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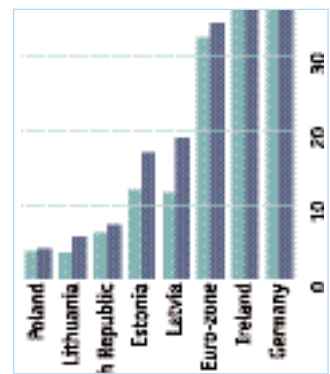
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Present *BC's* issue is mainly a thematic one and it is devoted to an important in the Baltics issue concerning, so-called, business consulting. We have traced this sector's development in each of the three Baltic States — Latvia, Lithuania and Estonia. Our analysis has revealed that Baltic specifics in this particular consulting service delivering (about a thousand companies are involved!) consists of three vital ingredients, i.e. financial, legal and investment services. At the same time, four main kinds of consultancy services could be distinguished in Latvia, i.e. accounting and auditing (34% of the market), business management (29%), legal counseling (23%) and marketing research (14%).

At the same time we have concentrated on such interesting for the region problems as industrial parks and sea port development, as well as energy, transport, introduction of euro currency and forestry development perspectives.

Industrial parks are not only new sphere of economic activities in the Baltic States, they are a nucleus of European Union's innovation policy.

The same is true for transport, in particular, sea transportation routs in the Baltic Sea. *BC's* analysis has shown that according to the EU transport policy directions, main cargo routs shall be re-oriented towards northern Europe instead of traditional motor-road routs in central Europe. Great importance in this regard, is attached to small ports in the Baltic Sea (see our report on small ports).

And, as usual, a solid *BC's* share of information is devoted to the European Union. We continue publishing extracts of the EU financial integration report, this time covering banking sector's development and insurance issues. Our comment on the EU financial liberalization follows.

In this *BC* issue's conclusion, we have covered wine production in Latvia and trans-regional transportation issues as well as extensive statistics on the Baltic States' economic development.

Eugene Eteris,
BC's International Editor

CHINESE MINISTER VISITS LITHUANIA AND LATVIA

Widespread Lithuanian-Chinese relations are developing in a friendly manner picking up the pace gradually; although various differences, both economic and political, cannot be avoided, Lithuanian and Chinese foreign ministers **Antanas Valionis** and **Li Zhaoxing** acknowledged after the meeting in Vilnius this August. Lithuanian minister described the talks with his Chinese counterpart as “concrete, business-like and friendly though not without certain differences in opinions.” Differences involved textile imports to the EU and slightly different Chinese stance regarding the UN Security Council’s reform. Chinese guest on his behalf was rather inclined not to discuss problems, but to praise Lithuanian basketball players, national cuisine and nature. Mr. Li Zhaoxing’s two-day official visit was the first one by a Chinese foreign minister to Lithuania in the last decade. Diplomatic relations between Lithuania and China were established on September 14, 1991.



In Latvia Chinese foreign minister met with President **Vaira Vike-Freiberga**, Prime Minister **Aigars Kalvitis** and Foreign Minister **Artis Pabriks**. Even though Latvian and Chinese ministers had already met a few months ago, this time in Riga they discussed a number of bilateral issues, e.g. expanding economic, education and cultural cooperation as well as ties between separate cities. Both countries are also interested in developing transport cooperation. Ministers exchanged ratification agreements concerning mutual legal assistance in criminal cases signed by Latvian President Vaira Vike-Freiberga on April 15, 2004, during her last visit to China.

SCANDINAVIAN IT GIANT ENTERS BALTICS

Major Scandinavian IT company, **WM-data**, has acquired 100% of shares in the Estonian software development company **Aprote**. Founded in 1969, **WM-data-concern** has become a leading IT company in the Nordic region. The concern’s annual turnover reaches SEK 10 billion, and it employs a staff of 9,000 people.

LATVIA'S VENTSPILS PORT RELOADS KAZAKH GRAIN



The company **Ventspils Grain Terminal** late this August opened a grain terminal in the northwestern Latvian port Ventspils. In November this year the terminal will receive from Kazakhstan first shipments of high-quality wheat with increased protein content. No such wheat is grown in Europe and that’s the cargo’s advantage.

Ventspils free port invested about 5 million lats in terminal construction although total investments in the project are estimated at USD 30 million.

It is planned that the terminal will reload 600-700 thousands tons of grain by September next year and in future will achieve its maximum capacity of 2.5 million tons annually. **Ventspils Grain Terminal** board chairman **Vladislav Shafransky** said that they were expecting total return on the investments in seven years.

Ventspils Grain Terminal Ltd. is a Latvian-Kazakh joint venture with a registered ground capital of 3.28 million lats. One of the shareholders is Ventspils-based **Kalija parks** (50% of shares). The Kazakh partners in the company are represented by trade and grain export companies.

FIRST NEW HIGHWAY BUILT WITH THE EU SUPPORT

In late July Latvian Transport Ministry presented a bypass road project near Saulkrasti-town in northeastern Latvia which is being built with co-financing from the EU. It will be the first new motor road built in Latvia since restoration of independence in 1991. The Lilaste-Skulte road on the A1 Highway will be built in order to relieve traffic along highway leading from Latvian capital Riga to the Estonian border.

Its construction will cost EUR 55.789 million (without VAT). It should be noted that three-fourths of the money would come from the EU co-financing funds. It is planned that the entire bypass will be put into operation in December 2007.

HUAWEI HAS COME TO LATVIA

Largest Chinese telecommunication equipment producer with the total amount of sales reaching more than USD 5.58 billion in 2004 opened its official representation office in Latvia this July. This Asian IT giant is one of the fastest growing companies in the industry, having increased its turnover by 45% last year. Its products are sold in 90 countries around the world, and the product range covers practically all aspects of the telecommunications sector. **Huawei Technologies’** “portfolio” consists of equipment for GSM mobile networks and support systems for all 3G-communication standards. The company develops network solutions for fixed-line communications and data transmission, telephone-service and Internet.



Huawei Technologies Latvia has not yet revealed its business plans in Latvia and the Baltic States but they are not too difficult to understand. These are supposed to be sales of mobile network equipment, participation in multi-million tenders concerning contracts for solutions regarding e-Latvia problems and other major national projects financed from the EU funds and the state budget, as well as sales of mobile phones.

KAZMUNAIGAZ HAS OPENED ITS REPRESENTATION IN LITHUANIA

Kazakh national oil and gas company **KazMunaiGaz** in July opened a representation office in Lithuania (its eighth representation abroad). **KazMunaiGaz** is going to use its representation office in Lithuania for oil exports through Butinge terminal, supply of gas to the Lithuanian market and neighboring countries and sale of light oil products at more favorable prices. “We are considering all possibilities for the supply of oil products to Lithuania and other countries in this region. In our opinion, our entry into this market would boost competition to the benefit of consumers,” said **Dias Suleimenov**, director general of **KazMunaiGaz Trade House**.

COAL TERMINAL IN TALLINN PORT



A new terminal has become operational in Tallinn port in Estonian capital. The terminal was built by *Muuga Coal Terminal Operator*, a subsidiary of the Russian coal company *Kuzbassrazrezugol*, reported the *Rosbalt* news agency. The terminal with a total cost of EEK 1.5 billion, including construction of wharves and cargo areas, already receives coal by rail and reloads it onto Panamax-type large-tonnage vessels. Total length of the three wharves at the new terminal is 770 meters. The terminal can handle up to 5 million tons of coal a year.

BALTIC STATES DON'T LIKE NORTH EUROPEAN GAS PIPELINE

Transport ministers of the three Baltic States at their annual meeting on September 9 in the Latvian capital Riga criticized Russian-German agreement on construction of the North-European Gas Pipeline (NEGP) across the Baltic Sea. They hope that the whole issue will be subject of discussion at the highest level in the EU.

Ainars Shlesers, Latvian Transport Minister said that Russian-German agreement about building gas pipeline around the Baltic States and Poland's territory "one-sided". Baltic ministers agreed that Germany as the EU Member State had acted incorrectly because participation in the project was important for the Baltic States and Poland where future alternatives for natural gas deliveries were at stake, too. Mr. Shlesers said that the NEGP construction agreement was more political than economic by nature. The Baltic states have always underlined their intention to strengthen regional political and economic independence but Germany turned a deaf ear to those intentions.

The Baltic ministers also agreed about the need to involve Russia in implementation of the Rail Baltica fast train project. Estonian Minister of Transport and Communications **Edgar Savisaar** pointed out that Russia's participation in Rail Baltica would ensure development of railway infrastructure on the route Tallinn-St. Petersburg and, possibly, further on to Moscow.

NEW LATVIAN RAILWAY'S CHAIRMAN

The council board of the state-owned railway company *Latvijas dzelzceļš (LDz, Latvian Railway)* in August dismissed from the office its board chairman **Andris Zorgevics**, who had run the company for more than 10 years. **Ugis Magonis**, an advisor to Latvian Transport Minister **Ainars Shlesers**, was chosen as the new LDz's boss. Several other board members also handed in their resignations but will continue to work for the



company in different capacities. Mr. Zorgevics agreed to accept an advisory post in LDz, said the council chairman **Guisoryntis Macs**.

Mr. Magonis in September was appointed also as a part-time councilor on railway issues to Latvian Prime Minister **Aigars Kalvitis**.

LDz council has supported a plan to organize two new subsidiaries, i.e. *LDz Cargo* and *LDz Infrastruktūra*. Final decision about the railway company's restructuring will have to be made by its main shareholder, the Latvian state.

LITHUANIAN BANK'S OFFER FOR LATVIA'S SAVINGS BANK

Lithuania's *Snoras* bank, which recently acquired 83.01% in *Latvijas Krajbanka* has made a buyout offer to small shareholders, suggesting to pay 3.15 lats (EUR 4.48) per share. Latvian financial watchdog has approved the buyout offer which became effective on October 5 and will soon enter into force.

Latvijas Krajbanka shares, listed on Riga Stock Exchange, closed at 4.79 lats on October 4, but the parity value of the bank's share equals only one lat.

Latvijas Krajbanka in late August this year ranked 11th among Latvia's 23 banks by volume of assets, while *Snoras* is the fourth largest bank in Lithuania. Half of *Snoras*'s bank assets is owned by Russia's *Konversbank*.

LATVIA'S RIETUMU BANKA GETS NEW HOLDER

One of the most influential investor in Europe, **Dermott Desmond**, has become a shareholder in Latvia's *Rietumu Banka*, having bought 33.1% of bank's shares. The amount of the deal is being kept confiden-



tial. *Rietumu Banka* board member **Alexander Kalinovsky** told the press that the bank's share capital had been raised by 6.4 million lats to 60 million lats. It is the bank's intention to increase its capital to EUR 100 million (70.28 mln lats) by the end of the year, although it is not planned to admit any new large investors.

Rietumu Banka's operations will remain focused on the EU and the CIS countries in future. Funds received from sale of the bank's shares will be used as a venture capital and may also be invested in the Baltic region.

SVENSKA HANDELSBANKEN OPENS BRANCH IN ESTONIA

Svenska Handelsbanken, the largest bank in Sweden and the third largest in Scandinavia, has opened a branch in the Estonian capital Tallinn. The Tallinn branch will report to *Handelsbanken's Regional Bank Finland*. Previously *Svenska Handelsbanken* had a representation office in Tallinn for many years. It was headed by **Bo Kragh**, an expert well-known in the Baltic states, who said that in two or three years *Svenska Handelsbanken* will also open branches in Latvia and Lithuania.

In May 2005 *Svenska Handelsbanken* opened a subsidiary in Moscow, the first Swedish-owned bank in the Russian capital. *Svenska Handelsbanken* also plans to transform its representation office in St.Petersburg into a branch in six months.

If *Svenska Handelsbanken* branches in Moscow and St.Petersburg intend to serve mostly Scandinavian companies working in Russia, the Estonian branch will also be providing other banking services, including real estate lending.

Small is Beautiful and... Successful



By Mikhail Tuzhikov

"Transport Rossii" correspondent in the Baltic States

Baltic Sea has practically become an internal sea surrounded by the European Union states and Russia; freight traffic between these sides increases each year. It is quite real, according to experts' opinion, that the annual turnover of goods of the of Baltic sea countries by 2010 will increase by 1.6 times, from present 370 million tons to almost 600 million tons. In this situation numerous small ports can assist 25 large Baltic ports in processing cargoes and passengers' transport.

Baltic Sea is an important trading and transport region where the high level of economic cooperation and trade defines a high level of concentration of trade objects in the port industry and navigation. Nine countries of the Baltic region, i.e. Russia, Latvia, Lithuania, Estonia, Finland, Germany, Poland, Denmark and Sweden have on the Baltic Sea 60 big and average-size ports, and there are more than hundred small ones. Annually more than 370 million tons of cargoes are transported through seaports of the Baltic countries, and more than 60 thousand vessels annually pass through Danish straits.

Industrially developed Baltic region's economic space includes more than 160 million people; it is a huge market of passengers and freight transporta-

tion. Economic growth in the market of Northern Europe exceeds rates of growth in all other European regions that, in turn, promotes increase in volumes of trade. Essential growth share of commodity circulation is going to be brought by Russia, which plans by 2010 to transport through Baltic Sea 185 million tons of foreign trade cargoes, including 65 million tons of crude oil, 45 million tons of refinery oil, 15 million tons of coal, 11 million tons of mineral fertilizers, 25 million tons of container cargoes.

COASTAL NAVIGATION ON BALTIC SEA

Today about 2 million TEU of containers is annually processed on the Baltic Sea. That requires a necessary creation in the Baltic region a "hub-port";

the idea will become profitable as soon as 3-5 million TEU will pass through regional infrastructure. "Hubs", by definition, are central ports receiving transcontinental containers with the aim of further cargo distribution onto average and small ports by local vessel-feeders.

As is well known, the European Union considers as a priority in transport policy to move mass freight traffics from already overloaded central European regions on its periphery, first of all to Baltic region. It makes possible the support from Brussels in creation of "a Baltic hub". Besides, the EU pays increasing attention to coastal navigation development and in this regard the role of small ports will constantly increase.

Experts predict that the volume of trade among countries of the Baltic region will annually accrue by 3% up to 2010, mainly due to crude oil export deliveries and refinery products, as well as metals and chemical products. Small ports in the Baltic Sea are expected to conquer the niche in the transit cargo market. It is mostly an issue for Latvian and Estonian small ports as Lithuanians hope to transform Klaipeda into "a ▶

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MERSRAGS.



SKULTE.

Baltic hub” and are not much interested in small ports’ development.

LATVIA HAS ACQUIRED THE EU ASSISTANCE

The turnover of goods in Latvian ports last year has grown by 4.8% and its volume has reached 57.4 million tons, from which 1.13 million tons (1.97% from the general turnover of goods) have been processed in seven small Latvian ports.

Last year turnover of goods in small ports has grown by 31.5%, from 859.3 thousand tons to 1.13 million tons. Skulte port is the leader among small ports, about 612 thousand tons of cargoes (+29.9%) passed through it. The second place goes to Mersrags port with 264 thousand tons (+16.6%); the third became Salacgriva port with 222 thousand tons (+51%). Port Lielupe has practically stopped cargoes’ processing. Port Pavilosta is focused on tourist business and Yachts-clubs, and Roja port and Engure port specialize on fish production and transportation.

Russian mass-media recently published information that special Government of Moscow interdepart-

mental commission dealing with purchasing property abroad is considering acquiring ports’ property in Baltic region. Director of transit policy department in Latvian Transport Ministry, **Andris Maldups** has commented *BC* this news in the following way:

“Politicians in Russia, most likely, are interested in purchasing terminals in some big Latvian ports, e.g. Ventspils, Riga and Liepaja. Small ports are not of interest to them as it is almost impossible to develop their transit transport net as local infrastructure is purely developed. Absence of approaches to rail tracks means absence of interest to transit cargoes. It is necessary to mention that almost 90 % of cargo deliveries for Baltic ports are carried out by railway transport. It is more likely that western investors will be interested in our small ports through which wood products are transported to them”

Latvian Association of small ports’ president, **Janis Megnis** has defined precisely both the role and importance of small ports in Latvia: “We have three basic directions of activity. The first is local transportation of wood, saw-timbers, peat and other

local stuff. The second direction, which will always survive, is connected to fishing vessels and fishery. And, at last, the third one, rather new kind of activity — tourism, excursions and sailing, more precisely, yachts-clubs.

It has to be said that the Latvian small ports are actively developing, and in this drive towards positive changes we find proper understanding in the European Union. Suffice it to say that we have achieved from the EU allocation of more than 3 mln lats on reconstruction of ports and modernization of hydro construction facilities in Skulte, Mersrags and Salacgriva ports.

It is well known that in the Baltic States the greatest number of small ports is in Estonia. Speaking about operational experience of Estonian colleagues it is necessary to note that they work pretty well with tourist programs, which they have been developing long before joining the EU. On top of this, Estonian Union of small ports was constantly receiving great assistance from Finland and Estonian government, therefore they can make great plans. However, our northern neighbors’ projects are mostly connected with a great share of intellectual orientation, though we are more focused on practical issues”

ESTONIANS WERE AIMED AT EXPORT-IMPORT

Unlike Latvia, a little bit different situation has occurred in Estonia where small ports are processing much more cargoes than Latvian ports. The former is aimed at international export-import transactions and presently becoming centers of regional importance creating favorable conditions for city infrastructure development. For example, within Tallinn City territory only, there are at least 16 ports and places for vessels moor- ▶

TURNOVER OF GOODS IN LATVIAN PORTS IN 2003-2004, THOU T

Port	2003	2004	2004/2003, %
Riga	21721.7	23991.3	10.4
Ventspils	27316.2	27805.3	1.8
Liepaja	4857.4	4474.1	-7.9
Big ports, total	53895.3	56270.7	4.4
Salacgriva	146.7	221.5	51.0
Mersrags	226.7	264.3	16.6
Roja	9.6	23.2	140.7
Pavilosta	3.2	7.2	25.0
Lielupe	0.1	0.0	-100.0
Engure	2.0	1.4	-28.4
Skulte	471.0	612.0	29.9
Small ports, total	859.3	1129.6	31.5
All ports, total	54754.6	57400.3	4.8

Source: LIAA.

Port of Kunda — a Port with Two Histories



Kunda may explicitly call itself a seaport town. The real history of Kunda-port dates back to the year of 1805 when the Russian tsar, Alexander I, granted by a written order a permit to establish, at the mouth of the Kunda River, a port which greatly expanded economic development in the whole region. Today's commercial Port of Kunda, re-opened as a greenfield project in 1994, thus starting the new history, is the most important regional sea-gate undertaking in the whole area. Approximately 600 ships call annually bringing in and taking out approximately 1.5 million tons of different goods.

A regional port, a personal approach and a fast service are the three key words for the Port of Kunda. In drawing up action plans, the *Kunda Nordic Cement Corporation*, as the owner of the Port of Kunda, has always relied on close co-operation with the customers of the port. The development of the port is a result of several factors: requests from customers for more extensive storage areas; new co-operation partners and commodity groups; positive prospects in growth of commodity exchange within the European Union.

A thorough study was carried out concerning commodity flows in relation to the construction of a Ro-Ro terminal, and creating a regular connection with the seaports in Scandinavia.

Kunda Nordic Cement can proudly claim that the Port of Kunda is more and more fulfilling its social function, i.e. working as a development-motor of the region. Port was one of the "magnets" attracting one of the biggest foreign investments ever landed in Estonia — construction of a pulp-mill by *Estonian Cell* in Kunda, in the vicinity of the cement plant.

THE PORT OF KUNDA EXPECTS AN INCREASE OF COMMODITY VOLUMES IN 2006

1.433 million tons of regional goods were handled in the port in 2004, which was the same amount as in 2003. The year 2004 is characterised by an increase in imported goods (130%) and a decrease in exports (13%).

The year-end of 2004 was an exceptional one in relation to the port operations, thanks to the beginning of co-operation with the first independent operator in the port — *AS Baltic Tank*. As a result, the first specialized liquid-bulk terminal with the tanks' capacity of 52,000 cubic metres was started in the spring of 2005 and the dry-bulk terminal with a covered storage area of 5,700 square metres was completed in the summer of 2005.

The rapidly increasing price of petrol on the global market enabled, for the first time, a test to be made last year with a new export commodity — shale oil, which was pumped to the amount of 73,000 tons. In 2006, an increase in the volume of goods is expected when the pulp-mill of *AS Estonian Cell* will start its operations.

Last year the major factors that influenced port operations were changes in the Estonian timber and timber-processing industry sector. Compared to 2003 timber exports (round logs and pulpwood) decreased by 25%, during the same period, the import of raw materials for sawmills increased by 190%. Increased production capacities in the timber processing industry resulted in the growth of exported volumes of wood-chips and pellets.

The share of products from the cement plant (the owner's volume) through the Port of Kunda was 15%.

In 2004, positive developments in the co-operation with the Kunda City government and Laane-Virumaa County



government are worth bringing into the spotlight. An active trilateral search for solutions in creating a new bypass of the road to Kunda, for connecting the Port of Kunda with the existing railway network, and starting regular ferry services with neighbouring states has started. •

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KUNDA: Example of modern small ports' importance.

ing. However Estonians, comparing their city-port with that of Helsinki, consider that it is not enough. Thus in the Finnish capital there are about 7 000 moorings for small vessels whereas in Estonian less than 500.

