-2004 Russian ports' system increased its production potentials by 170 mln tons having allocated more than 23 billion rubles of investments. Mr. **Vitalij Yuzhilin**, STPA Board of Directors' Chairman, acknowledged that ports' business dynamics average growth 20% a year outpaced other industrial sectors. Investment activity in the ports' industry is high enough, i.e. according to preliminary data, investment in port infrastructure exceeded 10 billion rubles in 2004. At the initial stage of ports' tariffs unification, favorable conditions were created primarily for Russian exporters that enabled them to take an active part in transport infrastructure development, said STPA's Chairman. Thus, in 2000 out of 238 mln tons of foreign trade cargo 170 mln tons were transported and processed through Russian ports, whereas, in 2004 — 336 mln tons out of 420 mln. • *Tables and charts submitted by Russian Federation Seaport Trade Association.*

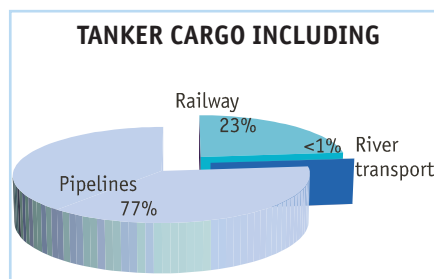
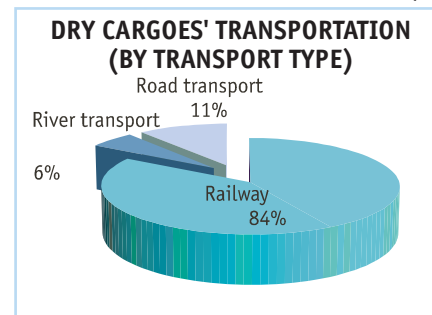
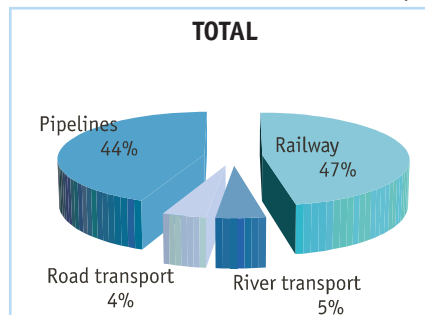
FRIGHT TURNOVER OF RUSSIA'S NORTH-WEST SEA PORTS IN 2004, THOU T

| Ports | 2003 | 2004 | 2004/2003, % | (+/-) to 2003 in thou t |
|----------------|----------|----------|--------------|-------------------------|
| Total | 101216.0 | 143268.7 | 141.5 | 42052.7 |
| Including | | | | |
| Tanker cargo | 47418.2 | 77650.8 | 163.7 | 30232.6 |
| Dry cargo | 53797.8 | 65617.9 | 121.9 | 11820.1 |
| Including: | | | | |
| Archangelsk | 994.1 | 1137.1 | 114.4 | 143.0 |
| Murmansk | 9007.2 | 12782.4 | 141.9 | 3775.2 |
| Vyborg | 1052.2 | 1331.4 | 126.5 | 279.2 |
| Vysotsk | 2404.6 | 3644.5 | 151.6 | 1239.9 |
| St. Petersburg | 20436.8 | 26035.5 | 127.4 | 5598.7 |
| Kaliningrad | 4045.0 | 4811.4 | 118.9 | 766.4 |
| Kandalaksha | 1020.0 | 279.5 | 27.4 | -740.5 |

RUSSIAN CARGO SHIPMENT THROUGH SEAPORTS IN 2004, COMPARED TO 2003, IN MLN TONS

| | 2003 | 2004 | 2004/2003, % |
|--------------|-------|-------|--------------|
| Total | 375.7 | 440.3 | 117.2 |
| Including: | | | |
| Dry cargo | 170.8 | 203.2 | 119.0 |
| Tanker cargo | 204.9 | 237.1 | 115.7 |

INCOMING CARGO DISTRIBUTION AT RUSSIAN SEAPORTS FOR FURTHER TRANSPORTATION BY SEA, IN 2004 (ACCORDING TO TYPES OF TRANSPORTATION)