Private ports situated near big and small cities in Estonia are regarded as major potential for creating new employment facilities and also for improvement of social climate in the region. Owing to close connections with definite transport directions, universal and flexible price policy, small Estonian ports create good preliminary conditions for prompt dialogue with city and district management representatives. During 1990th in Tallinn and around it some rather small private ports appeared with the total turnover of goods exceeding 10 million tons already in 2001.

Small Estonian ports are actively developing, thus recently in Kunda a terminal for slate and vegetative oils and also chemical raw materials for paper-industry was opened. Finns who have allocated about 6 million euro for that purpose actively assisted in the construction of this object.

Other small ports in Estonia, e.g. Pjarnu, Paldiski and Saaremaa are

capable to process a year about 1.5-2.0 million tons of cargoes. Through terminals in ports Bekkeri and Paljassaare annually passes more than 3.5 million tons of crude oil. However it is necessary specifically to note actively developing the oldest of small ports: 200-years old port Kunda with turnover of goods exceeding 1.7 million tons based on local large pulp-and-paper production and export of wood products. It is to be mentioned more than twenty small ports in Estonia, besides those already listed, as well as tens of yachts-clubs and small ports for very little courts.

AN EXAMPLE FOR ALL

As an example of modern small ports' importance in Estonia under conditions of increasing freight traffic, port Kunda is to be mentioned. Officials in Brussels for sever years are tracing developments in this seaport (absolutely private port, where the owner and the operator are private owners). Presently clients from Northeastern and Central Estonia actively use this port's facilities. In the long run the port is going to service transit cargoes on the European North — South direction.

Kunda sadam port director, **Alexander Nikolaev** optimistically looks into the future: "At the first stage we plan to organize additional calls in Kunda port Ro-Ro vessels on lines Kotka/Hamina — Western Europe for collecting local market cargoes on already actively developed direction East-West. We are going to provide an alternative route to presently quite overloaded ferry corridor Helsinki — Tallinn together with the possible extension of the North — South direction, i.e. from industrial regions in Southeast of Finland up to Italy. At the second stage we are planning to develop logistic center in port Kunda, with reconstruction of the railway line Kunda-Rakvere, presently not very active. It is a kind of necessary work to do because port Kunda is located quite near to the largest railway junction Tapa, where the southern direction of the Estonian railways — *Eesti Raudtee* originates. We have to prove viability of our plan using country's geographical position on a crossroad of trading routs in Europe. We are sure that very soon overpopulated Europe will estimate major advantages of the neighboring Estonia with a lot of a rather empty territory in a civilized and quite country".

In conclusion it is necessary to add, that the above-mentioned scenario matches completely with the program "Short Sea Shipping"; or "3S"; to which due attention is paid in the European Union. Although the "3S" concept, to tell the truth, covers sea transportations across whole Europe. Therefore, to us another version "4S" (Super Short Sea Shipping) has become more understandable when we talk about sea transport within the Baltic Sea limits. •

GOODS TURNOVER IN SOME SMALL PORTS IN ESTONIA, MLN T

Port	2000	2001	2002	2003	2004
Russian-Baltic port	2.17	2.85	n.a.	n.a.	n.a.
Pjarnu	1.84	2.11	1.90	2.00	1.90
Miiduranna	1.42	1.75	1.60	2.00	2.50
Kunda	1.64	1.70	1.73	1.42	1.43
Paljassaare	n.a.	1.70	n.a.	n.a.	n.a.
Bekkeri	0.40	0.50	0.60	0.60	0.60
Loksa	n.a.	0.02	n.a.	n.a.	n.a.

Source: Data of the Association of the Estonian Ports.



A joint-stock company *SPACECOM* was established in May 2003 and is one of the most dynamic companies in the transport services market and international railway transportation in the Baltic region.

In 2004 *SPACECOM* won the tender to operate in the Estonian Railways. This led to the growth of competition in rail freight transit and hence to the reduction in pricing level for rail services' clients. The company owes more than 3400 units of its own rolling stock, ten 2TE116 diesel locomotives and two CME-3 shunting locomotives.



SPACECOM — One of the Most Dynamic Companies in the Transport Services Market

We can also purchase necessary number of rolling stock for certain project's implementation.

In the first half of 2005 the company handled 2.8 mln tons of cargo, using Estonia's railway infrastructure. The rail carrier *SPACECOM* mainly specializes in oil products transportation. Last year's turnover of *SPACECOM* reached 21.7 mln Euro. Estonian enterprise employs 130 workers.

The company is a shareholder of Daugavpils locomotive repair plant in Latvia, the largest in Europe. In connection to this, our company offers services on railroad engines' repair. The Daugavpils locomotive repair plant is an enterprises that is involved in repairing freight locomotives, electric trains, diesel and shunting locomotives repairing and producing different spare parts for railway transport. The plant is a regular supplier of spare parts for Russian, Baltic and CIS railways.

We also offer the wide range of services tied with the railway forwarding in the territories of the CIS and Baltic countries, as well as Europe, including cargo storage and transshipment, both in our own warehouses and seaports.

Near to Maardu station with its proximity to berth facilities of Muuga port, we reconstruct locomotive depot which was earlier intended for serving shunting locomotives only. The latter locomotive depot will be serving and repairing both main and shunting locomotives together with freight cars' repair. The first part of depot will be back in commission in the end of 2005. This will help locomotives and railroad engines stay in good condition in order to perform all tasks dealing with clients' cargo transportation.

Within the European Union territory we plan to offer services tied with the railway forwarding to our neighbors using professional experience gained in this sphere.

Our permanent partners are *E.O.S.* and *Trendgate* in Estonia, *BaltTransService*, *Transoil*, *Intergate* and *Severstaltrans* in Russia, *KazMunaiGaz* and *PetroKazakhstan* in Kazakhstan and etc

*With best regards, Oleg Ossinowski,
Chairman of Board.*



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Who and How Operates Forest's Riches?

By Mikhail Tuzhikov

It is well known that forests are planets' lungs, humanity's "green gold". And unlike coal, oil and gas, wooden resources are renewable. Our planet presently is quite in forest resources — earth's one third is covered by forests and they play important role in economic development of many countries, including Baltic region. How do we dispose these riches, how reasonable is our forestry's usage? Who and how operates these riches?

Annually as a result of human activity and acts of nature in the world forests' territory disappears at the rate of 100 up to 200 thousand square kilometers. For example, only in Europe in December 1999 as a result of a hurricane 193 million cubic meter of a wood has been destroyed: in Germany — 30 million cube, in Sweden — 5 million cube, in Denmark — 3.5 million cube, in Poland — 2 million cube, and in Lithuania — 0.4 million cubic meter. Estonia and Latvia have suffered losses too, although rather insignificant. However this year's January storm has caused serious losses to Latvian forestry: wind has tumbled down 7.3 million cubic meter of wood.

It is necessary to take into consideration damages from forest fires, which according to the World fire-monitoring center (Freiburg, Germany) every two seconds a site of a wood equal in size to a football field is wiped out from the Earth's face.

THE DEEPER IN THE WOODS ...

There is a permitted wood age for cutting down each kind of trees. For a pine tree it is 100 years, for a spruce — 81 years, for an

World forest area occupies about 4 billion hectares or 28% of global land territory. In the mastered woods every year about 3 billion cubic meters of wood is cut, but only 1.8 billion is replanted. In developing countries 82% of cutting down woods is used as fuel and only 18% is used in manufacturing. In developed countries this equation is vice-versa — 17% and 83%, correspondingly. Annually the area of world woods is reduced by 10 — 20 million hectares, but during last 100 years it has decreased by one-third, more precisely, by 1.5 billion hectares. In the beginning of XX century there were 3 hectares of forest on each person on the globe; now this share has decreased almost 5 times — up to 0.67 hectares.

alder and a birch — 71 years, and for aspen — 41 years. However this settled requirement is not always carried out.

For example, the age of most pine tree forests in Latvia are more than 40 years old, but fir forests of such age are relatively small (see Graph). And on the contrary, we can see expansion of fir-tree plantings in less than 40 years' age group, which coincides with artificial "boom" in forestry recreation and planting. At the same time in a forest density of birch plantings in the age of 40 years in comparison with spruce pine forests are in the smallest.

It's amazing the number of people in the Baltics participating in wood policy formation and its realization (see Table 1). Latvia is leading in this list — 161,602 persons, but this country is not the greatest out of three Baltic States. It is to be mentioned that the number of forest owners in Lithuania and Latvia is comparable (164,604 and 159,257, respectfully), but the number of Lithuanian officials involved in forestry are 3.5 times larger than that in Latvia.

However statistics does not tell all. In Sweden, for example, 51% of woods belongs to private owners, the state owns only 3%, 39% of wood belongs to corporate entities and 7% to other sort of owners (see Table 2). It's quite easy to be lost in a jungle of forest management if, of course one is not a branch expert.

STAFF, ACCOUNTANCY AND CONTROL

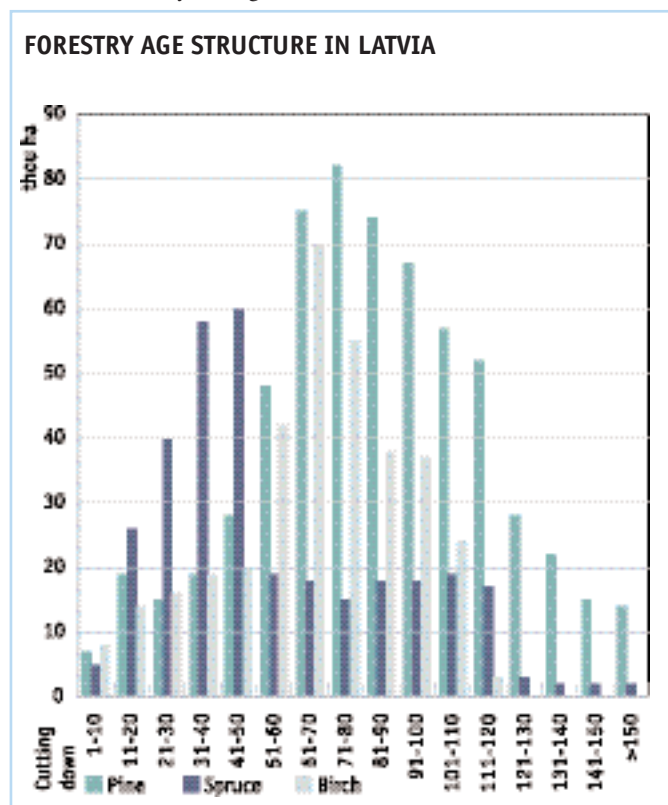
Latvian State Forest Department (Valsts meza dienests — VMD) general director **Janis Kinna** talking to *BC's* correspondent has explained some state wood policy peculiarities.

"Our main function is to monitor wood legislation enforcement, started interview VMD's general director. We do not have information on wood export or import, as we are interested in wood branch development as a whole. For example, wood industry begins with forests and ends up with furniture. Hence, we are engaged in

the former, i.e. we issue deforestation certificates, we follow how restoration of large forests is going on, we fine laws' violators, in a word, we keep forests' order. It yields positive results: now forest owners express the big desire to work following the rules.

Although still up to now we find infringement of forest legislation concerning violation of norms for forest restoration. Thus, cutting wood area shall be consistent with the restored area, the rule, which is not always followed. Among infringements of rules are such facts that about 10 % of forest owners have not legally registered their forest rights or have not made forest's inventory.

It is difficult to name exact size of forestry areas, as deliberate illegal forest plantings on the agricultural soils go on. One thing possibly evident -actual forest territory in Latvia is much more than on paper. We hope, that by means of funds from EU on countryside support inventory of farmland will be made and then forest areas' would reflect a real picture. The area of the state forests in size of 1.5 million hectares, which is under Latvijas valsts meži (LVM) control and is successfully managed.



Today the greatest trouble in wood sector is that after January hurricane the damaged forestry territory is not restored, and that affects wood market. Sawmills are over flown by poor-quality trees tumbled down by a storm, and the fresh cut trees can not find way to the market. For wood makers it would not be desirable to potter with cheap raw material and owners wait until the prices in the market will rise.

Comparing wood branch development in the Baltic's forest control and management system in Latvia shall be chosen as optimal. In my opinion this is the reason that Lithuanians would like to adopt this system. The essence of the system is the following (the last greater reform in our branch was in 1999). Before reform forestry economic and inspection a department in the Ministry of agriculture carried out these functions. After re-structuring management in the state forests moved to the State Company LVM, and all forestry inspection activities were taken over by VMD. High level professionals have been selected for work in State Forest Service. As a result, earlier state forests under incorporated ministerial management could provide the budget with annual income of 18 million lats, during last year LVM has earned about 70 million. This is what efficient forest management can achieve!

In Lithuania there is still the management system in operation that was used for control in Latvia until 1999. Estonians have adopted almost Latvian system with some national specifics. Thus, on the basis of incorporated management and inspection division they have created state joint-stock company where automatically all previous ministerial staff was included. Thus, the signboard has only been changed, but qualitative changes have not occurred.

1. NUMBER OF PERSONS IN BALTIC STATES PARTICIPATING IN FOREST POLICY FORMATION AND IMPLEMENTATION PROCESSES

	Estonia	Latvia	Lithuania
Forest scientists	47	86	14
Private forest owners	47242	159257	164604
State forest-related organizations	1687	2199	7768
Other involved state organizations	5	5	11
Timber industry	10	19	7
Private forestry	35	36	52
Total	49026	161602	172456

Source: IUFRO — International Union of Forest Research Organization.

2. BASIC FORESTRY STATISTICS IN THE BALTIC COUNTRIES

	Finland	Estonia	Lithuania	Germany	Latvia	Russia	Poland	Sweden	Denmark
Population, mln	5.2	1.4	3.6	82.2	2.3	147.2	38.7	8.9	5.3
Territory, thou ha	30459	4523	6258	34927	6459	1688851	30442	41162	4243
Forest area, thou ha, % from a total area	21935 72%	2060 49%	1994 32%	10740 31%	2923 47%	851400 50%	9047 30%	27134 66%	30393 10%
Private forests, %	54	45	52	46	43	0.0	17	51	70
Quantity of private forest owners, person	447104	47242	164604	349361	159257	0.0	843802	260386	26246
Forests' difference, %	Pine - 64.7 Spruce - 24 Birch - 9	Pine - 35 Spruce - 24 Birch - 21	Pine - 34.3 Spruce - 17.5 Birch - 30.7	Spruce - 32 Pine - 28 Hardwood - 34	Pine - 38 Spruce - 19.4 Birch - 29.3	Larch - 38 Pine - 15 Spruce - 11 Birch - 14	Larch and spruce - 75	Pine - 39 Spruce - 43	Spruce - 30 Beech - 16

Source: Finnish Statistical Yearbook of Forestry.

Common Approach to Economic Issues

By Alla Petrova
Riga, Latvia

Representatives of the Baltic Development Forum summit in Stockholm this October discussed region's situation with the Swedish Prime Minister. Latvian Prime Minister **Aigars Kalvitis** underlined the need for common approach to economic growth matters, *LETA* agency informed.

The Baltic Sea region's state leaders and government representatives met in Stockholm with Swedish Prime Minister **Goran Persson** to discuss political and economic situation in Sweden and Baltic countries. During reception Latvian Prime Minister Aigars Kalvitis, Prime Minister of Lithuania **Algirdas Brazauskas** and Estonian president **Arnold Ruutel** shared their opinion with the head of Swedish government and coordinated major principles before the informal EU October Council meeting in London. The Baltic States representatives discussed various international issues and shared their view on expected gas pipeline across the Baltic Sea.

LITHUANIA CRITICIZES GERMANY

Lithuanian president **Valdas Adamkus** in his interview to French newspaper *Le Figaro* criticizes Germany for ignoring interests that are vitally important for Lithuania's development. He referred to agreement signed in September between Russia and Germany on building oil and gas pipeline. "We are very disappointed because Germany is the EU member state," the president stated. This contract shows that important Lithuanian and many other countries' critical interests are not taken into account," noted the president. V.Adamkus believes that Lithuania can find ways and opportunities to ensure country's development and hopes the Baltic Sea States Council and the EU will consider environmental issues, i.e. chemical weapons that were buried in the Baltic Sea during the Second World War. Planned gas pipeline is going to be built near the dangerous burial places.

TO PROMOTE COMPETITION

Latvian Prime Minister Aigars Kalvitis in his speech at the Baltic Development Forum stressed that it is necessary to increase region's competitiveness and to use common approach in economic growth issues.

A.Kalvitis is convinced that economic growth in the Baltic countries cannot be ensured only by the long-term regional

development. On the contrary, it can be provided by region's competitiveness not only in the EU internal market but also outside it, Prime Minister stated.

In his opinion, the EU Member States are paying excessive attention to internal market's development and implementing new rules and trade conditions and not taking into consideration the EU competitiveness around the globe. Therefore, A.Kalvitis noted, it is important to change the situation when internal market's development is autonomous and does not depend on other regions' development.

The head of Latvian government pointed out that the EU Member States should develop initiatives to enhance small and medium-size enterprises' competitiveness in the world. At the same time, the Baltic Sea region could be regarded unstable with uncoordinated actions among regions' states towards common currency. At the same time approaches to tax policy and social security differ from one country to another.

Lack of common approaches can damage the member states' interests. The EU member states do not have general regulatory principles concerning economic growth within long-term perspectives. Therefore the EU states explore different positions in the EU institutions, A.Kalvitis noted.

Latvian Prime Minister mentioned those spheres where states during regular negotiations and actions' coordination could achieve better results.

One of the central spheres addressed by A.Kalvitis that require countries' cooperation were finances. Today Scandinavian banks dominate in the Baltic Sea region, although wider presence of financial entities in the Baltics will strengthen internal and external competition. Scandinavian banks and that of Northern Europe are not ready to support developmental projects in the Baltic States, which can enhance competition between the countries.



AIGARS KALVITIS.

A.Kalvitis also noted the Baltic States' interest in direct investments' flow from the US, Japan, Great Britain, Switzerland, Canada and China. "We can only succeed in attracting investments after agreeing on taking coordinated actions," stressed the Prime Minister.

Besides, competitiveness of transport sector should be increased. According to A.Kalvitis, it is necessary to enhance competitiveness between ferry companies. The risks caused by the use of hidden tools and methods, which do not allow companies to compete openly in this sector, should be reduced.

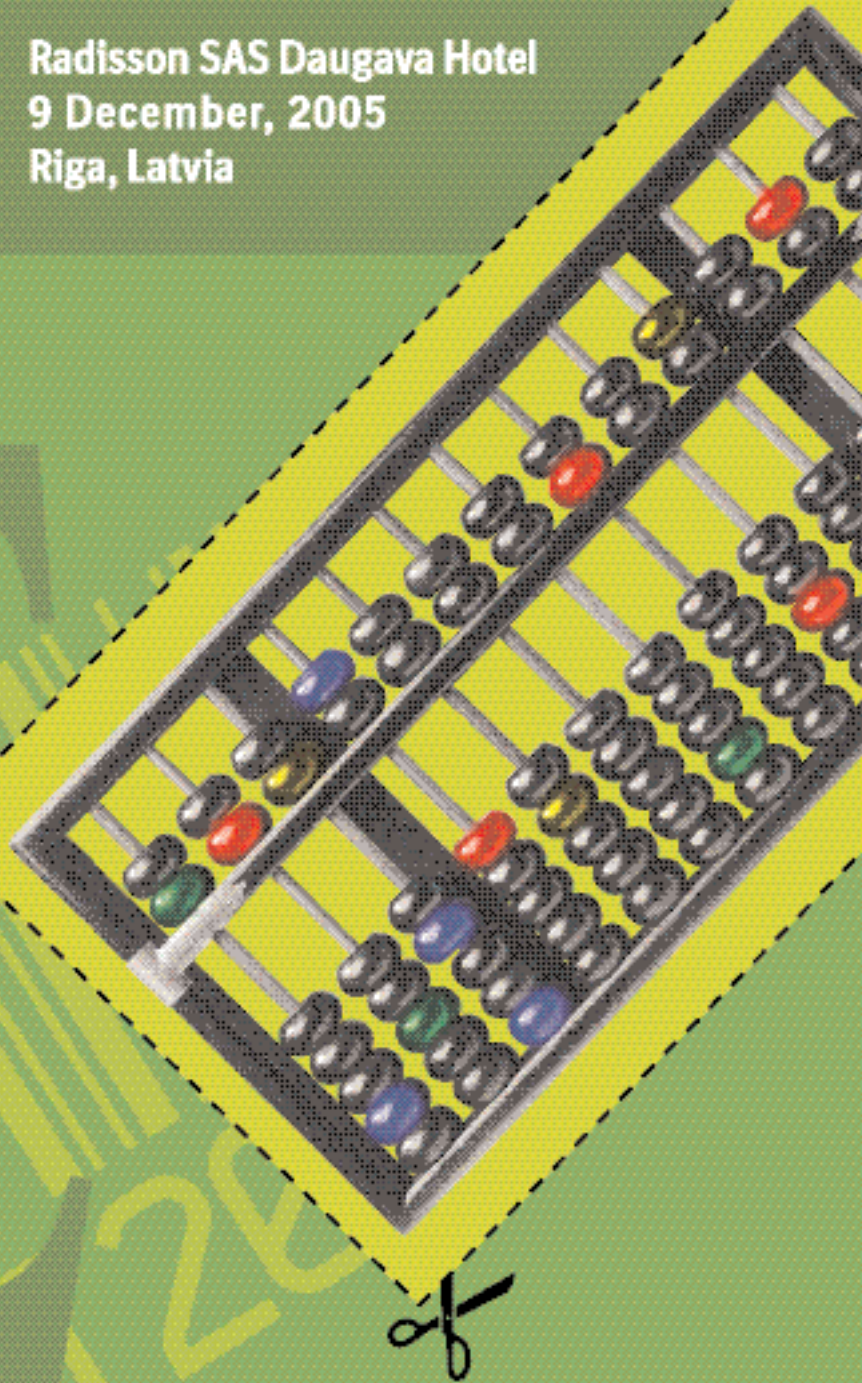
The Prime Minister noted that Baltic region requires new energy resources and energy supply. The Baltic Sea region must weigh up all the opportunities of energy efficiency improvement, because countries heavily depend on it.

A.Kalvitis stressed that every country's economy requires competent labor force, highly skilled engineers, technicians and executives. These issues should be addressed through Baltic countries' joint cooperation.

In conclusion the head of Latvian government addressed the EU politics in relation to "new neighbors." Since the enlargement, the EU has not done much in order to involve new members into regional economic cooperation. A.Kalvitis was confident that countries should operate jointly to increase the EU participation in the Baltic Sea region. •

8th International Conference

Radisson SAS Daugava Hotel
9 December, 2005
Riga, Latvia



**Audit
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and Register of Enterprises of the Republic of Latvia

Business Consulting in the Baltic States

Among three Baltic States the market of consulting service is better organized in Estonia, where Scandinavian and Finnish management is presently more widely represented; northern neighbors have proved that they have good experience providing such services. Lithuanian consultants complain about the absence of a united structure that would organize the market. In Latvia the majority of managers, still equipped with Soviet-style mentality, believe that they can run their businesses without special help. However, after joining the European Union the situation has been improving. The doors for western managers, who are used to such type of service, have been opened widely. Only ten years ago consultancy firms had to fight for consumers and for decent profits. Today competition and the market conditions determine consultancy market development. As early as in winter 2000 our magazine published its first review on the Baltic audit market. Now we make our first attempt to analyze consultancy service market in the Baltics.

The market of Business consultancy market in the Baltic States traces back to the end of 80s — beginning of 90s of the last century. As a rule, first consultancy firms' founders were university lecturers, who transferred their scientific innovations in economics and engineering to new business. It's to be remembered that at that particular period of time, when Baltic market started its development, services on how to establish and register enterprises were in great demand. At that moment there were just 10-20 such services.

New impulse to consultancy industry has come with European Union's attention to the Baltic States in connection with environmental protection issues, introduction of international quality management systems, labors protection, and new food products' requirements. European money channeled through PHARE program for Baltic States opened new horizons and possibilities for training, which the consultancy firms started to deal with. The transfer to new accounting system caused special demand for services and education in this sphere.

In the middle of 90s consultancy market took into account "personnel factor" and first recruitment agencies appeared. Growth of manufacturing industries has led to increased number of engineering services.

The beginning of 21st century was remarkable for a growth in real estate market: the whole army of legal experts and realtors in making deals appeared. Issues on how to manage enterprises efficiently produced a great impact on consultancy market. That was a sector where IT companies, starting with the supply of different accounting software up to variety of programs for managing business and legal expert services, were most important.

But still some questions remain, e.g. how many players exist on the market today, what services clients demand, what new services consultants can suggest. The answers to these and many other questions can be found in this review and other materials prepared by experts in Baltic business consultancy.

Latvia: SMEs Make the Sector's Backbone

By Olga Pavuk

Experts have revealed new trends in Latvian consultancy market. Thus, big companies require services connected to IT problems and environmental protection issues. Small and medium enterprises (SMEs) would rather prefer various services connected with preparing projects for grants from the EU funds. Consultancy companies are becoming involved in business management functions. Banks are trying to compete with consultancy firms, offering investment projects and business evaluation schemes.

TROUGH ENTERPRISES REGISTER'S EYES

Our magazine's research on consultancy market is based on Register of Enterprises of the Republic of Latvia (ER) data as well as 2004 enterprises' annual reports provided by Central Statistic Bureau (CSB). LURSOFT, a company that manages Latvia's Register of Enterprises and its president **Ainars**

Bruvelis, helped to tackle massive information in this field.

In 1968 European Union in its first directive has worked out enterprises' activity classification. Today all Enterprises Registers in the EU member states must use NACE classification. A year ago ER allowed companies not to indicate activity type in registration documents. As A.Bruvelis remarked, this sit-

uation has to be changed in order not to contradict European rules and the majority of Latvian companies registered in the ER do indicate their types of activity.

According to NACE classification consultancy services in Latvia are classified according following sections: Legal service/activities — 74.11; Accounting, book-keeping and auditing activities; tax consultancy — 74.12; Marketing

research/service and public opinion polls — 74.13; Business and management consultancy — 74.14. Our consultancy market research is based on this classification.

At the beginning, some reservations should be provided. At the end of 2004 there were 45,400 registered enterprises working actively in the market. Main share of enterprises hand in their financial annual reports to ER at the end of April next year. Enterprises with more than one owner and more than 2.4 million lats turnover can hand in reports up to the end of August. Sometimes reports continue to be sent to ER even in September, but that probably cannot change the overall situation or influence our consultancy market review. Our review is based on *LURSOFT* information dated 8th September 2005.

WHO IS INVOLVED IN CONSULTANCY SERVICES?

About 4 thousands Latvian companies mentioned audit among their sphere of activities. More than 2 thousand companies include in their activity consultancy services. Among the latter, according to A. Bruvelis appraisal, only 903 Latvian enterprises acquire about 50% of their profit from consultancy services, considering it the main sphere of their activity. In fact, these 903 enterprises have become the object of our research.

Aggregate turnover of 903 firms in 2004 was 120.87 million lats (34% growth in a year), profits reached 10.14 million lats. Looking at markets' dynamics during last 3 years, we can see that firms' turnover and number of employees have doubled and profit increased five times.

As to consultancy firms' turnover rating, there are 4 leading firms with turnover exceeding 2 mln lats. Two of them (*WOLF DIZAINS* and *BRC*) earn profits not only by consultancy; thus, the first one is engaged in advertising, the second one — in selling cars. Another

***LURSOFT* is a private company. In 1992 the company has acquired first business contract, i.e. to establish an information system for National Register of enterprises and provide its administration. In 1995 *LURSOFT* was one of the first companies in Europe to deliver and publish such information in the Internet. Since 1998 it is the member of EBR, the European Business-Register. During last 15 years *LURSOFT* created more than 70 electronic systems for government and private entities. Presently *LURSOFT* distributes government's company registered information from 15 European countries. This is a unique operator transferring business-information through mobile networks. *LURSOFT*'s system is integrated into Internet, and company's services are available to about half a million Latvian citizens. Although about 70% of *LURSOFT*'s activity is connected with business-consultancy, the company does not restrict itself to consultancy activities.**

group consists of 15 enterprises with turnover from 1 to 2 mln lats. Third group is made up 33 companies with 500,000 — to 1 mln lats turnover. Then, there are 200 firms in the fourth group with 100,000 to 500,000 lats turnover. Fifth group is represented by 180 Latvian enterprises with turnover from 50,000 to 100,000 lats. Annual turnover of the rest in the list companies does not exceed 50,000 lats. Nevertheless, even in the last group, judging by the name, plenty of small firms are involved in consultancy and audit.

As geographical representation, absolute majority of consultancy enterprises (86%) is located in Riga and Riga district. Another part runs its business in cities that are close to Riga, such as Jurmala and Jelgava. Clients from periphery regions are forced to apply for help in the center. Fortunately, consultants are ready to come to clients in any part of Latvia, despite the distance.

During most of the previous years affiliated branches of big multinationals have headed consultancy and audit market. Today, their harmonious ranks are interrupted by local enterprises that can earn about 1 to 2 mln lats a year, and more. It is reasonable to calculate by the market share whether a company is leading one on the market. In this regard, Latvian leading firms are those with 100-500 thousand lats turnover, because their market share is equal to 36%. As to small

enterprises, their GDP share is within the range of 1 thousand to 50 thousand lats, which makes 11% of the total consultancy market turnover.

MOST EFFICIENT COMPANIES

Profit index per person describes whether companies use their staff efficiently. Having analyzed 20 most efficient in that category enterprises, we have found out many interesting things. For example, 12 out of 20 firms are occupied in "sectoral" consultancy services, which is not bad at all. The rest earn in other types of activity, usually quite close to consultancy, e.g. real estate projects (such companies as *MONALD*, *BM CONSULT*, *NORDECO*, *ALIENS RR*), financial intermediary (*ALIENS RR*), credits' providers (*NORDECO*). There are, as well companies involved in wholesale and retail trade (*TRADELOGISTICS*), agricultural equipment supply (*TERRA HOLDING LTD*) and even enterprise, which produce metal goods (*PROKSIMUS*).

These companies specify various kind of consultancy service as their basic activity fields. One firm has got into the list of consultancy companies only by its name, i.e. *JL KONSULTACIJAS*. This company does many things which have nothing to do with consultancy — wholesale and retail trade, alcohol and tobacco; consultancy as activity is absent in its registration documents (probably, the enterprise follows new ER rules). Among the owners in most efficient consultancy companies there are several notable Latvian people. Thus, joint owners of the leading firm *MONALD* are **Alexander Plotkin**, **Michael Ulman**, **Michael Shulik** and **Biomins Kaems**, they are also joint owners of many other enterprises in *MONO-holding*.

Former head of Baltic bureau in *Deloitte & Touche*, **Igor Rodin**, works successfully in his own consultancy firm *RC MANAGEMENT SERVICES*. Many

ENTERPRISES CLASSIFICATION INTO GROUPS DEPENDING ON TURNOVER, 2004

Group	Range of groups, mln LVL	Number of enterprises	Net turnover, thou LVL	Profit, thou LVL	Number of employees	Turnover per employee, thou LVL	Profit per employee, thou LVL
I	2.0 and more	4	10133.97	14.25	214	47.35	0.07
II	1.0-2.0	14	19847.48	988.60	384	51.69	2.57
III	0.5-1.0	32	22779.41	937.54	429	53.10	2.18
IV	0.1-0.5	219	43739.07	5185.78	1607	27.22	3.23
V	0.05-0.1	152	11105.42	1201.91	509	21.79	2.36
VI	0.01-0.05	482	13260.01	1812.48	1076	12.32	1.68
	Total	903	120865.35	10140.59	4220	28.65	2.40

Source: *Lursoft*.

Latvian consultants, who gained their experience in large international companies and created their own consultancy firms later on, followed his example.

Until April 2004 **Jurgis Liepnieks** was the owner and chairman of *LIETA N* board. He worked as a counselor to Prime Minister **Andris Shkele**, who had his own consultancy firm too. Now J. Liepnieks's applies his experience he gained there in consultancy, being the co-owner of four consultancy companies at once. Since 1999 an enterprise called *M. INVESTICIJAS*, headed by **Eric Mastejko**, also A. Shkele's former business partner, is engaged in market research and consultations dealing with commercial activity.

IN EXPERTS' WORDS

The range of problems that consultancy companies are dealing with is rather wide. What is more, company's specialization, offering consultancy services, can consist of only one direction (for example, audit) or to cover a full spectrum of services, offering various assistance to different enterprises in any sector. At the same time the share of audit services in the general consultancy portfolio has reached 34.4%, (according to ER data). That has not coincided with **Andris Deninsh's** estimation (he is BCA — Business Consultants Association

president) and he considers that audit still holds two thirds, and even three quarters of the market.

It is necessary to notice that estimation of such expert as A. Deninsh and **Dajnis Lotsans**, director of Association, are much stricter than the ER's data. By their estimations, today there are not more than 200 enterprises in the consultancy market, 80 of which are BCA members. Referring to the so-called companies "with a name", in A. Deninsh's opinion, there are about 50 that work in the market for more than three years. Approximately 20-25 companies operate in all three Baltic countries. The majority of the companies (at least considering those that are included in the association) are diversified entities, offering variety of services, i.e. from audit to business management in any economy sector.

Market research services, in A. Deninsh's opinion, offer 2-3, max 5 companies. About 20 firms are most active in various information services. Not more than 5 consultancy enterprises are engaged in recruiting activities. About 3 companies provide consulting on business management (except IT services) and restructuring. A. Deninsh has noticed a new trend, i.e. consultancy firms began to take over responsibility for running other companies' business.

According to his estimate, about ten companies already use such kind of service, the practice very widely used abroad.

About 20 companies are involved in business activity's evaluation and up to 5 — in sales of enterprises. 2 big companies perform environment consultancy services, although about 10 firms deal with these questions.

A great number of firms provide services on financial issues. Judging by press information, tax consultancy is most demanded. In A. Deninsh's opinion, there is a shortage of that type of companies in Latvia today, comparing for example with such EU countries as the Czech Republic and Poland, to say nothing about old EU members. A. Deninsh is confident that the demand for tax consultants will grow after introduction of obligatory profit declarations in Latvia from January 1st 2007.

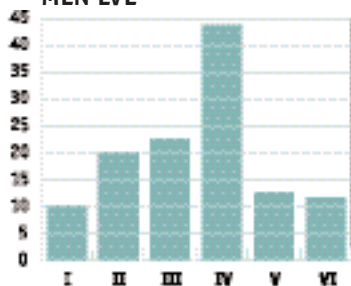
Demand for human resource is growing all the time on the market. It is well known that in consultancy service people and their mental abilities define everything. Capital investments are necessary in the field of information services and training.

A. Deninsh has noted another possible course in market development, e.g. large enterprises require services connected with I? and environment protection. Small and medium enterprises are interested in preparing project for connected to the EU funds.

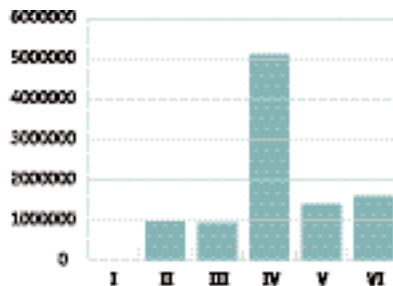
CONSULTANCY ENTERPRISES SHARE IN THE LATVIAN MARKET, 2004

I	>2 mln	III	0.5-1.0 mln	V	0.05-0.1 mln
II	1.0-2.0 mln	IV	0.1-0.5 mln	VI	0.01-0.05 mln

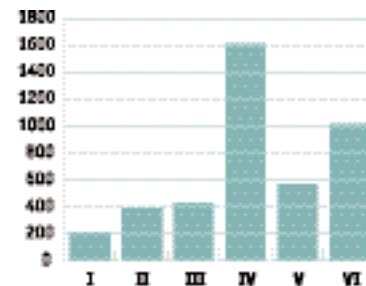
ACCORDING TO NET TURNOVER, MLN LVL



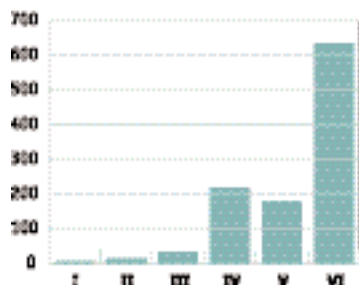
ACCORDING TO PROFIT, LVL



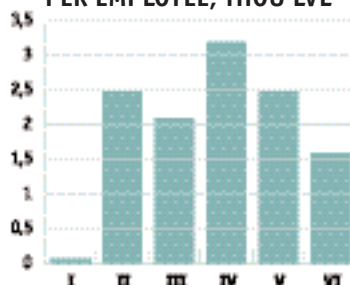
BY NUMBER OF EMPLOYEES



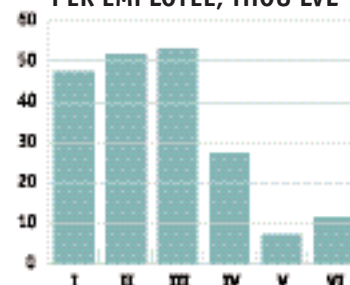
BY NUMBER OF ENTERPRISES



ACCORDING TO PROFIT PER EMPLOYEE, THOU LVL



ACCORDING TO TURNOVER PER EMPLOYEE, THOU LVL



Source: Lursoft.

A quite new phenomenon in the market is connected with banks. Some banks, that have gained experience dealing with external consultants, started to provide consulting to their corporate clients on issues connected to business appraisal, investments' provision, etc. Bank's clients, of course, appreciate very much such additional service.

EUROPEAN FUNDS ATTRACT CONSULTANTS

New kind of service in the market is connected to documentation's preparation for project applications within the EU structural funds. According to A.Deninsh, high requirements to documents' preparation, long time needed for projects' consideration, lack of information and experience are the main stumbling blocks on businessmen's way to enter the EU funds. As A.Deninsh explained, Latvian Development Agency acknowledged that in most of the rejected projects there had been a number of similar mistakes. It seems that companies, which handed in these projects, addressed the same consultants.

"The matter of fact is that among consultants there are expert and there are, for example, former politicians, said A.Deninsh. When it has become known that the EU funds are available to Latvia, the number of consultants has grown in a geometrical progression. But it is not enough just to name yourself an

expert; it is necessary to be competent, knowledgeable and qualified. Therefore enterprises that are interested in receiving money from the EU funds choose business consultants rather scrupulously. It is self evident that in the market remained entities, which could successfully assist their clients. Consultancies that failed and could not serve clients once or twice did not get orders and were forced to "leave the stage".

Some figures provide information about new opportunities for business-consultants: from 2004 till 2006 general accessible financing allocations for EU structural fund projects is estimated at about 830 mln euro. Out of this sum, EU co-financing is 625 mln euro and Latvian budget share is

205 mln euro. The consultants' profit is about 10% from projects' cost.

PERSPECTIVES

Consultancy companies' perspectives are defined by their readiness to combine two types of technologies — administration and information. In evaluating perspective growth of consultancy market, consultants' own opinion is such that most important requirement for the sector's development is based on rendering complex services. Potential clients expect that their consultants will provide them with professional advice on how to help enterprises resolve their critical knots and overcome possible crisis. Unfortunately, this kind of service is little known so far in Latvia. •

TYPE OF CONSULTANCY SERVICES IN LATVIA (NACE CLASSIFICATION), 2004, %



Source: Lursoft.

MARKET GEOGRAPHY

Enterprises classification according to regions in Latvia

Region	Number of enterprises
Riga and Riga district	792
Jelgava	18
Jurmala	17
Liepaja	15
Valmiera	10
Cesis	10
Ventspils	6
Daugavpils	4
Rezekne	2
Other regions	29
Total	903

Source: Lursoft.

PROFIT PER EMPLOYEE IN 2004

	thou LVL
1 SIA "MONALD"	182.90
2 SIA "ALIENS RR"	149.38
3 SIA "TERRA HOLDING LTD"	102.71
4 SIA "INTERNATIONAL LEGAL SERVICES"	93.32
5 SIA "JAAX TRADING"	79.50
6 SIA "M.INVESTICIJAS"	72.78
7 SIA "HALI HOLDINGS"	65.08
8 SIA "DET NORSKE VERITAS LATVIA"	61.69
9 SIA "MUKUSALAS DRUKA"	47.56
10 SIA "TRADELOGISTICS"	46.64
11 SIA "BM CONSULT"	38.46
12 SIA "PROKSIMUS"	27.59
13 SIA "RC MANAGEMENT SERVICES"	26.90
14 SIA "BAGARS LV"	26.02
15 SIA "LIETA N"	25.89
16 SIA "NORDECO"	25.18
17 SIA "LEGIS JURIDISKAIS BIROJS"	24.77
18 AS "EKO INVESTORS"	23.04
19 SIA "ESENVALDES ORGANIZACIJU KONSULTACIJAS"	22.88
20 SIA "JL KONSULTACIJAS"	22.13
21 SIA "RIGAS GRAMATVEZU BIROJS"	21.46

Source: Lursoft.

NET TURNOVER PER EMPLOYEE IN 2004

	thou LVL
1 SIA "VR PROJEKTI"	1597.43
2 SIA "PRIEKU"	1406.75
3 SIA "RALENA"	659.37
4 SIA AUDITORFIRMA "BALTSCANDIA A"	184.10
5 SIA "MBT"	102.98
6 SIA "LASSE"	89.81
7 SIA "ILVA-AUDITS"	84.80
8 AS "Saliena Real"	81.62
9 SIA "PROKSIMUS"	74.78
10 SIA "MEDICA HOUSE"	70.29
11 SIA "B.H."	59.22
12 SIA "JURIDISKAIS BIROJS "ALIBI""	57.37
13 SIA "LMG"	57.01
14 AS "WESS CAPITALS"	49.19
15 SIA "V.I.P. BALTIC Ltd."	44.83
16 SIA "TAGARTE"	41.03
17 SIA "MONCELTS GRUPA"	37.52
18 SIA "MAGO SFERA"	36.73
19 SIA "BELLONA BALTIIJA"	36.58
20 SIA "RIMARS"	34.90
21 SIA "Realty"	33.62

Source: Lursoft.