CARGOES SHIPMENT IN LARGE-CAPACITY CONTAINERS THROUGH RUSSIAN SEAPORTS, THOU T

| Ports | Total | | | Including | | | | | | | | |
|---------------------------|---------|---------|-------|-----------|--------|--------|--------|--------|-------|----------|--------|-------|
| | 2003 | 2004 | % | Export | | | Import | | | Cabotage | | |
| | 2003 | 2004 | % | 2003 | 2004 | % | 2003 | 2004 | % | 2003 | 2004 | % |
| Total | 10552.7 | 17001.2 | 161.1 | 3055.2 | 5689.7 | 186.2 | 5339.8 | 8871.2 | 166.1 | 2157.7 | 2440.3 | 113.1 |
| Arkhangelsk | 129.3 | 214.5 | 165.9 | 47.5 | 63.0 | 132.6 | 49.7 | 78.2 | 157.3 | 32.1 | 73.3 | 228.3 |
| Murmansk | 250.3 | 268.7 | 107.4 | 4.5 | 2.0 | 44.4 | 1.4 | 0.5 | 35.7 | 244.4 | 266.2 | 108.9 |
| Kaliningrad | 278.8 | 442.9 | 158.9 | 55.7 | 122.9 | 220.6 | 223.1 | 320.0 | 143.4 | n.a. | n.a. | n.a. |
| St. Petersburg | 5125.4 | 6876.1 | 134.2 | 1949.3 | 2992.9 | 153.5 | 3176.1 | 3883.2 | 122.3 | n.a. | n.a. | n.a. |
| Novorossiysk | 616.2 | 759.0 | 123.2 | 295.6 | 356.1 | 120.5 | 320.6 | 402.9 | 125.7 | n.a. | n.a. | n.a. |
| Nahodka | 152.5 | 145.5 | 95.4 | 64.5 | 35.9 | 55.7 | 88.0 | 107.8 | 122.5 | n.a. | 1.8 | n.a. |
| Vladivostok | 740.5 | 747.7 | 101.0 | 40.6 | 44.0 | 108.4 | 173.6 | 160.4 | 92.4 | 526.3 | 543.3 | 103.2 |
| Vostochnyj | 1924.5 | 2527.6 | 131.3 | 543.0 | 682.0 | 125.6 | 1208.9 | 1676.2 | 138.7 | 172.6 | 169.4 | 98.1 |
| Vanino | 181.0 | 319.0 | 176.2 | 0.2 | 6.8 | 3400.0 | 5.0 | 12.8 | 256.0 | 175.8 | 299.4 | 170.3 |
| Petropavlovsk Kamchatskij | 181.0 | 454.9 | 251.3 | 0.2 | 3.0 | 1500.0 | 5.0 | 4.2 | 84.0 | 175.8 | 447.7 | 254.7 |

Preserve Russian Cultural

By Alla Petrova

Already for several decades, the fate of the palace-park ensemble Oranienbaum has worried representatives of the cultural elite, federal and regional authorities and ordinary citizens of Saint-Petersburg. It is no wonder, because Oranienbaum is the only landscape-architectural complex, which wasn't destroyed during the Great Patriotic War.



Throughout the last year, the attention of public authorities and citizens has been drawn to the museum-reserve. It became evident that if not to start restoration works immediately, our descendants will not be able to see this ensemble, the only one of its kind in its historical originality.

In April 2004, **Valentina Matvienko**, governor of Saint-Petersburg, declared that the museum-reserve must be restored. As early as in May the work of Oranienbaum Palace-park Ensemble Restoration and Development Support Foundation began. The founders of the Foundation were Public Joint-Stock Company *Uralkalii* and Limited Liability Company *National Container Company*.

- In the territory of State Museum-Reserve there are 19 monuments, which require restoration, and another 40 can be recreated.

- Income increase from visits of museum-reserve (in 2004 the income amounted to 6 million rubles only), with competent management can additionally contribute to restoration of objects, enlargement of museum funds.

The Trustee Board of the Foundation was headed by **Valentina Matvienko**, with Co-chairmen **German Gref**, Minister of Economical Development and Trade of Russian Federation, and **Sergey Frank**, General Director of Public Joint-Stock Company *Sovkomflot* (at the time — Assistant Chairman of the Government of Russian Federation). The Trustee Board also included: **Vera Dementyeva**, Chairman of the State Inspection of Monument Protection; **Vadim Znamenov**, Director of “Peterhof” State Museum-Reserve; **Mikhail Piotrovskiy**, Director of the State Hermitage; **Dmitry Rybolovlev**, President of Public Joint-Stock Company *Uralkalii*; **Sergey Tarasov**, Vice-Governor of Saint-Petersburg; **Valenting Shevchenko**, Head of Administration of Petrodvortsovyi district, **Vitaliy Yuzhilin**; Chairman of the Board of Directors of Russian Commercial Ports Association, Deputy of State Duma of Russian Federation.