Name	Number of enterprises	NACE code	Net turnover, 2004, thou LVL	Profit, 2004, thou LVL	Number of employees, 2004	Turnover per employee, 2004, thou LVL	Profit per employee, thou LVL	Net turnover, 2003, thou LVL	Profit, 2003, thou LVL	Number of employees, 2003	Turnover per employee, 2003, thou LVL	Net turnover, 2002, thou LVL	Profit, 2002, thou LVL	Number of employees, 2002	Turnover per employee, 2002, thou LVL	Date of registration
73 SIA EKO MEDIA	7414	7414	369,85	64,19	7,00	52,84	9,17	205,34	9,54	—	—	128,22	2,25	2,00	64,11	06.07.01
74 SIA SK LATVIA	7412	369,29	-22,81	23,00	16,06	-0,99	222,91	8,26	—	—	162,77	-22,41	—	—	18.12.01	
75 SIA COFACE IGK BALT	7414	365,39	13,45	33,00	11,07	0,41	256,87	2,81	—	—	188,83	9,91	24,00	7,87	02.03.92	
76 BOS AUTORTIESĪBU UN KOMUNICĒŠANĀS KONSULTACIJU AĢENTŪRA/ LATVIJAS AUTORTIESĪBU AĢENT	7411	358,56	0,81	30,00	11,95	0,03	373,67	2,15	30,00	12,46	230,32	2,06	30,00	7,68	20.01.94	
77 SIA KOMUNIKACIJU AĢENTŪRA	7414	356,00	57,53	9,00	39,56	6,39	180,13	6,63	—	—	96,58	1,48	—	—	22.12.00	
78 SIA NORDIC INDUSTRIES	7414	354,00	-98,73	14,00	25,29	-7,05	712,17	-26,68	13,00	54,78	309,26	-459,33	14,00	22,09	24.11.99	
79 SIA NORDIC FOOD	7414	350,66	206,67	—	—	—	345,27	222,06	2,00	172,64	235,20	-167,27	—	—	06.03.00	
80 SIA MBT	7411	343,63	-2,37	2,00	171,82	-1,18	67,00	-123,95	—	—	3,34	-2,31	—	—	22.02.01	
81 SIA BSM	7414	341,79	5,75	—	—	—	298,78	1,06	—	—	206,42	8,68	—	—	07.12.99	
82 RODL & PARTNER SIA	7411	332,45	35,85	18,00	18,47	1,99	293,43	25,11	18,00	16,30	264,78	7,79	—	—	29.07.93	
83 LEINONEN SIA	7412	322,21	6,00	20,00	16,11	0,30	327,77	15,14	18,00	18,21	277,75	-6,62	—	—	06.06.95	
84 HANSE TRAILER BALTIJA SIA	7414	320,88	11,15	4,00	80,22	2,79	96,42	-2,30	—	—	36,50	-4,26	—	—	14.05.98	
85 SIA S & T CONSULTING	7414	314,36	55,08	6,00	52,39	9,18	170,24	11,05	7,00	24,32	52,08	3,78	6,00	8,68	06.08.02	
86 SIA BSM KONSULTANTI	7414	310,95	32,20	10,00	31,09	3,22	295,79	18,22	9,00	32,87	287,25	24,87	7,00	41,04	28.12.96	
87 SIA LA SADOLIN	7414	307,29	1,67	15,00	20,49	0,11	232,39	4,99	12,00	19,37	206,66	8,46	—	—	07.01.98	
88 SIA VKD LATS	7411	300,30	102,11	—	—	—	283,15	52,52	37,00	7,65	211,26	24,02	24,00	8,80	14.10.99	
89 SIA DIALTEK	7411	291,36	-1,08	5,00	58,27	-0,22	18,36	4,30	2,00	9,18	—	—	—	—	19.02.03	
90 SIA Uzņēmumu vadība un konsultācijas	7414	282,04	1,13	7,00	40,29	0,16	298,40	136,62	5,00	59,68	278,93	40,09	6,00	46,49	03.09.97	
91 SIA RIMPAK LIVONIJA	7411	275,56	4,67	22,00	12,53	0,21	151,98	16,21	35,00	4,34	99,49	14,69	29,00	3,43	05.04.91	
92 SIA BIZNEŠA DROŠĪBA	7411	271,87	21,88	85,00	3,20	0,26	214,86	16,58	72,00	2,98	235,35	10,04	69,00	3,41	31.03.93	
93 SIA LATVIJAS FAKTI	7414	267,25	73,06	69,00	3,87	1,06	312,61	84,25	—	—	228,66	41,69	20,00	11,43	02.03.93	
94 SIA PEOPLE MANAGEMENT	7414	265,20	28,58	4,00	66,30	7,14	132,71	-5,89	4,00	33,18	123,51	-17,78	5,00	24,70	07.06.99	
95 SIA INVENTA	7412	262,99	55,11	74,00	3,55	0,74	131,49	11,53	—	—	—	—	—	—	21.01.03	
96 SIA Sabiedrisko Attiecību Birojs	7414	261,34	23,30	7,00	37,33	3,33	390,70	34,25	6,00	65,12	203,31	30,00	—	—	08.07.98	
97 SIA NBJ	7411	261,20	1,43	—	—	—	203,04	13,60	—	—	29,92	2,35	—	—	20.11.00	
98 SIA Sabiedrisko attiecību aģentūra PR STILS	7414	256,35	17,69	9,00	28,48	1,97	113,62	1,50	8,00	14,20	131,71	0,56	—	—	14.09.95	
99 SIA INTRANSSERVISS	7414	255,94	16,46	29,00	8,83	0,57	169,13	29,86	5,00	33,83	25,28	13,22	3,00	8,43	26.06.01	
100 SIA KODOLIŅŠ, OSTAŠKOVŠ UN PARTNERI	7412	252,67	64,26	6,00	42,11	10,71	171,79	44,88	—	—	172,35	24,51	8,00	21,54	31.01.97	
101 SIA Reuters Latvija	7414	252,35	15,14	4,00	63,09	3,79	313,66	22,48	5,00	62,73	365,79	24,84	6,00	60,96	10.06.96	
102 SIA ALEKSANDRA STUDIJA	7414	251,18	3,39	3,00	83,73	1,13	—	—	—	—	0,29	—	—	—	02.12.94	
103 SIA IDEA MEDIA	7414	249,89	2,45	6,00	41,65	0,41	206,63	1,82	10,00	20,66	182,32	4,10	—	—	25.09.98	
104 SIA MED2	7414	249,84	38,26	4,00	62,46	9,57	582,08	19,27	5,00	116,42	229,47	-163,64	30,00	7,65	27.07.00	
105 SIA BALTIJAS ATTĪSTĪBAS SAVIENĪBA	7414	242,82	0,44	3,00	80,94	0,15	196,39	-0,14	—	—	164,27	0,24	—	—	28.10.99	
106 SIA BALTIC INVESTMENT COMPANY	7414	242,59	45,55	7,00	34,66	6,51	389,98	203,63	—	—	94,69	3,28	—	—	01.06.01	
107 SIA NOVASAN BALTICUM	7414	240,14	19,87	10,00	24,01	1,99	218,18	11,34	5,00	43,64	174,60	11,61	5,00	34,92	31.03.99	
108 SIA BSC Premium	7411	239,49	6,06	2,00	119,74	3,03	—	—	—	—	—	—	—	—	24.09.03	
109 SIA BALT NET VIDEO	7412	236,14	32,44	—	—	—	51,18	1,64	—	—	27,72	-0,04	8,00	3,46	10.04.92	
110 SIA STELLINA	7412	230,92	13,78	18,00	12,83	0,77	71,26	3,55	12,00	5,94	30,43	0,76	8,00	3,80	21.12.98	
111 SIA TĀLBERGS & KO	7414	230,33	-8,15	12,00	19,19	-0,68	42,96	12,72	11,00	3,91	133,30	131,45	15,00	8,89	23.11.93	
112 SIA TĒLS PR	7414	229,57	16,81	—	—	—	126,59	0,93	6,00	21,10	194,22	1,90	6,00	32,37	19.01.01	
113 SIA BALTIC CONSULTING SERVICES	7414	227,17	93,17	—	—	—	26,78	13,03	3,00	8,93	393,83	-91,01	9,00	43,76	02.03.93	
114 SIA IEPĪRKUMU GRUPA	7414	224,15	-8,25	3,00	74,72	-2,75	64,25	0,09	—	—	—	—	—	—	30.01.03	
115 SIA Maksātnešpējas Aģentūra	7411	223,72	3,12	—	—	—	144,17	-1,73	2,00	72,09	271,15	1,07	—	—	14.03.01	
116 SIA PATENTU AĢENTŪRA KDK	7411	223,44	51,24	11,00	20,31	4,66	284,74	41,31	12,00	23,73	238,53	29,61	—	—	13.08.92	
117 SIA BALT RISK	7411	222,31	-3,58	22,00	10,10	-0,16	164,95	-3,14	19,00	8,68	154,75	15,89	15,00	10,32	23.03.99	
118 SIA 777	7412	222,21	27,45	2,00	111,11	13,72	—	—	—	—	—	—	—	—	12.07.04	
119 AS LHV SECURITIES	7414	221,75	17,47	4,00	55,44	4,37	274,79	69,42	—	—	49,90	-38,74	5,00	9,98	29.06.01	
120 SIA FINANSU TILTS	7412	220,44	1,33	—	—	—	81,39	2,24	4,00	20,35	81,23	-5,08	—	—	11.01.00	
121 SIA LVB	7411	218,45	0,33	2,00	109,22	0,17	145,13	-2,42	2,00	72,57	276,43	1,39	—	—	04.11.99	
122 SIA ZELTA BULLA	7414	218,10	3,03	6,00	36,35	0,51	111,23	1,45	9,00	12,36	37,46	0,58	—	—	15.04.99	
123 SIA Juridiskais birojs VINDEK	7411	216,85	60,15	12,00	18,07	5,01	146,56	39,70	—	—	125,97	41,77	—	—	14.02.96	
124 SIA EXPRESS SERVICE	7412	214,67	-130,99	2,00	107,34	-65,49	—	—	—	—	—	—	—	—	29.12.03	
125 SIA KONSORTS	7414	210,61	9,39	11,00	19,15	0,85	216,43	5,42	—	—	272,54	7,50	—	—	11.08.94	
126 SIA Corp Rīga	7412	209,88	6,24	—	—	—	116,59	-3,31	—	—	28,70	0,82	—	—	29.10.99	
127 SIA Hipotēku bankas finanšu konsultāciju centrs	7414	200,75	-183,21	18,00	11,15	-10,18	150,60	-11,34	20,00	7,53	68,64	-27,32	—	—	24.01.02	
128 SIA EKO SISTĒMAS	7414	200,15	-0,67	1,00	200,15	-0,67	219,18	6,74	1,00	219,18	196,78	8,32	1,00	196,78	17.08.00	
129 SIA LEDANS	7414	199,97	-0,81	—	—	—	136,09	1,27	—	—	17,04	-1,43	—	—	06.02.98	
130 SIA MRI REVISION	7412	199,94	48,93	9,00	22,22	5,44	191,80	96,12	—	—	41,81	10,01	7,00	5,97	17.05.99	
131 SIA ADMINISTRĀCIJAS CENTRS	7414	199,58	36,10	5,00	39,92	7,22	80,38	20,00	4,00	20,09	37,09	-28,82	—	—	08.10.01	
132 SIA MĀJA B	7412	198,15	-59,34	1,00	198,15	-59,34	299,56	-6,36	—	—	—	—	—	—	21.06.00	
133 SIA BALTIJAS JURIDISKAIS BIROJS	7411	197,15	0,13	3,00	65,72	0,04	201,66	0,06	3,00	67,22	41,39	-0,52	1,00	41,39	15.10.99	
134 SIA Excellent Business Solutions Latvia	7412	194,87	48,59	11,00	17,72	4,42	140,54	44,35	9,00	15,62	50,13	5,51	5,00	10,03	22.03.02	
135 SIA DATA SERVISS	7413	193,13	5,70	16,00	12,07	0,36	181,90	8,43	11,00	16,54	77,99	2,98	11,00	7,09	30.05.97	
136 SIA KOMERCIFIRMA M-D	7411	192,86	-0,73	4,00	48,21	-0,18	230,53	-0,45	4,00	57,63	154,97	0,19	3,00	51,66	24.08.94	
137 SIA KOMERCIZGLĪTĪBAS CENTRS	7414	191,82	5,36	11,00	17,44	0,49	183,44	10,56	10,00	18,34	165,31	13,13	—	—	14.01.97	
*** Baltijas Konsultantu grupa	7414	190,19	8,2	—	—	—	189,39	19,01	12,00	15,78	170,97	19,09	—	—	18.05.98	
138 SIA REDIMERE	7412	187,46	3,60	—	—	—	163,55	12,07	4,00	40,89	162,31	-1,42	—	—	29.03.01	
139 SIA Apdrošināšanas Serviss-Brokeri	7414	186,83	16,40	—	—	—	177,46	5,26	—	—	119,81	0,96	—	—	04.07.97	
140 SIA BRIDGE CAPITAL	7412	186,07	-1,00	—	—	—	35,56	-5,64	—	—	—	—	—	—	04.02.03	
141 SIA INSCAPE BALTIC	7414	184,78	17,68	—	—	—	151,76	17,78	—	—	191,01	21,02	—	—	30.03.01	
142 SIA Observer Latvija	7414	183,73	-26,15	22,00	8,35	-1,19	171,18	-14,09	—	—	119,16	-42,36	16,00	7,45	27.10.99	
143 SIA NORDECO	7414	183,66	50,37	2,00	91,83	25,18	67,39	38,19	2,00	33,69	—	—	2,00	—	09.09.96	

Name	Number of enterprises	NACE code	Net turnover, 2004, thou LVL	Profit, 2004, thou LVL	Number of employees, 2004	Turnover per employee, 2004, thou LVL	Profit per employee, thou LVL	Net turnover, 2003, thou LVL	Profit, 2003, thou LVL	Number of employees, 2003	Turnover per employee, 2003, thou LVL	Net turnover, 2002, thou LVL	Profit, 2002, thou LVL	Number of employees, 2002	Turnover per employee, 2002, thou LVL	Date of registration
144 SIA VISA VĒRTE		7411	183.53	13.41	15.00	12.24	0.89	133.38	10.94	—	—	98.02	1.44	—	—	02.08.96
145 SIA Baltijas audita un konsultāciju sabiedrība		7414	182.42	-10.55	—	—	—	723.47	-5.55	2.00	361.74	643.44	1.87	5.00	128.69	17.12.99
146 SIA LEILANDS UN PUTNIS		7414	182.17	13.67	5.00	36.43	2.73	124.83	26.31	—	—	—	—	—	—	03.12.02
147 VIDES SAKARTOŠANAS KOORDINĀCIJAS CENTRS SIA		7414	182.10	3.13	—	—	—	73.79	3.99	2.00	36.89	17.90	6.82	1.00	17.90	22.04.99
148 SIA LAIKA STARS		7414	181.87	13.22	—	—	—	71.15	25.89	—	—	30.68	-2.00	—	—	14.07.00
149 SIA EIRO VADIBA		7414	181.81	2.66	—	—	—	—	-1.99	1.00	—	—	-0.68	3.00	—	23.05.02
150 SIA MFS		7412	180.88	1.15	—	—	—	63.13	-1.01	—	—	10.91	-1.22	—	—	12.09.01
151 SIA Ārstu konsultatīvais dienests		7414	179.93	50.31	12.00	14.99	4.19	92.35	22.90	11.00	8.40	66.72	14.93	10.00	6.67	18.09.01
152 AS EKO INVESTORS		7414	178.72	345.65	15.00	11.91	23.04	109.48	375.87	—	—	105.74	10.62	—	—	19.12.00
153 FIDEA SIA		7414	178.52	10.26	—	—	—	34.37	10.88	—	—	5.62	-1.79	1.00	5.62	15.08.02
154 SIA FORAL Intelektuālā ipašuma aģentūra		7411	177.68	27.54	5.00	35.54	5.51	225.38	61.16	5.00	45.08	194.25	15.36	6.00	32.37	19.11.91
155 STRASA KONSULTANTI SIA		7414	177.49	25.46	19.00	9.34	1.34	156.78	30.53	—	—	103.42	14.82	—	—	04.11.94
156 SIA EIROKONSULTANTS		7414	176.90	5.88	10.00	17.69	0.59	184.89	1.08	—	—	201.13	18.40	10.00	20.11	29.07.98
157 SIA Auditoru firma FINANSISTS		7412	175.83	4.82	10.00	17.58	0.48	158.48	25.48	12.00	13.21	118.35	28.47	—	—	11.03.96
158 SIA VR PROJEKTI		7411	175.72	-11.84	2.00	87.86	-5.92	382.74	-5.30	2.00	191.37	0.11	-0.01	1.00	0.11	16.09.98
159 SIA INTERNATIONAL LEGAL SERVICES		7411	174.04	373.28	4.00	43.51	93.32	48.12	22.42	3.00	16.04	—	—	3.00	—	13.10.94
160 SIA VTR		7414	174.01	92.30	8.00	21.75	11.54	19.22	-12.44	2.00	9.61	22.17	-18.79	5.00	4.43	01.07.97
161 SIA Grāmatvedības aģentūra		7412	173.13	17.68	—	—	—	166.60	13.26	23.00	7.24	168.67	-3.41	—	—	20.11.98
162 SIA BIZNESĀ RISINĀJUMI		7414	172.03	21.59	7.00	24.58	3.08	82.12	9.95	5.00	16.42	90.33	5.74	—	—	20.11.97
163 AS EDVAISERS		7412	170.29	59.35	29.00	5.87	2.05	—	—	—	—	—	—	—	—	01.04.04
164 SIA EKODOMA		7414	170.20	15.37	17.00	10.01	0.90	142.41	7.06	—	—	152.92	6.06	—	—	15.11.91
165 SIA VG COUNSELLORS		7412	170.05	-41.56	8.00	21.26	-5.19	654.58	-103.70	17.00	38.50	379.35	-20.49	10.00	37.94	28.08.01
166 KS HEIDELBERGA KS		7411	168.54	3.74	5.00	33.71	0.75	164.48	18.40	6.00	27.41	79.62	30.82	4.00	19.90	17.07.96
167 SIA VITALIAN		7414	167.40	126.02	—	—	—	—	—	—	—	—	—	—	—	25.02.04
168 SIA Sabiedriskās attiecību centrs		7414	165.85	6.79	3.00	55.28	2.26	117.45	22.48	3.00	39.15	49.64	15.45	2.00	24.82	20.11.96
169 SIA RIMARS		7412	164.64	8.04	22.00	7.48	0.37	19.17	-8.02	—	—	4.72	-5.07	—	—	10.03.00
170 SIA ASTERE		7411	164.63	7.09	10.00	16.46	0.71	151.93	4.75	8.00	18.99	184.21	5.79	6.00	30.70	23.09.92
171 SIA R.B. MANAGEMENT		7412	163.51	5.23	8.00	20.44	0.65	164.86	51.60	6.00	27.48	53.75	24.97	—	—	19.02.02
172 SIA VALMAN 1		7414	162.69	2.97	8.00	20.34	0.37	100.41	11.75	—	—	112.30	9.28	6.00	18.72	16.01.96
173 SIA BALTIC FOREST TRADING		7412	160.59	-8.61	7.00	22.94	-1.23	83.92	8.08	1.00	83.92	—	-3.44	—	—	01.11.99
174 SIA WESS CONSULTING		7412	159.55	44.86	16.00	9.97	2.80	87.41	0.76	16.00	5.46	89.03	13.91	—	—	24.03.98
175 SIA BaltCap Management Latvia		7414	158.74	15.62	4.00	39.69	3.90	45.49	-0.17	3.00	15.16	—	—	—	—	03.04.03
176 AS BELOKON HOLDINGS		7412	157.37	62.11	15.00	10.49	4.14	178.53	33.09	—	—	156.98	11.42	—	—	25.06.98
177 SIA GRUPA '93		7414	156.77	12.26	12.00	13.06	1.02	118.24	38.05	12.00	9.85	43.77	9.52	—	—	20.07.94
178 SIA BALTIC GENERAL INVESTMENT CORPORATION		7414	156.71	1.30	—	—	—	152.20	1.16	—	—	162.86	1.34	—	—	02.06.94
179 SIA RLK		7414	156.12	11.55	—	—	—	17.45	12.61	1.00	17.45	—	—	—	—	13.01.03
180 SIA FITANIA		7414	154.83	2.01	6.00	25.80	0.34	126.72	6.24	6.00	21.12	119.51	1.39	6.00	19.92	16.04.99
181 SIA LIC		7412	152.15	64.89	—	—	—	165.25	20.35	—	—	228.82	8.52	—	—	29.07.93
182 SIA SACCO		7411	151.56	31.78	8.00	18.95	3.97	187.05	-43.09	7.00	26.72	21.10	-12.61	2.00	10.55	07.09.98
183 Baltic Export Group SIA		7414	149.52	3.97	1.00	149.52	3.97	52.90	4.02	—	—	5.36	0.13	—	—	29.05.02
184 SIA BSV Network		7414	147.66	39.62	—	—	—	41.87	0.97	2.00	20.93	—	—	—	—	20.12.02
185 SIA TERRA HOLDING LTD		7414	147.07	102.71	1.00	147.07	102.71	20.32	223.64	1.00	20.32	—	—	—	—	03.06.03
186 SIA A.S.KO.		7414	146.83	-13.42	1.00	146.83	-13.42	287.72	6.20	1.00	287.72	155.07	-1.52	—	—	07.12.94
187 SIA A F SAFI		7412	146.79	-16.81	9.00	16.31	-1.87	148.53	0.99	—	—	174.94	13.52	8.00	21.87	09.10.01
188 ALGOL PHARMA SIA		7414	146.52	-0.61	3.00	48.84	-0.20	143.02	0.93	2.00	71.51	74.41	3.77	2.00	37.20	08.04.96
189 SIA Reģionālā prese DIENA		7414	145.59	37.88	—	—	—	28.60	-22.35	—	—	—	—	—	—	24.07.03
190 SIA Juridiskais birojs Padomu lapas		7411	145.45	11.73	—	—	—	53.90	-1.22	8.00	6.74	12.66	-2.08	3.00	4.22	12.12.00
191 SIA THE PBN COMPANY-BALTICS		7414	144.07	-11.14	—	—	—	121.18	4.24	4.00	30.29	143.52	-3.43	—	—	09.01.01
192 SIA REVIDENTS UN GRĀMATVEDIS		7412	143.94	49.88	—	—	—	143.77	48.73	—	—	162.73	73.21	—	—	22.07.98
193 SIA Ormet-SK		7414	141.31	19.79	7.00	20.19	2.83	36.33	1.05	7.00	5.19	17.35	0.13	3.00	5.78	31.05.91
194 SIA Baltijas Konsultantu Nams		7412	140.68	0.01	13.00	10.82	0.00	129.84	1.10	12.00	10.82	151.93	9.05	10.00	15.19	14.12.99
195 SIA TORVALD SERVISS		7414	139.33	-3.44	1.00	139.33	-3.44	0.01	-0.85	1.00	0.01	23.11	-8.87	2.00	11.56	31.01.00
196 SIA JAAX TRADING		7414	139.15	159.00	2.00	69.57	79.50	145.85	47.15	2.00	72.93	—	—	—	—	14.02.02
197 REDUM SIA		7411	138.08	-1.46	1.00	138.08	-1.46	—	—	—	—	—	—	—	—	02.03.04
198 SIA PR.A.E. SABIEDRISKĀS ATTIECĪBAS		7414	137.72	-10.56	14.00	9.84	-0.75	510.05	-0.08	12.00	42.50	407.61	4.07	—	—	26.07.99
199 SIA BALTA SVĪTRA DEBESIS		7414	137.02	14.59	5.00	27.40	2.92	28.49	—	—	—	—	—	—	—	20.12.02
200 KS Aptieku Alianse		7414	135.86	—	3.00	45.29	—	70.13	0.08	—	—	—	—	—	—	06.01.03
201 SIA INMIND		7414	135.09	11.86	—	—	—	42.73	-0.21	3.00	14.24	—	—	—	—	04.03.03
202 SIA EUROPNLINE		7411	135.09	-6.67	—	—	—	1 233.58	6.55	—	—	343.64	0.10	—	—	01.02.00
203 SIA CBB KONSULTĀCIJU BIROJS		7412	135.02	25.43	14.00	9.64	1.82	107.80	22.70	14.00	7.70	95.21	4.92	—	—	14.04.97
204 KS SIA ASTROP		7412	133.56	20.58	8.00	16.69	2.57	112.74	28.70	7.00	16.11	108.10	14.12	—	—	02.04.91
205 SIA CONSENSUS		7412	133.20	-41.32	24.00	5.55	-1.72	19.41	18.79	10.00	1.94	28.53	1.13	6.00	4.76	11.03.98
206 SIA BSM TRĀDE		7414	132.77	0.31	2.00	66.39	0.15	196.07	0.77	2.00	98.04	143.04	1.92	—	—	10.07.00
207 AS AB KONSULTĀCIJAS		7411	131.74	0.54	—	—	—	150.84	0.45	—	—	157.49	3.76	—	—	05.04.01
208 SIA DZILVE		7412	128.97	53.42	10.00	12.90	5.34	121.39	48.93	9.00	13.49	112.75	59.67	9.00	12.53	23.03.95
209 PER IDEA SIA		7414	128.82	44.97	6.00	21.47	7.49	—	—	—	—	—	—	—	—	01.07.

Name	Number of enterprises	NACE code	Net turnover, 2004, thou LVL	Profit, 2004, thou LVL	Number of employees, 2004	Turnover per employee, 2004, thou LVL	Profit per employee, thou LVL	Net turnover, 2003, thou LVL	Profit, 2003, thou LVL	Number of employees, 2003	Turnover per employee, 2003, thou LVL	Net turnover, 2002, thou LVL	Profit, 2002, thou LVL	Number of employees, 2002	Turnover per employee, 2002, thou LVL	Date of registration
218 SIA NK KONSULTĀCIJU BIROJS	7414	7414	124.57	15.78	7.00	17.80	2.25	42.24	4.55	2.00	21.12	—	—	—	—	06.09.02
219 SIA TREILERS SERVISS	7414	7414	123.59	1.49	13.00	9.51	0.11	109.12	5.92	11.00	9.92	104.24	-10.73	11.00	9.48	23.07.97
220 SIA ZEVS UN VAMO	7414	7414	123.47	3.89	70.00	1.76	0.06	111.51	4.08	90.00	1.24	92.27	3.96	95.00	0.97	15.07.96
221 SIA CFG	7414	7414	123.40	105.21	—	—	—	107.45	92.50	—	—	81.58	52.82	4.00	20.39	17.08.00
222 SIA Carrington, Hall & Hamburg Law office	7411	7411	121.16	0.14	5.00	24.23	0.03	96.06	-3.52	7.00	13.72	53.59	7.41	5.00	10.72	20.04.01
223 SIA O.L. OLIVA	7412	7412	121.03	33.63	6.00	20.17	5.61	104.99	20.95	6.00	17.50	100.07	15.46	5.00	20.01	25.09.00
224 SIA MUKUSALAS DRUKA	7414	7414	120.39	95.13	2.00	60.19	47.56	5.87	-74.19	—	—	4.16	-20.79	—	—	19.12.01
225 SIA RIGAS SKIRĒJTIESA	7411	7411	120.16	7.29	5.00	24.03	1.46	70.05	-17.78	—	—	67.22	1.49	4.00	16.81	11.11.98
226 SIA Realty	7411	7411	117.66	1.65	—	—	—	42.98	2.01	—	—	3.50	0.36	2.00	1.75	14.01.02
227 SIA AUDITA AGENTŪRA	7412	7412	117.56	-8.41	11.00	10.69	-0.76	92.34	0.48	—	—	91.98	6.03	9.00	10.22	26.05.97
228 SIA AGENTŪRA GS	7411	7411	117.14	-25.96	2.00	58.57	-12.98	—	—	—	—	—	—	—	—	03.02.04
229 SIA BUSINESS PROFIT	7412	7412	116.13	10.92	—	—	—	133.75	-0.58	8.00	16.72	175.70	-0.43	—	—	05.01.00
230 SIA Konsultāciju un sabiedriskās domas izpētes aģentūra	7414	7414	114.57	-0.49	—	—	—	204.92	12.77	—	—	173.20	-12.14	—	—	22.02.01
231 SIA BALTIJAS MONITORS	7414	7414	114.15	-0.33	—	—	—	281.89	1.69	4.00	70.47	373.47	0.20	5.00	74.69	18.06.98
232 SIA RIGLAS	7414	7414	114.14	45.88	—	—	—	119.54	67.49	—	—	110.63	51.45	6.00	18.44	14.05.98
233 SIA KONSULTĀCIJAS PAKALPOJUMI	7414	7414	112.74	44.01	9.00	12.53	4.89	82.68	19.23	8.00	10.33	66.08	19.45	—	—	19.07.99
234 SIA JURADA	7411	7411	112.22	-13.60	5.00	22.44	-2.72	106.06	0.23	4.50	23.57	101.17	-3.36	5.00	20.23	05.03.01
235 SIA IMMA	7414	7414	112.09	-2.41	—	—	—	218.03	-0.80	—	—	173.18	-0.04	—	—	24.02.95
236 SIA KORPORĀCIJA HOME INVEST	7411	7411	111.45	15.70	—	—	—	8.90	1.75	11.00	0.81	—	—	—	—	03.03.03
237 SIA bnt Klauberg Krauklis	7411	7411	110.97	-3.47	3.00	36.99	-1.16	52.63	25.62	—	—	—	—	—	—	31.07.01
238 SIA DOM interjera studija	7414	7414	110.66	0.59	8.00	13.83	0.07	231.99	13.57	6.00	38.66	60.24	-11.60	—	—	15.06.00
239 SIA MEZALEJAS	7412	7412	110.65	1.17	—	—	—	78.79	4.90	12.00	6.57	44.89	1.64	—	—	18.12.00
240 SIA BB PARTNERIS	7412	7412	110.60	23.26	3.00	36.87	7.75	110.15	25.64	3.00	36.72	51.86	17.51	2.00	25.93	16.06.00
241 SIA AGH	7412	7412	110.51	8.98	8.00	13.81	1.12	35.36	-3.00	5.00	7.07	26.17	6.14	4.00	6.54	29.11.93
242 SIA UPFRONT	7414	7414	109.92	9.01	8.00	13.74	1.13	80.03	—	—	—	39.40	—	—	—	18.06.01
243 SIA JURIDISKAIS BIROJS INLAT	7411	7411	109.76	303.16	—	—	—	113.39	17.66	—	—	120.17	3.80	—	—	09.08.91
244 SIA LOBBIA BIROJS	7411	7411	107.79	29.53	3.00	35.93	9.84	41.26	—	2.00	20.63	29.44	-17.70	2.00	14.72	07.01.99
245 NEIBERGS & PARTNERI	7411	7411	107.49	7.95	—	—	—	89.04	-17.46	3.00	29.68	87.30	-32.15	—	—	29.12.99
246 SIA VITA GRUPA	7414	7414	106.80	20.98	9.00	11.87	2.33	10.62	0.68	—	—	10.79	-0.14	—	—	17.07.01
247 SIA BIZNESĀ ADMINISTRĀCIJAS SERVISĀ GRUPA	7414	7414	106.56	6.73	12.00	8.88	0.56	39.50	3.97	8.00	4.94	23.65	3.87	6.00	3.94	31.05.99
248 SIA AGENTŪRA EPICENTRS	7414	7414	106.33	2.42	5.00	21.27	0.48	102.54	-1.25	6.00	17.09	224.71	1.05	—	—	20.10.00
249 SIA RIGA FOOD SERVICE	7411	7411	105.30	-1.36	3.00	35.10	-0.45	—	-1.00	1.00	—	—	—	—	—	09.06.03
250 SIA DEA Baltika	7414	7414	105.18	10.41	6.00	17.53	1.74	77.30	7.37	5.00	15.46	49.85	4.61	—	—	09.08.00
251 SIA Neimane un Zosule	7411	7411	104.97	1.64	—	—	—	90.20	16.40	7.00	12.89	12.20	5.18	—	—	22.08.02
252 SIA AUDIT	7412	7412	104.89	6.96	1.00	104.89	6.96	117.24	11.91	10.00	11.72	115.96	13.88	8.00	14.50	05.12.91
253 SIA L.R.D.	7412	7412	104.71	29.31	4.00	26.18	7.33	88.24	21.71	4.00	22.06	66.11	21.37	3.00	22.04	18.01.96
254 SIA Merhels Revidenti Konsultanti	7412	7412	104.69	26.04	6.00	17.45	4.34	108.21	36.99	6.00	18.04	80.17	23.41	3.00	26.72	10.08.98
255 SIA CentralPharma Communications	7414	7414	104.44	-5.23	—	—	—	78.22	2.94	—	—	70.24	1.02	—	—	06.12.00
256 SIA JURATES	7412	7412	104.21	44.14	—	—	—	79.92	38.47	4.00	19.98	64.40	31.26	4.00	16.10	11.11.96
257 SIA VILDE	7411	7411	103.19	0.02	5.00	20.64	0.00	106.63	0.01	5.00	21.33	82.07	-19.96	5.00	16.41	11.03.96
258 SIA BALTIC TEXTILE SERVICE	7414	7414	102.89	49.72	—	—	—	—	—	—	—	—	—	—	—	06.11.03
259 SIA Konsultatīvā sabiedrība Conventus	7411	7411	102.75	-1.51	6.00	17.13	-0.25	57.88	2.47	4.00	14.47	80.56	1.71	4.00	20.14	27.01.99
260 SIA Consultum	7412	7412	102.47	0.93	—	—	—	69.81	1.59	4.00	17.45	48.98	0.89	—	—	07.02.96
261 SIA REVIDENTU SERVISS	7412	7412	102.23	10.58	—	—	—	95.81	10.18	—	—	72.94	9.66	10.00	7.29	07.04.95
262 SIA JURIDISKAIS BIROJS INKO PARTNERI	7411	7411	102.23	26.83	5.00	20.45	5.37	145.61	1.36	2.00	72.81	16.39	0.53	2.00	8.19	24.08.98
263 Latvijas Komerčbanku asociācijas šķirētās un ombuda attīstības biedrība	7411	7411	101.76	-6.16	5.00	20.35	-1.23	80.15	3.89	3.00	26.72	61.79	8.76	2.00	30.89	14.07.00
264 SIA PANDI BALT	7411	7411	101.74	9.63	8.00	12.72	1.20	82.17	4.50	8.00	10.27	81.36	0.95	7.00	11.62	03.11.95
265 SIA RALENA	7412	7412	100.88	-0.81	2.00	50.44	-0.40	0.71	-1.04	1.00	0.71	0.15	-1.50	1.00	0.15	30.10.95
266 SIA RIGAS REVIDENTU BIROJS	7412	7412	100.79	23.49	—	—	—	82.98	19.72	—	—	51.53	6.33	—	—	23.11.94
267 SIA BALTIKONS-CENTRS	7412	7412	100.47	30.68	11.00	9.13	2.79	96.17	31.29	11.00	8.74	74.67	21.76	12.00	6.22	18.02.94
268 SIA AB GRUPA	7411	7411	100.47	34.31	6.00	16.74	5.72	297.27	13.51	6.00	49.55	544.76	0.57	—	—	09.12.94
269 SIA SISTĒMAS GR	7412	7412	100.42	3.71	—	—	—	—	—	—	—	—	—	—	—	31.07.03
270 SIA M.INVESTĪCIJAS	7414	7414	100.00	291.14	4.00	25.00	72.78	50.00	164.76	4.00	12.50	50.00	105.76	—	—	14.05.99
0.1-0.5 mln	219		43 739.07	5 185.78	1 607.00	27.22	3.23									

SIA — limited liability company
 AS — joint stock company
 VAS — state joint stock company
 BOS — non-profit organization
 KS — limited partnership

Source: Lursoft.

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Lithuania: It's Too Early to Think about Market Consolidation

By Tatyana Komorskaya
Vilnius, Lithuania

Besides large international companies' branches and ten consultancy firms that managed not only to fit into but also stay equipped for operating in three Baltic States for a long time, most of the companies in the market are operating behind closed doors. A general association that could unite various consulting companies does not exist in Lithuania. However, there are some associations based on professional interests, i.e. real estate experts, bookkeepers and auditors, internal audit experts. Although, besides 150 licensed auditors actively working in their fields, there are two or even three times more those who work illegally, without special licenses, with no supervision or control.

Lithuanian consultancy firms have not been yet properly estimated and haven't been subject to any rating system. Therefore quality of service in absolute majority of these firms is not at all evident. Though, there are about ten firms in the country, which names are familiar to many people. Criteria of consultants' fees are not clear either. Licensed local auditors can get many times fewer fees for the same kind of work than foreign firms working in the market.

IN TROUBLED WATERS...

Experts have found another new phenomenon in Lithuanian market. The number of consulting companies growing with improbable speed on a wave of European structural funds' support has led to the situation that they desperately invite even students who are often compelled to negotiate a deal during lectures. Besides enthusiasm, we can witness a growing non-professionalism. On top of this, there is not any official government's approval of incredible number and unspecified quality (from students to banks) of consulting companies.

However, what is really characteristic about all these firms is their unwillingness to reveal and voluntarily disclose anything concerning their activity. This fact can show, on one hand, the much delicate, fragile and confidential relationships between client and consultant. On the other hand, for some reasons, it seems that it would be only better if a public authority can somehow assess consultants' activity.

Thus, among consulting companies there are those involved in personnel recruitment and providing advice on employment, the sphere of operation as responsible as is poorly controlled. This conclusion is drawn out of facts provided by both employers and employees. There are examples when recruitment agency earned

just by imposing their consultancy work in drawing up CVs.

Many real estate consultancy firms have based their service on using newspapers and Internet database. Some of them, even very popular, try to impose among "compulsory service" for future clients an advanced payment in the form of expensive expert's on-site visit for preliminary price estimation of the house for sale. More often the only aim of such "expert's visit" is to bring down the owner's price.

Certainly, there are many very authoritative and recognized companies among those involved in personnel selection and among real estate consultants. The latter make millions of transactions, analyze real estate market, make all sorts of forecasts, advice on investments, as well as make their own investments.

With the help of consulting firms some exciting projects have been developed, though they are usually well protected by enormous clauses in multi-paged contracts. According to one firm boss's opinion, rendering business-consultancy, this sector is replenished with European Union's subsidies. Only for personnel training in such firms working with the Union's structural funds, millions of lits are allocated.

There is, as a whole, such a feeling that consultancy market has generated hundreds of giant firms alongside a lot of "riff raff" companies dashing among them.

CONSULTANCY FOR DUMMIES

For an average firm starting its business, consultancy market begins with creating a business information center. In Lithuania today there are 42 centers of that kind, which are controlled by a public entity, i.e. Lithuanian agency for small and medium enterprises' development. The

head of SME's unit in Ministry of Economy **Lina Stanionite** points out that such net for starting businessmen has been in action since 1999. However, this agency's deputy director, **Izolda Krutkene** recalls the order of Ministry of Economy adopted in February 2005. In this order spheres of government's finance for consulting services, offered by 42 business information centers and 7 innovative- incubators, are determined more clearly. These spheres deal with marketing, financing, accountancy, etc. Last year business-dummies have had about 5 thousand consultations in such centers and 800 consultations in innovation-incubators.

At the same time in these centers it is possible to prepare, for example, enterprise's registration documents or its business plan at a low price (three-four times less than market price). Although these centers do not only consult but also offer many other types of services, the results of last year's research show that 48% of entrepreneurs took their consultations here. Besides an excellent Web-site, on the basis of government's financial aid, many books and two special consulting editions are published. The same site provides electronic exchange where small enterprises offer their products and services to the large companies, but "large" companies write what they want to.

A PROGRAM CAN HELP TO MANAGE FAST GROWTH

As soon as it is not possible to make consultancy companies' rating, it is nevertheless much easier to range clients who cannot do without consultancy. Business dummies are followed by small Lithuanian enterprises that turn to the same small consultancy firms, which usually specialized in a small range of service issues.

Boris Seminogov, the head of *Technologiju valdymo centras in Kaunas* (Center of Technology Management) acknowledged that Lithuanian consultancy firms unfortunately do not have an association that would unite and coordinate their activity. *Technologiju valdymo centras* is one of group of enterprises that is involved in audit, accounting, financial planning, in company's reorganization and in mergers and acquisitions.

B.Seminogov points out that there are not many consultancy firms involved in

company's reorganization. At the same time, there are not many clients, e.g. about three-four enterprises file such orders during a year; reorganization process itself can last six months. By the way, *Technologiju valdymo centras* established and registered a financial planning program for small enterprises. Its authors hope it will help to widen clients' range.

'Among most interesting inventions lately, says B. Seminogov, are management projects for fast-growing firms. From manager's point of view, it's how the enterprises in a changing environment are bound to enter the next developmental level.'

During last 15 years *Technologiju valdymo centras* has become consultancy focal point for about a hundred of big companies. However, in future it is going to reorient itself on SMEs market. That is because the center paid great attention to fast growth of yesterday's small enterprises and now it offers them financial planning program with an unusual name — "Mystics". The program helps to make short-term and long-range financial planning and enterprise's profitability appraisal.

"We operate mainly in Lithuania, says Center of Technology Management director in Kaunas, we have to work abroad too, for example in Latvia. However it is not that simple, in spite of the fact that our both countries have gone

through EU screening process. In fact, we do not have a general law to control all commercial units, as it is in Latvia where Commercial Code really works. There are also some forms of corporate entities in Latvia that do not exist in Lithuania. Some obstacles dealing with taxation still remain. That is why when doing business in Latvia we have to consult local firms on different issues like taxes and accounting.

INCREASING AUDITORS' RESPONSIBILITY

Valeria Shimkene, the head of audit firm *Valskaita* engaged in accounting, finance, and business-plans, told *BC* that 300 firms in Lithuania do have auditors' licenses, although many of them are not involved in this type of activity. About 150 audit firms really work on the market having been registered in Auditors' Chamber. They have the right to operate in audit market not only on the basis of Lithuanian Republic laws but also in connection with the EU standards. It is up to client's decision which company to apply to, i.e. either a licensed auditor or any other consultant.

In the firm headed by V.Shimkene there are 5 persons. It is a medium enterprise with 10-year experience in the market.

"In the beginning, we all, i.e. all country's auditing firms and our clients, were afraid of tax inspectors and the only goal was to survive. Now the main direc-

tion is shareholders' interests and that of society as a whole, says V.Shimkene. Recently in Lithuania bankruptcy stroke *Baltic Garantias* company and that caused a great public response. Public interest has grown towards such structures' activity as insurance, pension funds or other institutions where people invest their money, with increased requirements for audit. Alongside, greatly increased firms' liability for financial reports and balance accounts. Even those enterprises, which do not fit into spheres of public interest, would like to correspond to international standards.

Analyzing audit firms' activity in the country, one can say that there are about 60% of audit in their workload and about 40% goes to consultancy and control. The level of competition in the market reached its height, therefore for services' quality a good payment is an absolutely necessity, as those charging low fees cannot survive in the market. Unfortunately the psychology of our entrepreneurial activity makes it complicated to get equal payment with international audit companies, because they are paid many times more for the same type of services.