The primary objective of the Foundation — to render assistance in restoration of Russian cultural heritage using the mechanisms of public-private partnership.

“It is impossible to restore Oranienbaum only by means of state budget. In this case, such works might take as long as half a century. In this time nothing would be left of Oranienbaum. We appeal to private investors with a request to help the Foundation. It is a personal decision of each of them, whether they will agree or refuse to render such assistance. But patronage in Russia has always been considered to be a good action”, said **German Gref**.

Over one hundred and fifty letters with cooperation proposals were addressed to various companies. Members of the Trustee Board of the Foundation appealed to industrial enterprises, banks and other organizations with a request to help in restoration of the unique cultural and historical monument.

“The most effective way to achieve the determined goals, as the practice shows, is the unification of private investors’ stock and budget means, within the bounds of one project. I am sure that being aware of social liability of business to the public, the entrepreneurs will support the state in restoration of Russian cultural heritage”, mentioned **Valentina Matvienko** in her speech.

As a result, more than 60 million rubles came to the Foundation’s account. Moreover, the money came not



GERMAN GREF: Patronage in Russia has always been considered to be a good action.

Heritage

only from major companies, but also from private persons.

RESTORE BY THE ANNIVERSARY

By preliminary estimation, the cost of restoration of the whole palace-park ensemble will amount to 7-8 billion rubles.

In 2005, 170 million rubles will be assigned from federal budget for restoration works on Oranienbaum State Museum-Reserve. About 80 million rubles will be received through the Palace-Park Ensemble Restoration and Development Support Foundation. The total cost of project work will amount to approximately 290 million rubles.

“Without the precise financing organization of the Foundation, we wouldn't be able to start the works and to prepare a rather large stock of project documentation, — notes **Vladimir Fomin**, Director of State Enterprise Research Institute “Spetsproektrestavratsia” — And the money, which was assigned by the Ministry of Culture, reached us only at the end of December”.

The funds, obtained by the Foundation, have already allowed to finance the working out of project documentation, performance of topographic-geodesic works and composition of cadastral plan; to pay for services connection with the withdrawal of explosive objects, etc. from the territory.



VALENTINA MATVIENKO: I am sure that the entrepreneurs shall support the state in restoration of Russian cultural heritage.



It is planned that “Toboggan slide” pavilion shall be restored by the end of 2005. In 2006 the restoration of the Chinese Palace, where original parquet of XVIII century was spared in 16 halls out of total 17, will be started.

Another important object is the Great Menshikov Palace. Here it is planned to perform the works on underpinning, waterproofing and water-draining. Research Institute “Morteprotekhnika”, located in the building, has by now vacated only one third of the area. The internal funds are not sufficient for removal. The Great Palace can only be vacated by May 2006 at the earliest, provided that the

Research Institute receives about 90 million rubles for removal.

Generally, on conditions of stable and sufficient financing, it is planned to complete all works by 2011, that is by the celebration of 300th anniversary of Oranienbaum.

STATE AND BUSINESS PARTNERSHIP

The most important role in restoration of “Oranienbaum” State Museum-Reserve will be played by obtaining of private funds. The Foundation has prepared a program of priorities and benefits for its partners.

For example, in advertising materials of the Foundation it is provided that its partners, which make major contributions, will receive “priorities in investment projects on territories, adjacent to “Oranienbaum State Museum-Reserve”.

According to **Sergey Korneev**, Director of North-West branch of the Russian Tourism Industry Association, in future Oranienbaum might become a part of the popular tour route Strelna — Peterhof. With the launch of encircling highway, there will be a connection between Kurortny district and Oranienbaum. The Oranienbaum-Peterhof area will be most attractive as a place for business events, for development of cultural-cognitive and ecological tourism.

In the context of the aforesaid, it is important that restoration of Oranienbaum takes place in the bounds of general concept of development of Gulf of Finland southern coast, which includes Strelna, Peterhof, area of famous Lower (Tsar's) Road and Oranienbaum. •



SERGEY FRANK: Oranienbaum is our cultural and spiritual heritage, which we are obliged to save for our children and grandchildren.