As to other problems, I must admit some "corporate peculiarity"; i.e. Lithuanian auditors would never tell, for example, their Latvian colleagues about difficulties and problems they are facing" •



Law Office Aivar Pilv

Law Office *Aivar Pilv* was founded in Tallinn at the beginning of the year 1993.

The main aim of our activity is to render high-quality legal assistance on an internationally recognized level which can be characterized by flexible and client-oriented service. This guarantees the resultant protection of our client's interests and the timely solution of problems.

The main basis of the success of Law Office *Aivar Pilv* include the stable teamwork based on pleasant working environment, multilateral and long-term experiences in different spheres of law and profound analyzing ability in legal matters.

Law Office renders legal assistance in English, German, Finnish and Russian.

- Corporate Law
- Property Law
- Contract Law
- Commercial Law
- Real Estate and Other Ownership Matters
- Banking and Securities
- Insurance
- Bankruptcy and Reorganisation
- Family and Succession Law

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- Medical Law
- Transport Law
- Intellectual Property
- Civil Law and Civil Procedural Law
- Labour Law
- Tax and Customs Law
- Competition Law
- Telecommunications
- Building and Planning Law

- Ownership and Land Reform
- Public Procurement
- Citizenship and Migration
- Environmental Law
- Administrative Proceedings and Administrative Law
- Litigation and Arbitration
- Criminal Law and Criminal Proceedings
- Execution Proceedings

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Estonia: It is not Difficult but Profitable Business

By Valentin Zvegincev
Tallinn, Estonia

About 11 years ago consultancy business was almost non-existent in Estonia. The term consulting caused at that time some confusion, as most often people could not say what that meant and what should be done about it. Today, on the contrary, it is difficult to find an enterprise that does not use that or another service offered by numerous consulting firms.

As consultancy firms' leaders in Estonia say, the number of competing companies is constantly growing. "It is generally assumed that this sort of business is an easy one and it is rather profitable; perhaps huge number of newcomers in this sphere is somehow connected to this myth. To tell the truth, it is worth to note that not everyone can survive in today's market conditions, as a result they just disappear", says **Kajdo Vali**, the head of *Hei Vaal Consulting Group*. His firm 11 years ago became one of the first to provide consulting service in the country. On the one hand it was rather easy to work at that time. "The point was that some people have already heard about such phenomena as consulting and have been waiting when such firms would appear in our country too. That is why we could find our clients rather quickly. We were in great demand. It was that period of time when we did not have any competitors", says K.Vali.

It was he who came to the conclusion to establish such a firm. K.Vali connects it to the fact that he is very communicative and while working in other organization before he started his own firm, he could solve immediately any problem. So, when the decision about setting up his consulting firm was taken, no problems appeared. "Of course it is a little bit more complicated to operate today, because there are too many rivals", says Mr. Vali. It is well worth mentioning that consulting service is a highly developed market in Estonia.

Law office

- Offshore
- Establishments of Estonian companies
- Tax considerations

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HOW TO CONSTRUCT A CABRIOLET...

Among other service items, Mr. Vali's firm offers management consulting on issues connected with company's management optimization, strategic management and development, as well as different market research and innovative decisions. "Everyone puts into the notion of consulting its own understanding. For example, one man turned to us asking for help: he decided to make from his normal boat a cabriolet-type boat. Especially for him we developed an individual plan on where and how to find money for his project, how to make necessary technical documentation, etc", says Mr. Vali.

In general, the range of questions that are asked in consultancy firms has considerably widened during last 11 years. If at the very beginning of Estonian independence people turned to consultants asking about various corporate structures' privatization and reorganization, then today they first of all are interested in product's quality. This means that consulting firms are engaged in European quality certificates registration for different kind of products.

ILLEGAL BUSINESS BELONGS TO THE PAST

Chairman of *Omex* firm, **Tinis Kons** believes that in order to survive today on consulting service market, a company must make every effort in order to help the client practically. "That means to fulfill every client's wish in a precise way, not to be late in service and suggest the most constructive solution of all existing", he says. *Omex* belongs to beginning-companies, because it is only one year old, but nevertheless there are some persons in its staff, whose names are familiar to many residents in Estonia.

"Our staff has good working experience with government's structures and knows well how to go around red-tape and bureaucracy", says Mr. Kons. According to the leaders of this firm, today the times have gone when firms while chasing profits could brake any laws. Today everything is different and this means that competent and knowledgeable consultants are required.

THEY HAVE COME TO STAY

Despite the fact that more and more local consulting firms appear in Estonia, some international consulting companies pay attention to our country, too. Starting with 1995 such giants as *SAP*, *Assar Consulting AB*, *Aabel Consulting*, etc. entered the market. Local companies tried to resist international companies' expansion, although often wins the one, who can offer long time experience.

NO ONE CAN DO WITHOUT CONSULTING

Since lately, consulting actively started to develop in the sphere of information technology. Some time ago such consulting specialists came from US and organized seminars. As a result of this visits new firms were established and, frankly speaking, they gained good popularity at once. For example, not so long time ago with assistance from *BPW Consulting Project* firm, Tallinn City Council got the new system AKTAL that helped to monitor everything that was discussed during the meetings.

Even such corporate giants as *Eesti Telefon*, the State Office and *Hansapank* use consultancy firms' services in the field of information technologies. According to one of the first Estonian consulting company's representative, there is no enterprise left in Estonia today that has not used various services offered by consulting firms. •

Database of all registered companies in Latvia

It contains the actual information about companies registered in the Company Register of the Republic of Latvia, their judicial requisites, officials, owners, financial indicators, and various other data. The database is accessible on the Internet

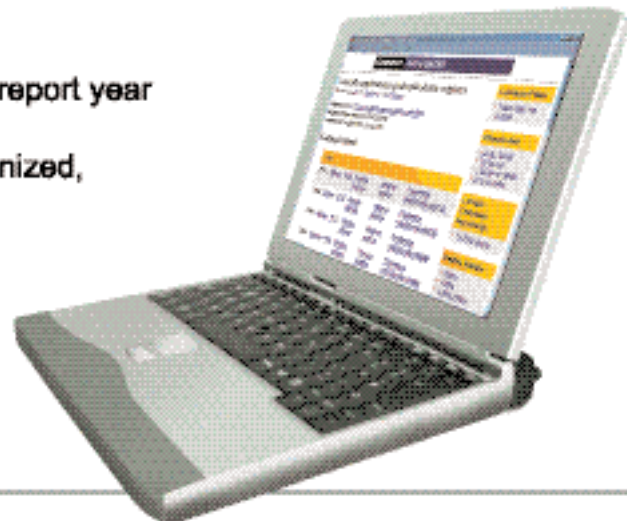
www.lursoft.lv 

There is free access to the database to search companies by name, or by their unified registration number. Only the company's judicial address, telephone number, business activity, and address of Web site or e-mail will be shown to an unauthorized user.

The authorized users, after the authorization on the portal www.lursoft.lv, are able to obtain wider information about every enterprise and businessman from several Lursoft databases, which could be provided after request of a corresponding service.

Database content

- × company name or abbreviated name
- × type (JSC, LTD, and others)
- × registration number
- × judicial address
- × main registered field of activity according to the Central Statistical Board data
- × registered basic capital
- × officials
- × partners
- × partners' citizenship or the country of origin
- × territorial address (region or city)
- × financial report year
- × profit or loss in the report year
- × turnover in the report year
- × number of workers during the report year
- × the branch of revenue department during the report year
- × reviser during the report year
- × judicial status of the company (active, re-organized, liquidated, or others.)
- × registration date
- × liquidation date
- × the register where the company is registered (Company Register, Commercial Register & others.)
- × Database of pledges



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Why Holding Companies are Engaged in Consultancy?

An answer to this question is provided by *AVE Trans Group* director **Julija Malisheva** who positioned herself on Latvian market as a logistics' operator, providing unique for Latvia set of services.

AVE Trans Group is composed of several departments and separate companies, which altogether directly render business-consulting services according to recognized NASE classification. All Group's integral departments and companies, as well as group's clients, can get access to practically all kind of services that is included into group's consultancy business sphere.

A successful holding company can not properly function without its own or integrated logistic service, without legal, insurance and financial departments. It needs as well to perform administrative and analytical functions including risk management, marketing research, etc.

For our group which is concentrated on general and additional logistic services, including Industrial park management (situated next to Riga port container terminal), mentioned consulting services is not only an important every day necessity but business sphere, as well.

LOGISTICS IS NOT JUST A FASHION

Most of modern undertakings, in practical terms, approach logistics as a set of the following functions and services: transportation, clearinghouses, customs service and cargo insurance. And although our group from its inception unites companies engaged, among other things, in performing these functions, the term "logistics" in these functions' definition is nothing more than a sign of fashion. Nevertheless, industrial countries' experience can show that logistics occupies strategic and important place in modern business development; logistics' expenses in industrially developed countries presently reach 20-30% of GDP, e.g. in the USA these expenses are at the level of one trillion USD a year. To-day logistics is first of all an efficient management of all material and other corresponding resources, such as financial, information and services, in order to reach desired corporate aims with optimal involvement of all necessary resources.

Logistic strategy, which often isn't even called as such, being rather a notion of economic feasibility together with business-intuition, pushes holding companies and big firms in Latvia into creation of separate internal structures/departments for internal management purpose. These structures, initially quite useful in the eyes of outside experts and

therefore often suggested by external consulting firms, are based on thorough internal information backlog and at the same time being deeply adherent to company's interest and strategy. Indirectly, these structures can secure company's information exchange at a time of fierce market competition.

PSYCHOLOGICAL STEREOTYPE

But still important question remains: why internal rather than out-sourcing structures are bound to deal with consulting; keeping in mind that external services could easily and successfully perform such functions? To my mind, at least partly, psychological stereotype is involved here exploring natural sense of ownership. On the other side, Latvian market can not supply us with qualitative and cheap services, at least within the scope of our expectations for longstanding business cooperation. Market presently lacks experts having adequate education, broad specific experience in order to acquire responsibilities connected with holding's decision-making that would satisfy interests of both shareholders, top management and consulting companies themselves.

When company's staff, while increasing educational potentials and gaining practical experience, has evolved into a group of perfect experts, their separation into internal consulting department provide exceptional outcomes and results. Such department's activity does not at all reject involvement, at certain periods, experts from outside consultant firms.

IN ONE'S OWN AND PARTNER'S INTERESTS

Having acquired all peculiarities involved in consulting service within existing corporate structures, it is often required to make corresponding changes, according to own needs, and unify partners' business structures, those of e.g. suppliers, producers, distributors, intermediaries and those of other clients. Most vivid examples here could be introduction into Latvian market western companies which, at the same time, brought along their own forms and models of business, own computer-programs, auditing systems and management training schemes. In that case company's own consulting is becoming particularly important starting to function at the very front line of corporate external service.

Another important aspect in exploring own consulting service structures for marketing strategy lies in the following features: attracting clients; introduction into the market new products, services and brands; client's and partner's training and supplying the latter with auxiliary but vital for them consultation issues. In other words, it's important to provide assistance in decision making, in all sorts of explanations, organizations and analysis, and to assist in accountancy and "making things happen". In this respect, these activities included in consulting are becoming important elements of undertaking's business.

All abovementioned could be applied, with some reservations, to all other traditional types of business consulting, which big companies or group of companies are often arrange into separate corporate structures.

TOGETHER WE'D GAIN STABILITY AND SUCCESS

Further on, during separate business structure's existence certain consulting facilities can be institutionalized capable of leading completely independent consulting business-activity (if such "independence" comply with the head company's strategy). And at the same time, although indirectly, without hindering clients' interests, this consultancy does not impair main holding's activity. In this regard, consultancy can use the latter's facilities and resources, which other clients, otherwise, can not possibly acquire. Precisely at that instance appear a second, strictly external in nature, level of our consultancy service.

In its activity, *AVE Trans Group* explores all abovementioned consultancy potentials in order to become one of the first in Latvia 4pl-logistic operator. And we are ready to render experience and knowledge we have already acquired to all our clients and partners.

Natural businessman's desire to be successful, efficient and competitive has become a driving force in our shareholders' and top-management activities. Our internal and external business-consulting services are in line with this creative and thoughtful endeavor. •

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Advancing Bank Management System — a Current Task for Consultants

By Valery Kanayev

Chief of Marketing and Corporate Relations Department, Rietumu Banka

Banking is a quite specific business field; therefore the relative share of consulting companies offering the advancing of bank management systems is rather small.

Currently it is of crucial importance to advance generally accepted management standards and to subjugate the management to business needs.

If the traditional organisation of banks is still being built on the hierarchy principles, vertical information streams are prevailing, working activities are regulated by formalised rules, the control and important information are concentrated in the top of the structure — under the existing conditions of rapidly changing situation in the market such systems do not fit to solving bank objectives.

LOYAL CLIENT IS THE BASIS FOR BANK'S PROSPERITY

Recent researches in the field of bank management revealed that almost the only and primary fact, that accounts for stable and prosperous banking business nowadays, is a significant database of loyal clients.

The bank's clients differ in size and value. Hence the level of banking service should vary accordingly from client to client considering the significance of a particular client for the bank's business both today and hereafter. When setting up the development and investment strategy, both needs and expectations of the bank's key-clients are to be taken into consideration.

An ability to understand why the particular client is of great importance to the bank, as well as what characteristics the kind of the clients have when they become the clients of the bank for the first time, become the key potential for the bank's business.

Each bank focuses on keeping its clients, creating new banking products, reducing costs and managing the risks efficiently. The issues of fulfilling individual needs of profitable clients, the organization and the principles of work of the bank's divisions, that deal with corporate clients, the segmentation of the clients database and of the service levels, as well as the methods of analyzing and monitoring the clients profit are becoming more and more important.

To integrate a client to the bank, to offer him true individual service is the issue to be solved within bank management.

As a rule, the banks rely upon their own resources since they do not count on an external support.

FROM "NATURAL ECONOMY" TO PROFESSIONALS

Why the idea of "natural economy", i.e. the willingness to have own specialists-managers, is still dominating? Where to find such specialists?

There is a hope that psychological barriers between the banks and consulting companies will be abolished. What kind of barriers are we talking about?

There is a steady stereotype: the one, who is not able to work, becomes a consultant and teaches others. Unfortunately, there are still forcible grounds for such thinking. Indeed, the professional level of some consultants is far from perfect. Real professionals are exceptions.

Consulting is a kind of "joint undertaking" of the consulting company and its client, presuming the highest degree of trust to each other. Unfortunately, the fact is that the financial sector is still not transparent and is closed for outsiders. Quite often banks, wishing to have recourse to consultants' services and willing to receive a high-quality product, do not give the consultants an access to own "kitchen". As a result, initial expectations do not coincide with the received results. The consultant becomes the party at fault, and a wall of partition between the practising bankers and outsourcing consultants becomes higher and higher.

In many cases the consulting companies provide grounds for critics. While advertising their service as management consultancy, they bring it to simple audit, tax optimisation and delivery of software. However, at the moment they are not able to provide professional diagnosis, financial condition analysis and effective recommendations in the field of management solutions for the certain bank, not a bank in general, marketing and promotion of new bank's products together with solid informational-analytical service. Not having enough professionalism in diagnosis formu-



VALERY KANAYEV.

lation, they replicate standard software and resell databases, thus devaluing the mission of the professional consultant. Of course, this does not apply to banking audit, which due to the high level of competition and strict requirements of regulating authority, is professional enough.

The banks have a need of staff advisers in the management field. This is evident. However, as the experience shows, even high-class professional consultants, when joining the bank, gain negative behavioural stereotypes. The procedure of decision taking in any organisation follows eternal laws of bureaucracy. The point of view of the internal consultant not always corresponds to the point of view of top-managers. Neither the consultant always has the courage to carry his point.

At the same time a consulting company, that operates within competitive environment and solves issues of different kind, has a possibility to keep good "competition shape". In addition, if the company takes care of its reputation, keeps working on enhancing the professional skills of its specialists, adopts the experience of advanced Western consulting companies, then, along with the high-quality diagnosis, this company is able to propose true recommendations and proposals.

It is obvious that involving the consulting company into problem solving process on permanent basis, complementing and partially substituting the bank's internal specialists, is of great value in Latvia. This kind of consulting (known as "outsourcing" in the West) seeks for narrowing the gap between the objective needs and the demand for banking consulting, as well as to enhance the work effectiveness. •

Financial Consultants are Trusted Business Partners in the Baltic States

By Vadim Jerosenko

Certified business valuator, Chairman of the Board of the corporate finance company LAIKA STARS

Observations of the overall business market by the corporate finance company LAIKA STARS indicate that the business transaction market in the Baltic States is stable and attractive. This is especially true in Latvia, particularly when taking into account the new border layout following accession to the European Union.

Furthermore, in the area of corporate finance, business leaders have developed a trusting relationship with independent financial consultants who are regularly involved as reliable third parties in a company's "life" and financial management. In other words, corporate financial culture has achieved a stable and reliable level of development.

CORPORATE FINANCE CULTURE

This is due to the fact that businesses are willing to involve financial experts only in corporate business activities that are advantageous and successful for the company at the given time and situation. There exist various corporate finance activities — starting with the development of a potential investment project and ending with the arrangement of a business purchase or sales transaction. In either case, businessmen need the advice of top-level financial experts. For this reason, parallel to the work of its own financial specialists, a company's management is willing to acquire significant information about the company exactly from financial consultants. First, in order to obtain information and "see itself from the outside." Second, to guarantee that financial decisions are not made on an emotional basis — financial consultants have specific methods, experience and success with a wide variety of clients.

Over the past years a stable and reliable corporate finance culture has developed in Latvia and the Baltic States through regular interaction. Presently, businesses in Latvia are bought and sold not only by businesspeople from the EU who have the formal support "mandate" of the local political power. There is also substantial business involvement from Eastern Europe and Asia, particularly involving businesspeople from the former Soviet republics. Thus, it should be noted that corporate finance in Latvia and the Baltic States has entered a new stage of development and creative thinking.

ERA OF PRIVATIZATION UNDERHAND

We can now mark an end to the 1990s era of privatization, which was a time of economic growth in Latvia and a transition period from socialism to capitalism. We have also completed the next stage where Western capital was welcomed with open arms, and Westerners often purchased more or less rundown companies that were on the verge of bankruptcy.

These privatization transactions were marked by poor quality due a lack of proper education and experience. Furthermore, there were no good potential buyers and the privatization process became a "battlefield" for unprofessional go-getters, and the biggest loser in this game was the State. Thank goodness, this process has become an element of the past.

EU MEMBERSHIP HAS OPENED NEW HORIZONS

Through its accession to the European Union, the Baltic region has become an important country for business development opportunities and a business "bridge" between East and West. In May 1, 2004, Latvia officially became a full-fledged member of the European Union. Even long before this date, this change led to the establishment and development of a mature corporate finance culture and the appearance of educated financial experts. EU membership has opened new horizons for local and international business, as well as for corporate finance per se. Presently, it is relatively easy to attract credit resources for business development in Latvia — loans are more accessible, i.e. there are more credit resources available and lower interest rates on loans. Due to its small market and a relatively small amount of companies, strategic investors are the key players in the buying and selling of businesses in Latvia. These are people who have a clear picture of the specific business and market in question, and who invest capital in Latvia's companies and provide the necessary technology, equipment and "know-how" needed for development.

A MARKED INTEREST IN THE AREAS OF TRANSIT AND LOGISTICS

Five years ago in Latvia Westerners were more interested in the timber industry, finances and the food industry. Now we sense that businesspeople from the East have a marked interest in the areas of transit and logistics, which were well developed before the collapse of the Soviet Union. Presently, there is a heightened interest coming from the businesspeople of Ukraine, Kazakhstan and Belarus. Eastern businesspeople are ready to invest in the Baltic region, as this market is nearby, easily comprehensible and ensures access to the European common market, which has a turnover



VADIM JEROSENKO.

of billions of euros per year. In a historical context, it is important that in Latvia the interests and needs of Eastern businesspeople are well understood, starting with company management and ending with the financial consultant. Furthermore, there are no language barriers in negotiations with Easterners or Westerners.

THE POTENTIAL PRICE OF THE TRANSACTION IS THE MAIN TOPIC

The sale of a business is a comparatively long process where in the concluding stages legal counsel becomes necessary. Still, the potential price of the transaction is the main topic that remains in the center of focus throughout the entire process. Although an agreement on the final sum of the transaction is reached usually in the process of negotiations, business valuers can determine a company's value — a price that the buyer or seller can use as a point of departure in the preparation of an offer. The business valuation is not merely a "bare" figure, but a comprehensive report that contains commentary on the value of the business and is often used as well-formulated price argumentation during sales negotiations. Some clients begin to prepare for the sale of a business well ahead of time by procuring a business appraisal that matches their needs and then improving areas in the business that contribute additional value.

In every country there is a need for specific knowledge in the area of financial management and fund raising, when buying or selling a business or conducting other investment transactions. This is especially important for large companies. Presently the development of the corporate market has reached a level where a company's management must be quick and precise in its decisions. Corporate finance experts can guarantee that this is carried out on a high level with stability and reliability. •



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Business Development Strategy

By Yury Samsonov

Ars-inteks

Without market information it's impossible to choose business development strategy, to take investment decisions, to organize efficient advertising campaign, etc. Without complete market data businessmen are bound to act at random with decisions grounded on occasional, fragmented data or intuition, which often lead to serious losses or reduced possible profit.

Marketing research is, no doubt, the most important way to reduce commercial risks for any company working on any goods and services' market sector. The major aim of marketing research is to secure for businessmen's decision-making a realistic background in a selected market segment.

In the course of the development of market economy in the Baltic States. The supply and demand for consulting services in the field of marketing have formed.

Thus, initially, the interest of local entrepreneurs to marketing relations looked liked children's curiosity. Consultancy involved basically explanation of marketing approach as well as advertising support, which was quite chaotic at that time.

The second stage has begun at the time when population, having already experienced inflation chock, got used to European price-level. At that moment Western firms and producers have begun intensive exploration activity at Latvian markets. New business players were interested to receive detailed market information (first of all capacity at the market and level of competition). They requested surveys of public opinion and polls, as well as qualitative market researches in the form of focus groups. Western companies knew quite well what they wanted and therefore they clearly formulated requests, being perfectly oriented both in labor — intensiveness expenses and range of prices for the consultancy services.

Local companies' leaders commonly thought that they knew everything what is needed about corresponding markets. However, after consultations with our experts on marketing strategies, it was clear that they can not answer many questions. Having studied our analytical

market research, they came unexpected findings and conclusions.

At the present, third stage, the demand for full-scale marketing research using qualitative and quantitative methods has sufficiently reduced, as big Western companies already occupied market segments with relatively great turnover capacity. Big and medium sized Latvian companies with modern management have created within its structures their own units with market analysts.

Due to new member states' accession to the EU, the process of small and medium sized companies penetration to neighboring markets has got a new impulse. More and more business leaders have become aware of marketing information importance, the demand for analytical research is growing. At the same time, marketing functions in many companies have not yet completely formed. Newly appointed managers, being asked by their superiors to formulate request for the market research, often are not able to perform such a task. This is why many requests look like the contents of the marketing textbook, i.e. as if the client is interested to know everything. Such comprehensive information, of course, is extremely expensive. Very often, therefore, the client is unpleasantly surprised and says: we somehow have been working without that before and we are going to survive without it in the future. The matter that the client does



YURY SAMSONOV.

not need all the information he has requested!

Therefore, consulting company *Ars-inteks* offers complex approach to clients' problems. Together with the client, including foreign investors, we explore the whole path of development of the marketing strategy. We assist in identifying a required minimum of additional information, aid to collect and analyse it within market research, as well as to establish marketing function in the company. •

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What is the Company's background, its purpose and drive to enter the Baltics?

GR: Before the establishment of the company each of the partners has had his own well-debugged business. That allowed each of us to accumulate more than ten years experience in doing business in the region, to develop a wide and diverse contact network within local and international business community as well as in the political circles. All three of us knew each other from our previous businesses and teaming up together within *Bridge Capital* was just a natural move in the establishment of an advisory services boutique that would be able to operate in wider Baltic region.

Our previous experience considerably facilitates running our new common business successfully now. Although, some specialization exists: I coordinate operations related to the real estate — commercial, office and housing. These services are allocated into the separate entity — daughter company *Bridge Property*. Jonas Tamulis manages *BC*'s representative office in Lithuania (Vilnius), and Vladimir Solomatin is more focused on the financial advisory issues. Thus, we supervise various clients depending on the specifics of the project.

What are the peculiarities in doing business consulting in the Baltics?

JT: During last couple of years, the cornerstones of the Baltic market — financial services and real estate — eventually began to get modern outlines. The civilized economic relations have been created in mortgages, credits, and mortgaging obligations.

VS: In 1999, it was almost impossible to obtain a long-term credit for development or construction without a solid “financial background”. Contrary, today the financial markets are very flexible and active.

JT: The origin and historic development of investment and business communities in the Baltics differs remarkably from the ones that the western investors are used to in their respective markets. The structure and dynamics of the markets allowed us in a decade to get to a point that more developed countries took much longer to reach. This dynamics of the Baltic market still means that anyone entering it from the outside will be much more successful with a local partner, who has a proven track record within the Baltic.

On the other hand, great deal of Baltic managers comes from a variety of backgrounds, which have little to do with financial markets or corporate strategies. Under their management the companies

Bridge Capital — Competiti with Custom-Tailored Soluti

Bridge Capital (BC) is a corporate finance company, acting mainly in the Baltics providing advisory services, e.g. mergers and acquisitions (M&A), strategic planning, restructuring. It was founded by three equity partners: Mr. Gilad Regev (GR), Mr. Vladimir Solomatin (VS) and



VLADIMIR SOLOMATIN, JONAS TAMULIS, GILAD REGEV.

had survived the post-independence period, later crises and turmoil. But today they are facing different type of challenges posed by the EU accession, market consolidation and increased competition. Independent financial and strategic advisor is instrumental for such management teams for the further successful development of their companies.

What is the Company's strategic range of services?

VS: The portfolio of services provided by the *BC* ranges from the simple financing structure analysis and develop-

ment, to sophisticated M&A advisory. Recently, inroads into the real estate market have been made with cash-flow-driven commercial real estate transactions being our main target.

The ability to adapt to constantly changing circumstances and finding creative tailor-made solutions, followed by supporting the implementation process, is one of the company's primary competitive advantages.

The key issue in any business is the risk. What is your approach to dealing with clients' risks?

ve Advantage ons

ing independent strategic, financial and political, and assistance in privatization. *Bridge Capital* and Mr. Jonas Tamulis (JT).



VS: The mission of the company is to help entrepreneurs to invest their capital and savings with the profit. Here, the prudence in business plays the key role. The credo of “prudent business” operates to the full scale. Although the risk is always high for both sides: the client puts his funds at stake, while the company — its reputation and prestige. It means that the company simply can not put its clients down. To allow something like that — means to jeopardize the whole idea of business existence. The business is not the commerce: here it is possible to go bank-

rupt only once! The company, of course, can not afford that!

Our long-standing relationships with local financial institutions, investors and businesses give us an immediate head start in determining the ways to meet clients’ needs. Transactions, successfully carried out by *Bridge Capital*, have helped us to create reputation in business circle that our clients are able to build upon. The years of problem-solving experience we accumulated in the Baltics allow us to spot the problem and deal-breaker issues in a transaction at once, our clients do not need to face it at the later project stages, when it may be too late to remedy the damage.

How unique and specific are BC’s services and products in the whole region and in separate Baltic States?

JT: To say that each Baltic state has a very distinct business mentality and requires a radically different strategic approach would be an exaggeration. Naturally, the three Baltic States have developed under different conditions and influences, but that did not stop foreign banks and other financial institutions being successful in the implementation of almost identical strategies across the region. In many cases, foreign expansion of Baltic “national champions” has started with entrance to a neighboring Baltic State, and, as their track record shows, successful strategies work across the region.

Unique set of products and services for each state would not give one a competitive advantage or provide better service for clients’ needs; it would be just more inefficient. Businesses and investors are increasingly looking for the custom tailored solutions across the Baltics, unique for each client, not for a separate market. Our aim is to provide that.

Are there any difficulties in selling “the range of services”?

GR: *BC*’s approach is not to sell “a range of services”, but rather to offer a custom tailored solution to the client’s problem. In many cases, we start with identifying the real issue in place. Due to the specifics of the client’s business that we work with, in most cases, standardized service package is not an option, as it would only amount to a half measure. At the same time, a standard product is easy to imitate; gearing *Bridge Capital* towards such services would affect our competitive advantages negatively. We are not a behemoth financial institution with an army of clerks selling the same product to an even larger army of clients. We create value by resolving unique situ-

ations and helping our clients realize their potentials to the fullest in a manner that suits them best.

What are the trends and changes in business consulting in the Baltics since joining the EU?

JT: The EU membership was not a sort of cut-off point when that “brave new world” started. Surely, the increased formal security and market recognition has attracted some companies and investors, who are relatively more risk-averse and need the “EU” tag for a better night’s sleep. However, the local market players as well as those that came along before the EU membership are generally more aggressive and willing to take higher risks. They run circles around the risk-averse investor community and I would expect them to be the market movers and shakers for years to come. The businesses that are established in the Baltic States following the EU accession are in many cases long-term investors and are ready to pay premium for their sense of security that comes along with the “EU” brand. Such premiums often find their ways to the bank accounts of the aggressive locals and fuel further the dynamic sections of the market, foster company growth beyond our region.

Bridge Capital and Bridge Property: what comes next?

VS: To my mind, the future of the *Bridge Capital* is as sunny and happy as cozy, spacious and prestigious are the premises of the company that are located in the very heart of Riga. The idea of spanning the corporate culture bridges fully justifies itself in the hands of professionals. •

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Hard Work Beats Everything

Labor omnia vincit improbus — that's the slogan of the two Latvian companies' alliance, i.e. first, *Axio Bizness & Finances* rendering financial and legal services and, second, legal service provider *Treilons & Petrovics*. Alliance's business partners Mr. **Andis Riekstins**, and **Ugis Treilons** are discussing both unique for Latvia service arrangements and consulting market's development issues.



ANDIS RIEKSTINS AND UGIS TREILONS.

Both partners are experts in their corresponding service's sectors. Thus, Andis Riekstins, financial specialist gained experience working at *Hansa Lizings* as a leasing project director. Since 2002 he has been working in private business sector, developing and implementing business plans for companies in various industrial sectors, as well as conducting financial analyses and preparing projects for the EU Structural Funds financial applications.

Ugis Treilons, attorney at law is a member of Latvian Bar Association, International Bar Association (IBA) and European Lawyers Association (ELA). He has gained professional experience working in law firm *Klavins, Stardins & Loze* in 1996-2002.

ALLIANCE'S ADVANTAGES

"The alliance's mission, Mr. Andis Riekstins explains, is to provide our clients with innovative services, such as

integrated solution to legal and financial issues that covers all aspects of the initial problem starting with the creation of new undertakings and attracting new investors, to issues of strategic solutions and matters of operational concern"

The alliance's advantage provides our clients with a reliable opportunity to acquire coordinated legal and financial assistance from a single competent and reliable partner; it's all necessary for business subject to unified standards. Clients will spend less time cooperating with *Treilons & Petrovics* and with *Axio Bizness & Finances*, which will save both time and money, i.e. they will save in-house resources, as well as pay less for external advisers.

Very often our clients find effective to assign the alliance with the entire scope of a company's in-house legal, financial and accountancy activities. In this way clients significantly increase their efficiency and decrease running costs.

Mr. Andis Riekstins points out that "we offer our clients the knowledge and experience gathered during many years of cooperation with local and international clients. In developing their business, our demanding clients have made us become professionals in various sectors of economy. We study comprehensively and profoundly our clients' needs and offer professional solutions by combining our legal, financial experience and knowledge"

Mr. Andis Riekstins further explains: "the main assets we can offer to the clients is our partners' and staff competence which assists us in finding complex and efficient solutions in difficult commercial developments. To day the alliance unites 14 experienced lawyers and financial advisers; we constantly add to the team experienced and well-educated personnel that is aware of importance of internationally recognized best practices.

AXIO BIZNESS & FINANCES

Company's experts will assist business in the following areas linked to the entrepreneurial activities:

- Assessment and implementation of ideas for new business-plans and projects;
- Attracting financial resources for project's implementation;
- Company's business plan formulation;
- Company's assets' evaluation and assessment;
- Attracting financial resources from the EU Structural Funds;
- Acquisitions, mergers and selling of firms and companies;
- Assisting foreign companies in starting business in Latvia;
- Market research performance;
- Development plans and marketing strategy, as well as PR structures.

According to those of our clients that have already received *Axio Bizness & Finances'* services, the latter can provide consultancy service in other adjacent business sectors. Quite often financial consultants' assessment can play a decisive role in clients' business decision-making procedures. It often happens that such decision-making can perform two-sided solutions, i.e. financial and legal. In this case, the law firm *Treilons &*

Petrovics provide company's management consultancy, which is as well advantageous to our clients. Mr. A.Riekstins points out: "What we suggest to a client is so-called an alternative path and it's up to the client, which decision to take. Our advantage lies in independent consultancy". Besides, Mr. A.Riekstins explains, we can share experience gained during our work with other clients.

Financial consultants are engaged in different development sectors, e.g. manufacturing, real estate, trade, banks and pharmaceuticals. As Mr. A.Riekstins points out that "our key sphere of activity is financial service for shipping companies and owners which is the sphere of good business and good profit". At the same time financial consultants can render assistance to all kind of business activities including small, middle-size and big companies.

TREILONS & PETROVICS

The company's range of legal services include the following activities:

- Corporate law;
- Corporate governance;
- Foreign investments;
- Transnational business practice;
- Banking and financial regulations;
- Intellectual property;
- Real estate;
- Tax planning;
- Competition law;
- Administrative law;
- Legal due diligence and audit;
- Litigation and arbitration.

"We provide our clients with legal counseling, points out Mr. A.Riekstins, e.g. a client made a deal and would like to know how to brake contractual obligations while eliminating costs. For example, a client would like to start a project in a little known to him business sphere; our company could assist a client with legal counsel. Another example: a client rents a plot of land and would like to build a house; we'd provide all adequate legal counsel concerning the future project".

Lawyers in *Treilons & Petrovics* are ready to prepare all documents necessary for establishing an enterprise in Latvia. They are ready to conduct special legal analysis of all the issues connected to undertakings, as well. Legal audit has to be specifically mentioned in this regard. Company's lawyers, according to client's needs, would undertake extensive evaluation of all issues involved in business presented for auction starting from business' creation and all contractual deals to all

the conflicts and litigation the company had been involved in.

As an additional service, the law firm *Treilons & Petrovics* can assist clients in issues concerning Baltic States' legislation and legal texts' translations into Latvian, Russian and English. Although *Treilons & Petrovics* is oriented mainly at corporate clients, the firm does not exclude delivering private clients' requests.

NEW COMMON PROJECT

Ugis Treilons points out to the new common service, or rather "common project", between *Treilons & Petrovics* and *Axio Bizness & Finances* which is quite unique in present consultancy market, i.e. popular in modern world financial scheme: public-private-partnership (PPP). So far there have not been any significant projects in this kind of financial service in Latvia. Main thing in this regard is to create a module along which such project can be implemented. Then, a municipal and state institution shall be found, as well as investors to provide financial resources for the future project. In this respect we deal with all legal and financial assistance.

ON INTERNATIONAL SCENE

Treilons & Petrovics and *Axio Bizness & Finances* are active mainly on Latvian market, although there are some European clients and clients from CIS region. In Lithuania this Latvian alliance cooperates with *United Partners*, a partner involved in financial service's issues.

Both companies render corporate services on a recognized international level, and all services are accessible in three languages — English, Russian and Latvian. Solid education in Latvia and abroad, multifaceted professional experience and communication skills are quite characteristic for both companies' partners and staff in alliance.

"After joining the European Union, says Ugis Treilons, Latvia has become a much more safe territory for European investors and entrepreneurs. At the same time, for our Eastern neighbors our country has become an attractive business site from the "big Europe's" point of view rather than that of small Latvia".

According to A.Riekstins' opinion, "the alliance's main advantage lies in its understanding of post-Soviet businessmen mentality which is a difficult task for consultants from Western Europe. And although Latvia is presently a recognized

European state, our recent history can assist us in working with European people as well as those situated on the other side of the EU boarder. But we are ready to work on international level and to serve as a bridge between East and West".

A GLANCE INTO FUTURE

Looking into Latvian consultancy service's perspectives, Mr. A.Riekstins pointed out to the fact that comparing to Western Europe and even Russia market potentials in Latvia have been greater. Latvian entrepreneurs still hold to the wrong idea that they can reach ideal solutions themselves, while decreasing costs, in such spheres as business management, investment issues (much more than just arranging for bank loans), undertakings' restructuring (including both mergers and splitting-up), business' assessment and sell-out. They simply do not yet understand that professionals can resolve all these issues much quicker and efficiently, saving the clients time and resources.

As for the two allied companies' — *Treilons & Petrovics* and *Axio Bizness & Finances* the main task for the future, according to Mr. Ugis Treilons, is a significant enlargement in the scope of business-services and increase in their quality. "Our plans include investment funds establishment: first in Latvia and then in Russian market. To our mind, it's the logical consequence in business-consultancy development. Presently this task seems difficult to implement as local business community acquires financial resources from the EU structural funds, which represent so far the so-called free-of-charge resources. But as soon as the EU financial sources would dry-out, the investment funds would come into being. Therefore we are looking some several steps ahead". •

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Innovations' Role in Modern Enterprise Development

By Alina Dudele

Buznesa Konsultantu Grupa, Director

Enterprise's ability to incorporate intellectual capital in the value added process has become a decisive competitive factor.

Intellectual capital is not restricted, as it is often thought, to trade marks, patents or other products of mind being protected by corresponding property rights. It is, on top of it, a compilation of knowledge and experience available within a corporate entity. Present vital trend apparent in consultancy sector from pure marketing to clients' relationship management means that additional importance is exerted at each person working in a company. Therefore, innovation process in undertakings is not limited to process of implementing new technological solutions; it involves, to a greater extent, innovative management decisions. An old adage of integral ties between science and industrial manufacturing presently has acquired an additional new meaning.

None would probably start to-day inventing individual cell-phone; everybody understands that such assignment requires special skills. But nevertheless, in specific spheres of corporate management systems and personnel administration corresponding steps are taken for granted. It has to be particularly emphasized

that hundreds of adequate methods, already proved their significance, have been successfully created, tested and approved.

Taking into consideration modern pace of development and huge volumes of information that people face each day, contemporary information processing methods, as well as modern corporate management systems, has become an urgent necessity for everyone.

It is in this particular instance that business-consultants are able to offer valuable assistance in suggesting new and reliable management technologies.

As to innovation aspects in these technologies, according to investigation conducted by the World Bank's experts, good background for scientific research exists in Latvia, which allows creating a number of new competitive enterprises. Nevertheless, this positive process can be retarded due to a lack of qualified businessmen able to create science-based enterprises oriented towards contemporary markets' needs.

It's well worth mentioning that in global practices there have been already tested several methods to solve such controversies. Thus, *BKG's* experience in cooperative assignments with the *Eurolink partners'* regional network can enlarge greatly market's borders and find partners with required qualification in any European country.

Buznesa Konsultantu Grupa — BKG is a private company with limited liability established with the aim of providing high quality services for companies considering changes and significant performance as their permanent goal.

BKG's main goal is to ensure that all services provided by the company are performed according to highest professional standards and that of consultants' Code of Ethics. Company's professionally engaged staff, together with a wide network of *BKG's* partners, provides adequate level of competence for each customer.

BKG's team is composed of experts in the following spheres: corporate and business assessment, strategic business development planning, quality management system's enforcement, marketing, investment projects analysis and development, innovations and moderation. •



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Decisions That You Can not Do without...

Business development can be compared to personal evolution, i.e. before reaching maturity a kid would proceed through all "kids' illnesses". In Latvian business evolution so-called start-up period is already over, and presently it entered a stage of maturity. It's important at this stage both to set up correct development strategy and optimize business-processes. Lack of adequate knowledge can stop corporate development and reduces its capitalization. *Vindex* law office's director Mr. Gvido Senkans discusses efficient working models at international market.

Vindex law office was established in 1996 with consulting as the main field of its activity. Consulting, as is well known, means "providing assistance, giving advice." So, if a company needs asset restructuring they will invite realtors, in case of tax optimization auditing firm will be invited, in judicial issues reaching the court — law firm is invited. All these actions could be quite fragmented if a company does not have a unified management system. Consultancy experts would offer resources for business transformation from a present state-of-art to a desired "tomorrow", and with their assistance a company can reach successful future.

POSITIONS IN INTERNATIONAL MARKET

"More and more competitive companies have been appearing in Latvia and other countries in post-Soviet bloc lately", pointed out Gvido Senkans. At the same time, he goes on, most of the companies do not have adequate experience in order to reach a position in international market. Experts in *Vindex* law firm are analyzing foreign countries' legislation in order to offer businessmen most favorable and legally correct working plans, which will, as well, assist in reducing investment risks. Our advantage lies in complex attitude and reliable methodology in projects' implementation and management. We offer a wide range of services concerning business creation, organization and full legal support in Western and Eastern European countries, and former USSR republics".

Among *Vindex* clients there are major Latvian and foreign companies with experience in trade, crude oil transportation, construction business and real estate.

PAY TAXES AND BE A WINNER

"Those times are over when businessman could work illegally, underlined Mr. Gvido Senkans. Presently, taxation issues occupy significant room in general company's expenses, which is both true and just. I always explain to our clients that tax is not simply thrown away money. Responsible entrepreneurial activity can not be pursued without state support and protection. But at the same time, everyone can have the right to choose most advantageous option".

Analyzing business situation, *Vindex* experts suggest optimal taxation scheme. For example, it might be quite advantageous for a client to register a company in a country where business is running and pay taxes accordingly. It is well mentioning that there is enormous international experience and numerous decision-making instruments that are not widely used in Latvia. And often client reaches solution after being acknowledged with all pertinent information.

SAFE BUSINESS GUARANTY

"It's not a big secret that entering European and international market for Latvian company is a difficult task; this market,



GVIDO SENKANS: Start-up period is already over, and presently it entered a stage of maturity.

so to say, is to be conquered. In this regard, most urgent is the task to guide business according to presently valid legislation, underlines Mr. Gvido Senkans. Otherwise, both achievements in business and investments are under strong doubt. And here one cannot do without adequate situational analysis and legal assistance. This is why in each case we thoroughly investigate client's business, all expenses and revenues and ultimately suggest most efficient options for a company's actions.