GROSS DOMESTIC PRODUCT

| | Latvia | Lithuania | Estonia |
|---------------------------------------|--------|-----------|---------|
| GDP at current prices, mln EUR | | | |
| Q1 2004 | 2382 | 3812 | 2029 |
| Q2 2004 | 2681 | 4470 | 2327 |
| Q3 2004 | 2858 | 4758 | 2250 |
| GDP at constant prices, % | | | |
| over Q1 2004 | 108.8 | 107.1 | 106.8 |
| over Q2 2004 | 107.7 | 107.3 | 105.9 |
| over Q3 2004 | 109.1 | 105.8 | 106.1 |
| GDP per capita, EUR | | | |
| 2002 | 4174 | 4302 | 5082 |
| 2003 | 4216 | 4711 | 5942 |

Source: The Latvian Central Statistics Office.

WAGES, EUR

| | Latvia | Lithuania | Estonia |
|--------------------------|--------|-----------|---------|
| Monthly average, Q4 2004 | | | |
| Gross wage | 336.0 | 380.0 | 492.0 |
| % to Q4 2003 | 111.9 | 108.5 | 108.1 |
| Min. wage, January 2005 | 114.0 | 145.0 | 172.0 |
| % to January 2004 | 114.3 | 111.1 | 108.5 |
| Old-age pension, Q4 2004 | 113.0 | 114.0 | 147.0 |
| % to Q4 2003 | 115.0 | 113.7 | 111.0 |

Source: The Latvian Central Statistics Office.

FOREIGN TRADE, 2004, MLN EUR

| | Latvia | Lithuania | Estonia |
|--------------------------|--------|-----------|---------|
| Export (FOB): | | | |
| total | 3151 | 7451 | 4698 |
| to EU-25 | 2422 | 4951 | 3758 |
| % of total | 77 | 66 | 80 |
| Import (CIF): | | | |
| total | 5579 | 9875 | 6737 |
| from EU-25 | 4188 | 6222 | 5237 |
| % of total | 75 | 63 | 78 |
| Balance of foreign trade | -2428 | -2424 | -2038 |

Source: The Latvian Central Statistics Office.

FOREIGN DIRECT INVESTMENTS

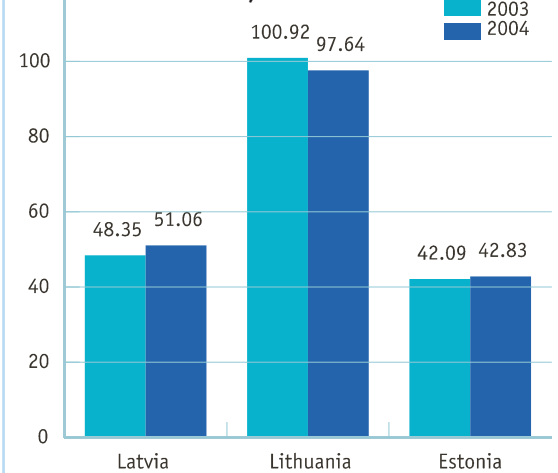
| At the end of quarter | Latvia | Lithuania | Estonia |
|-----------------------------------|--------|-----------|---------|
| FDI, stock, total, mln EUR | | | |
| Q3 2004 | 3262 | 4337 | 6068 |
| Q3 2003 | 2685 | 3841 | 5077 |
| Per capita EUR | | | |
| Q3 2004 | 1411 | 1264 | 4491 |
| Q3 2003 | 1155 | 1113 | 3744 |
| FDI, flows, mln EUR | | | |
| Q3 2004 | 118 | 122 | 143 |
| Q3 2003 | 25 | -211 | 229 |
| % of GDP | | | |
| Q3 2004 | 4.1 | 2.6 | 6.4 |
| Q3 2003 | 1.0 | -4.9 | 11.1 |

Source: The Latvian Central Statistics Office.

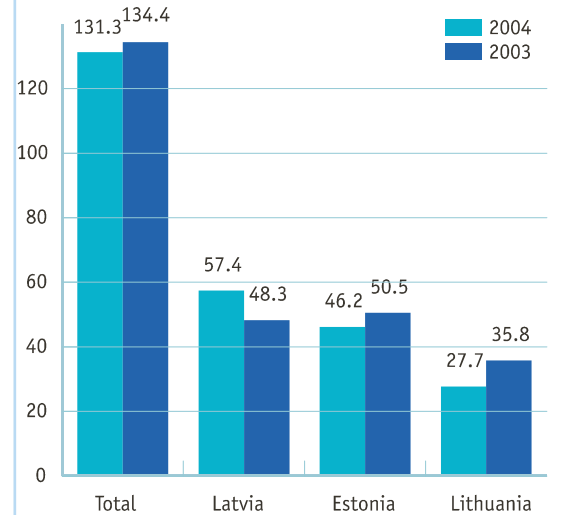
AVIATRANSPORTATIONS IN THE BALTICS

| | Volume of pass. traffic, pers. | | Cargo turnover, t | |
|---------|--------------------------------|---------------|-------------------|---------------|
| | Jan 2005 | Jan 2004/2005 | Jan 2005 | Jan 2004/2005 |
| Riga | 99 967 | + 50.0% | 774 | n.a. |
| Vilnius | 76 297 | + 56.4% | 389 | -1.8% |
| Tallinn | 85 314 | + 41.1% | 360 | -21.1% |

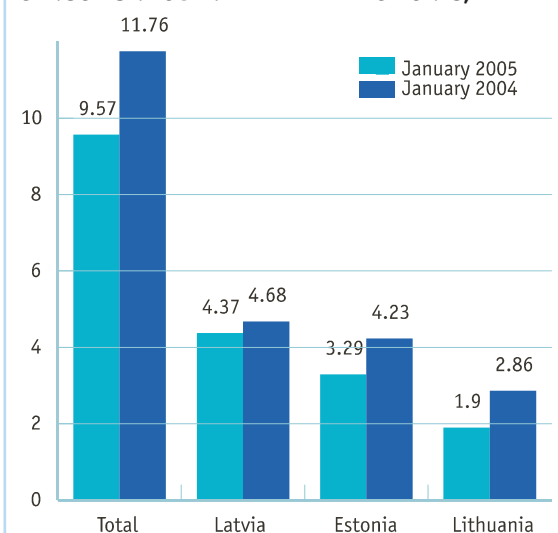
Source: LETA.

RAILWAY FREIGHT TURNOVER IN THE BALTIC STATES, MLN T

Source: Railway data.

CARGO TURNOVER IN THE BALTIC PORTS, MLN T

Source: LETA.

CARGO TURNOVER IN THE BALTIC PORTS, MLN T

Source: The Latvian Central Statistics Office.

APARTMENTS' COSTS IN THE CAPITALS, EUR/M²

| | Estonia | | Latvia | | Lithuania | |
|--------------------------------------|-----------|----------|-----------|----------|-----------|---------|
| | Q3 2004 | 2000 | Q3 2004 | 2000 | Q3 2004 | 2000 |
| Old town (reconstructed) | 1400-2600 | 770-1300 | 1800-3000 | 700-1400 | 1000-2500 | 450-800 |
| Central city (new and reconstructed) | 900-1600 | 580-870 | 1400-2300 | 600-950 | 1000-2500 | до 900 |
| Suburban area (typical apartments) | 550-700 | 260-390 | 540-800 | 310-430 | 330-600 | 200-340 |
| New apartments | 900-1600 | | 950-1400 | | 700-1000 | |

MORTGAGE INTEREST, %

| | Estonia | Latvia | Lithuania |
|---------------------------------|-----------|-----------|-----------|
| Average mortgage interest, 1998 | 13.8-14.3 | 11.1-13.9 | n.a. |
| Average mortgage interest, 2004 | 3.8-4.3 | 4.9-5.3 | 5.0 |

TOTAL AREA OF THE MODERN OFFICE PREMISES, ~M²

| | Tallinn | Riga | Vilnius |
|-----------------|---------|-------|---------|
| 2004 | 170000 | 57000 | 140000 |
| Planned in 2005 | 25000 | 38000 | 60000 |

COSTS OF A TWO-ROOM APARTMENTS IN THE LARGEST CITIES, Q3 2004, EUR

| | Tartu | Jelgava | Kaunas |
|----------------|-------------|-------------|-------------|
| City centre | 22500-40000 | 15000-25000 | 25000-33000 |
| Suburban areas | 19000-32000 | 12000-16000 | 20800-24000 |
| | Parnu | Jurmala | Klaipeda |
| | 22500-45000 | 20000-60000 | 25000-50000 |

TOTAL AREA OF RETAIL PREMISES, M²

| | Tallinn | Riga | Vilnius |
|---|---------|--------|---------|
| 2004, ca | 515000 | 446110 | 420000 |
| Additionally planned (the biggest projects) | 0 | 192000 | 81000 |
| Capacity per capita, 2004 | 1.25 | 0.60 | 0.75 |

AVERAGE RENTAL PRICES ON RETAIL PREMISES, EUR/M²/MONTH, 2004

| | Tallinn | Riga | Vilnius |
|------------------|---------|-------|---------|
| Trade centre | 8-40 | 15-60 | 10-45 |
| Old city | 20-35 | 10-35 | 16-46 |
| City centre | 30-40 | 8-50 | 22-50 |
| Average yield, % | 9-11 | 12 | 9-11 |

THE BIGGEST PROJECTS, M²

| Tallinn | Riga | Vilnius |
|-------------------|-----------------|--------------------|
| Ulemiste — 50000 | Domina — 50000 | Akropolis — 55000 |
| Kristiine — 32000 | Alfa — 39000 | Hyper Rimi — 22000 |
| Viru KK — 28000 | Olympia — 23000 | Europa — 22000 |

AVERAGE RENTAL PRICES, EUR/M²/MONTH, Q3 2004

| | Tallinn | Riga | Vilnius |
|---|---------|-------|---------|
| Repaired (new) high class office premises in downtown | 12-16 | 15-25 | 15-18 |
| Repaired (new) high class office premises | 10-11 | 8-15 | 9-13 |
| Average vacancy | 8-15 | 5-30 | 5-25 |
| Average yield, % | 9-12 | 12 | 10-12 |

PRICES OF VACANT COMMERCIAL, RESIDENTIAL LAND IN CENTER OF CAPITAL CITIES, EUR/M²

| Tallinn | Riga | Vilnius |
|-----------|------------|-----------|
| up to 700 | up to 1800 | up to 500 |

AVERAGE RENTAL PRICES ON WAREHOUSES AND PRODUCTION PREMISES, EUR/M²/MONTH, 2004

| | Tallinn | Riga | Vilnius |
|-----------------------------------|---------|---------|---------|
| Oldest buildings / storage spaces | 1.0-3.0 | 0.5-4.0 | 1.5-3.0 |
| New buildings | 3.0-4.5 | 3.5-5. | 4.0-5.0 |

HOTEL SECTOR, 2003

| | Estonia | Latvia | Lithuania |
|---------------------------|---------|--------|-----------|
| Number of beds | 6952 | 14983 | n.a. |
| Number of rooms | 3705 | n.a. | 7057 |
| Average occupancy rate, % | 57.4 | 33.0 | 28.5 |
| | Tallinn | Riga | Vilnius |
| Number of beds | 4931 | 6101 | n.a. |
| Number of rooms | 2618 | 3230 | 3016 |
| Average occupancy rate, % | 64.7 | 42.5 | 32.9 |

Source: Arco Real Estate.

TAXES IN 2003, %/GDP

| | |
|-------------------|-------------|
| Average in the EU | 41.5 |
| EU-10 | 41.8 |
| Sweden | 51.4 |
| Denmark | 49.8 |
| Belgium | 48.1 |
| France | 45.7 |
| Finland | 45.1 |
| Lithuania | 28.7 |
| Latvia | 29.1 |
| Slovakia | 30.9 |
| Ireland | 31.2 |
| Estonia | 33.4 |

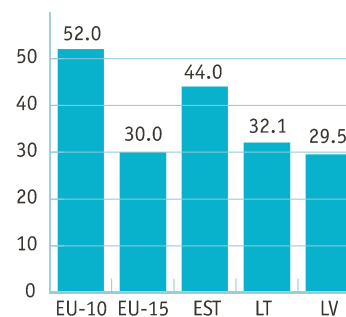
Source: Eurostat.

EXPENDITURES ON SCIENTIFIC RESEARCH 2002 %/GDP

| | |
|------------------|-------------|
| USA | 2.76* |
| Japan | 3.12 |
| EU-10 | 1.93 |
| Sweden | 4.27 |
| Germany | 2.5 |
| France | 2.19 |
| Estonia | 0.77 |
| Lithuania | 0.68 |
| Poland | 0.59 |
| Latvia | 0.39 |
| Cyprus | 0.33 |

* in 2003.

Source: Eurostat.

USE OF COMPUTERS IN 2003, % TO THE POPULATION

Source: Eurobarometr.

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