We closely cooperate with auditors in various countries, we participate in our clients contracts' preparation and signing, we represent our clients in negotiations and, in some cases, in courts of law. By the way, as a rule, contractual sides already at the time of signing a contract are quite aware of their rights and obligations. If there no contradictions at this stage usually it's not necessary to resort to judicial procedures.

We always recommend our clients to look into the future, to take some "safe steps" ahead in order to avoid any wrongdoing in their activity. In that case, of course, running business becomes more expensive. But, at the same time, a company can have safe business guaranty for stable activities", concluded Mr. Gvido Senkans. •



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Business Climate in Latvia — Now and Then

By Ieva Azanda

Associate lawyer

Attorneys at law Liepa, Skopina /BORENIUS

There is something that the Baltics are famous and envied for. Their recent economic growth has led to a situation when the three countries are almost notorious for the expansion of the economy while contrasted to the rest of the Europe. Logically, there are many years to catch up and the race actually started more than a decade ago when the first government of independent Latvia announced transition to free market economy as one of the primary tasks to be accomplished.

Being eager to achieve as much as possible in a very short time, the officials opted for drastic removals of most of the restrictions, opening up the markets and exercising as little control as possible. No doubt, often times the eagerness was accompanied by a simple lack of capacity to ensure any monitoring and control over the wavy markets. That in turn led to an end of the first wave liberalisation resulting in a banking crisis and a short-term depression.

However, the economic liberalisation was accompanied by also by reform of the legal sys-

tem. A few years later came also the determination to join the EU and align Latvian legislation with the supranational rules. Evaluation of the former mistakes and improvement of the legal system facilitated a successful recovery from the crisis and prevention of further breakdowns, resulted in a reform of company law framework and brought towards the end the process of privatisation. In addition, lots of energy was directed towards elimination of any discrimination of foreign investors and actual creation of a beneficial regime via reduction of taxation and administrative burdens.

At the end of the day the efforts seem to have opened up the Latvian market. 1 May 2004 and the EU accession cleared the doubts of many investors about the trustworthiness of the Latvian market and investment opportunities.

Bearing in mind the aforementioned developments, the conclusion should be that the business climate can currently be described as favourable and offering lots of opportunities. No doubt, one has to understand that there might be some administrative delays here and there or that some matters might not be settled as smoothly as an eager investor might want to. Nevertheless, the legal and economic framework in place presents all the opportunities to reap the benefits of the growth that the Baltic countries, including Latvia, are receiving so much attention for. It remains to be seen whether there is enough potential to catch up with all the years that Latvia is behind the other EU countries in terms of GDP per capita. •





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Our office is capable to provide a full range of legal advice for clients in Latvia and in the Baltic region

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EIROKONSULTANTS

Company SIA EIROKONSULTANTS was founded in July 1998 by a group of people with substantial experience in political, administrative and diplomatic work and professional knowledge about functioning of the European Union and Latvia's activities within it as well as about environment, finances, transport and energy. As shown by the company's name, its main business concerns the EU, study of its regulatory acts and decisions and the likely effects of those decisions on the Latvian economy as well as analysis of operations by separate companies. It can be surely claimed that we are the first company in Latvia which has begun and successfully continues studying the rules, consequences and opportunities of the country's integration in the EU on the level of specific practical business interests and has already accumulated great experience in this work. This enables the company to conduct successful business as an advisor in preparation of projects seeking support from the EU structural funds and other international sources of financing.

SIA EIROKONSULTANTS offers its clients the following range of services:

- analytical studies of the EU policies concerning such spheres as transport, environment, energy, regional development, internal market, etc.,
- consultations and legal assistance,
- organization of training courses, seminars and lectures, including about attracting financing from various EU funds,
- assistance with preparing project application for receiving financing from the EU structural funds and other international sources of financing,
- preparation of informative materials,
- organization of business interest representation.

SIA EIROKONSULTANTS is a company which does its main business in the area where public decisions and private interests meet. It is for this reason that alongside traditional business consultations we also dedicate large part of our efforts to studying legislative issues and preparing recommendations for improving laws as well as lobbying activities.

As part of its services for attracting financial resources SIA EIROKONSULTANTS provides its clients with assistance in preparing all the required documents and calculations, including assessment of loan repayment feasibility and financial risks. •

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“Finansists” — Reliable Assistant in Business

Finansists

In order for the company to function dynamically, the company must take into consideration marketing situation and optimize business processes. Main things that can slow down company's development and reduce its capitalization are those connected to staff's low professional records. These features are becoming decisive for businessmen that have decided either to invest or start their own business in Latvia. Experts from auditing companies can assist in various financial issues' resolution. Auditors' company *Finansists* director Nelly Jermolicka describes some efficient methods and models of its work.

Specialists engaged in auditors' company *Finansists* are mostly certified tax experts and auditors. Among company's clients are Latvian and foreign companies.

COMPLEX APPROACH

Says Nelly Jermolicka: “Without legal assistance and all-sided factual analysis any developmental project's success and the investments involved can suffer enormous risks.” She

continues: “In each separate case-study we put client's business under severe scrutiny, i.e. we analyze all expenses and revenues and put forward most efficient ways of development. Very often business running expenses are increasing, although at the same time equally increases guaranty level of company's stable development.

Our company's main motto is based on complex approach. We offer the whole range of services connected to business assistance, including legal, tax and auditor's consultancy, providing accountancy staff and financial experts, as well as assist in making company's yearly accounting reports.”

CHANGES IN LEGISLATION ARE TAKEN INTO CONSIDERATION

After joining the EU, various Latvian enterprises are being involved in administering European Structural Funds. In this regard proper running accountancy becomes extremely important. *Finansists's* experts can arrange company's documentation in strict compliance with the changing legislation and that of the EU directives.

Says Nelly Jermolicka: “Presently, big companies in Latvia require auditing

firms' assistance. Although, to my mind, financial experts' assistance is in much greater demand for small and medium companies. The reason for that lies in the fact that a small firm can not afford good and expensive financial service, hence low level of auditing. On top of this, experts in auditor's firm closely follow all changes in sectoral legislation, which makes their work invaluable. Even most experienced individual accounting clerk could not follow all changes. More than that, knowing all legal specifics in business, *Finansists's* experts follow developing Latvian legislation with the aim of suggesting most profitable business development options in order to reduce investment risks. Our experts can suggest for a company most optimal taxation scheme as well, concludes Nelly Jermolicka. •

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Industrial Parks Come into Fashion

By Sergei Savelyev

Baltic Russian Institute, Riga, Latvia

Latvian law does not have a single line governing such activity as industrial parks' operation, technology parks and business incubators. The initiative to create these facilities almost always comes from commercial units. Nevertheless, there is a growing demand for this business in Latvia.

More than 20 companies in Latvia claim the title of industrial, technology or business parks (see Table). But only about ten are able to offer a full-range service, i.e. leasing production sites, office and warehouse spaces, canteens, security guards, business consulting, etc., which therefore meet generally accepted definition of "an industrial park." Experts say that only a small fraction of these parks deserve the title of an "industrial park."

According to a survey carried out by Latvian Association of Technology Parks, Centers and Business Incubators this summer, 16 new industrial parks with total area of 245 hectares will be open in Latvia by the end of 2007. As many as 11 parks will be arranged by private investors and the rest by local governments in cooperation with business community.

STATE IS STILL NOT INVOLVED

There isn't a single provision governing operations of industrial parks, technology parks and business incubators in

Latvian legislation. Nevertheless, creation and development of such facilities require serious attention and involvement of state and municipal authorities.

A technology park is not an organization that could yield immediate benefits (except some social one). The return on investments comes from companies that have grown in the park, and usually it takes 3 years to build a full-fledged business. It is quite difficult to implement the technology park concept without substantial financial investment and other support.

Special attention should be paid to the following development aspects provided in foreign analysis: it has always been an economic crisis, which created an impetus for technology parks' development, e.g. in the United Kingdom, France, Germany, etc. Organization of such parks is an effective mechanism for rebirth and recovery from crisis situations, and the outcome is regional economic prosperity and hundreds of thousands of new jobs.

As a rule, sufficient financial investment

is required to develop business activity; Latvia is a small country and therefore state support should focus on specific directions to achieve positive results. Latvian scientists have already suggested five development priorities: information technologies, organic synthesis and biomedicine, materials' science, forestry and wood processing. Therefore, technology parks should be developed first of all alongside those directions. But it does not

mean that secondary industries should be thus ignored. It is quite possible that during research process preconditions for development of some other directions will turn up that would create products that the market demanded.

SHORTAGE OF BUSINESS INCUBATORS

Latvia is definitely short of business incubators ready to offer companies floor-space and equipment on favorable terms.

There are at least two such facilities in the country. The first business incubator - *Latvijas Tehnologiskais Centrs (Latvian Technological Center, LTC)* — is situated in Riga. Since 1993 over 30 innovative companies were born in the LTC's premises and entered business world. The second business incubator was opened in spring 2004 in Olaine. A similar facility operated in Liepaja in the mid-1990s but it was liquidated in 2002.

According to a research carried out by Latvian Economics Ministry, University of Latvia and Latvian Investment and Development Agency, there are more than 10 types of entities engaged in innovation activity in Latvia. These are research centers, laboratories and various professional associations. About 40% of them are non-governmental organizations; another 36% belong to private sector, while only 24% are administered by the state. All those entities can potentially be involved in business incubators and science and technology centers in order to provide real contribution to innovation industries development in Latvia.

Comparing Latvian situation with that of her neighbors, we'll get a following picture. In Lithuania up to 2004 there had been opened seven business-incubators and during six-and-a-half years' time they had "produced" 250 companies which employed only last year about 1,350 people. In addition, Lithuanians have opened seven science and technology parks. Estonia had two research parks in 2004, e.g. in Tartu (about 40 companies) and in Tallinn (over 100 companies and 1,000 researchers). Also, thousands of students participate in the work of both centers.

MAIN INDUSTRIAL PARKS' OBJECTIVE

Contrary to technology parks and business incubators, industrial parks have somewhat different purpose. Their main objective is to provide companies with infrastructure for doing ▶

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Our main aims are:

- Creation and implementation for our clients most optimal goods delivery chains regarding various taxation, customs and transport specifics, including subsequent service control;
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Our policy and purpose:

- Complex service is more efficient and less expensive

Our group structure:

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

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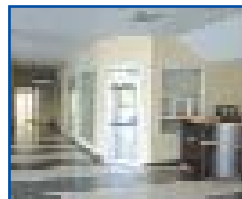
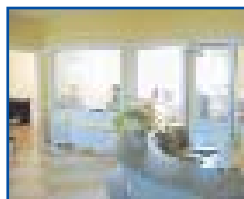
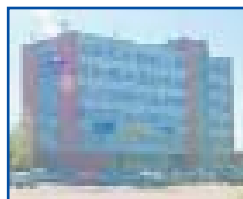
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business, while technology parks are meant to introduce new technologies into production. For this reason, industrial parks as commercial projects are much easier to implement and they enjoy a steady demand in Latvia. Therefore the number of industrial parks is likely to grow significantly in the nearest future, and this is bound to happen anyway, with or without state assistance. And first of all industrial parks will grow in large cities and surrounding territories.

Businessmen's demand for premises' quality and some additional services rendered by industrial parks has been growing, too. In this market's segment it could be important for Latvia to develop parks meant to service small producers in all country's regions. Just as it is with technology parks, a special national program is needed to encourage this process. It could become an important prerequisite to create new businesses that would help solving employment problem in the regions as well as increasing Latvia's gross domestic product and tax revenues.

Experts think that industrial parks' market segment is presently underestimated and underdeveloped. In absence of competitive

offers coupled with increasing service's requirements many companies are forced to build their own production facilities. In foreign countries renting distribution centers, assembly workshops, warehouses, etc. is a common practice. In Poland, for example, technology parks with area of 200-300-thousand sq. meters function quite well. In Latvia most of the parks are at planning stage of development and quite a few of them have actually been built. Meanwhile businessmen can't wait and are forced to divert their resources from operation capital, being involved into sideline business (projects may not work out well), take loans to finance construction and thus put into jeopardy their core businesses. According to experts from *Colliers International* Baltic representation, Riga has the largest in the Baltic States number of production and warehouse facilities built for own needs. It can't be right as it weakens undertakers' position as well as financial situation of producers and distributors. As soon as there is enough floor-space meeting international standards and market expectations, companies would be able to rent facilities they need. This kind of investment has become very

urgent within the context of increased competition among the EU member states.

ETERNAL QUESTION: WHERE TO GET MONEY?

This is the main problem for companies working in innovation spheres. Latvian government has adopted some decisions to help innovative companies, e.g. National Program for Development of Innovation Activities approved by Latvian Cabinet of Ministers on April 1, 2003. Among main priorities the program listed strengthening existing technology and science parks' potentials, opening up new ones and creating business incubators.

LTC experts have estimated that at least 10 million lats is needed for successful implementation of the program while the state is willing to allocate only 130,000 lats annually. One way to solve this problem would be to use the EU structural funds. But this leads to another problem, i.e. co-financing rules require companies to pay part of the costs themselves in order to receive the EU funds. Therefore, the question "where to get money?" still remains. •

INDUSTRIAL, TECHNOLOGY AND BUSINESS PARKS IN LATVIA

Name	Location	Area, ha	Average monthly rent	Lessees' business profiles
Rigas Industrialais Parks	Dzelzavas 120, Riga	20	warehouses — 6.2 EUR/sq.m, office space — 8.3 EUR/sq.m	pharmaceuticals; transport and customs services; wholesale; metalworking; construction etc.
Business Park SIVA	Akmenu 45, Ogre	3.1	3-5 LVL/sq.m (without VAT), no vacancies	logistics, metalworking, fish processing etc.
Dambis*	Ganibu dambis 24a, Riga	10.7	for undecorated premises — 1-1.6 LVL/sq.m, for premises with interior finished — 3-4.5 LVL/sq.m	production; warehouses; services; office spaces
BHC Industrialais parks	Liepaja Special Economic Zone	8.2	land — 0.15-1.10 LVL/sq.m, production areas — 0.50-2.00 sq.m (without VAT)	production of yachts and marine vessels; wood-processing; warehouses
Nordic Technology Park	Jurkalnes 15-25, Riga	7.5	100% leased, office space — 11-13 EUR/sq.m	production; printing services; warehouses etc.
Nordic Industrial Park	Rupnicu 4, Olaine	14	production areas — 2.0-3.5 EUR/sq.m, office space — 6-8 EUR/sq.m	metalworking; plastic processing; fish processing; warehouses; service spaces
NP Business Centre	Sampetera 2, Riga	10	production areas — 2.0-3.5 EUR/sq.m, office space — 5-7 EUR/sq.m	plastic procession; warehouses; service spaces
NP Jelgavas biznesa parks	Territory of former RAF plant, Jelgava	23	production areas — 2.0-3.5 EUR/sq.m, office space — 5-7 EUR/sq.m	car manufacturing
Ave Trans Group industrial park	Uriekstes 3, Riga	12	warehouses — 1-2.5 LVL/sq.m, office space — 3-7 LVL/sq.m	transport and customs services; production; warehouses; service's offices
Granita Industrial Park	Granita 26, Riga	15	warehouses — 5.7 EUR/sq.m, office space — 7 EUR/sq.m, asphalt — 0.7 EUR sq.m	light manufacturing; transport; logistics; building materials
Rigas lidosta business park*	Near the Riga airport	60	n.a.	IT and communications; hotels; production; logistics center; office centers etc.
Madara industrial park*	Former agricultural machinery plant, Jelgava	n.a.	n.a.	production
Jekabpils Wood-Processing Industrial Park*	Jekabpils, Ventspils	5	n.a.	wood-processing; furniture production
Ventspils Industrial Park*	Ventspils free port territory	5	n.a.	warehouses; logistics; production space
Mersraga ostas industrialais parks*	Mersrags port territory	30	n.a.	warehouses; logistics; production space
Rhodia business park	Territory of former chemical fiber plant, Daugavpils	250	n.a.	metalworking; production of chemicals; measurement equipment etc.
RAF Industrialais parks*	Jelgava	12.4	n.a.	production; offices
Sleperi Gemstone*	Babite, Riga region	48.4	n.a.	n.a.
Karosta industrial park*	In the Liepaja SEZ near the sea port	n.a.	n.a.	warehouses; logistics; production space
Industrial park in Rezekne SEZ*	Near the railway station and the Riga-Moscow highway	3	n.a.	production facilities

* Projects in different stages of implementation.

Sources: Latvian Association of Technology Parks, Centers and Business Incubators; BC's data.

NP PROPERTIES: Leading Operator in Industrial Park Development

NP Properties, which owns seven different parks with total area of 130 hectares in various cities across Latvia, is the largest industrial parks' operator in Latvian real estate business. *NP Properties'* managing director **Elita Moiseja** tells *BC* about some of the company's projects.

“Due to experience gained in industrial parks' organization based on two leading parks' development, i.e. *Nordic Industrial Park* and *Nordic Technology Park*, we are creating five additional parks in Riga, Jelgava, Salaspils, and Ventspils;” Mrs. E.Moiseja pointed out.

This summer Latvian Association of Technology Parks, Centers and Business Incubators has carried out a survey of new industrial parks' projects in Latvia, questioning both private developers and municipal representatives. The survey has showed that by the end of 2008 there are going to be created several new industrial parks in the country with total area of 251 hectares. The survey's outcomes, at the same time, has meant that 42% of the new parks' area or about 106 hectares would be covered by parks created by *NP Properties!*

“Our experience in developing real estate projects in Latvia and abroad enables us to create and successfully expand new industrial parks. Keeping in mind that industrial park sector in Latvia is at its embryonic stage, due attention will be paid to parks' quality services. We expect that new parks will cooperate with both local and foreign companies which would therefore assist in creating thousand new jobs and facilitate inflow of foreign investments;” said Mrs. Moiseja.

NP Properties Company owns 7 industrial parks in Latvia: two of them are already functioning, i.e. *Nordic Industrial Park* in Olaine and *Nordic Technology Park* in Riga. Remaining five parks, being at various developmental stages, are in other Latvian cities, e.g. *NP Jelgava Business Park* in Jelgava, *NP Business Center* in Riga, *NP Ventspils Business Park* in Ventspils, *NP Salaspils Business Park* in Salaspils and a park on Granita street in Riga.

Existing *Nordic Industrial Park* and *Nordic Technology Park* have made already significant contribution to Latvian economic development. For example, in both parks over 50 companies are working successfully representing different industries, such as metal-manufacturing and plastic processing, wood processing and furniture production, etc. During last five years those companies have created more than a thousand new jobs. •



Superb development opportunities



7 INDUSTRIAL PARKS THROUGHOUT LATVIA, PROVIDING:

- Manufacturing, warehousing and offices facilities in Riga, Jelgava, Ventspils, Daugavpils, Olaine, Salaspils, Rēzekne
- Complete and ready-to use infrastructure services
- Professional management, administrative services and 24-hour security
- Consultancy services: legal, accounting and recruitment



Granita Industrial Park — The Leader in Built-to-Suit Corporate Strategy

“Corporations want new warehouses to fit new goals in product handling and supply-chain design. I see an increased interest in commercial and industrial built-to-suit requests from international companies”, says Helen Romanova, an owner and director of *Granita Industrial Park* in Riga.

Granita Industrial Park story began in 1996, with an aim of creating an ideal environment for business. The vision has rapidly developed and the Park has become the home to leading companies such as *Volvo*, *Peri* and *DHL*, as well as many dynamic smaller enterprises. And the best part is that there is plenty of space still available for further development.

Granita Industrial Park is a full service industrial park with developed infrastructure according to the European standards. The park is situated in the industrial zone of Riga city and covers a territory of about 144,931 sq. m. The complex consists of one three-story office building (2,394 sq.m) and two heated warehousing facilities (total 7,173 sq.m) with additional land plots available for construction of tailor made warehouses and production premises.

Granita Industrial Park is one of the few in the market that truly offers a custom-designed solution to meet the specific needs of domestic and international companies. The Company strives to be a partner of choice to supply and develop high quality built-to-suit and mixed use industrial & commercial facilities and warehousing space. *Granita Industrial Park* boasts its ability to draw upon its experience and demonstrated success in delivering high quality, environmentally friendly industrial and commercial facilities on schedule. *BKT Real Estate Development*, the company behind *Granita Industrial*

Park, is pursuing an aggressive acquisition and development strategy and is currently in negotiations to acquire and develop additional parks in Estonia and Lithuania.

THE PARK HAS COMPLETELY DEVELOPED ALL THE NECESSARY INFRASTRUCTURE INCLUDING:

- Fenced territory with 24 hour security guard
- Truck court area
- Lightening in the territory
- Parking
- Electrical power supply
- Heating, gas and water supply & sewage
- Internet connection and on-site restaurant
- Main highways nearby
- Landscaped environment
- Petrol stations nearby
- Secured parking

GRANITA INDUSTRIAL PARK OFFERS

- Construction of tailor-made warehouses and production premises for lease on long-term basis
- Construction of premises is completed according to client's wish, providing its aligning in the common style of the park
- Currently up to 80,000 sq.m of land is available
- Completely developed infrastructure
- Professional building contractors and project management
- Ongoing facility management services



HELEN ROMANOVA.

LOCATION

Granita Industrial Park is strategically located approximately 5 km to the East of the center of Riga, right next to the main Riga City highways. Granita Street area is the most upcoming industrial area in Riga and it is easily accessible by public transport and car.

For more information please contact:

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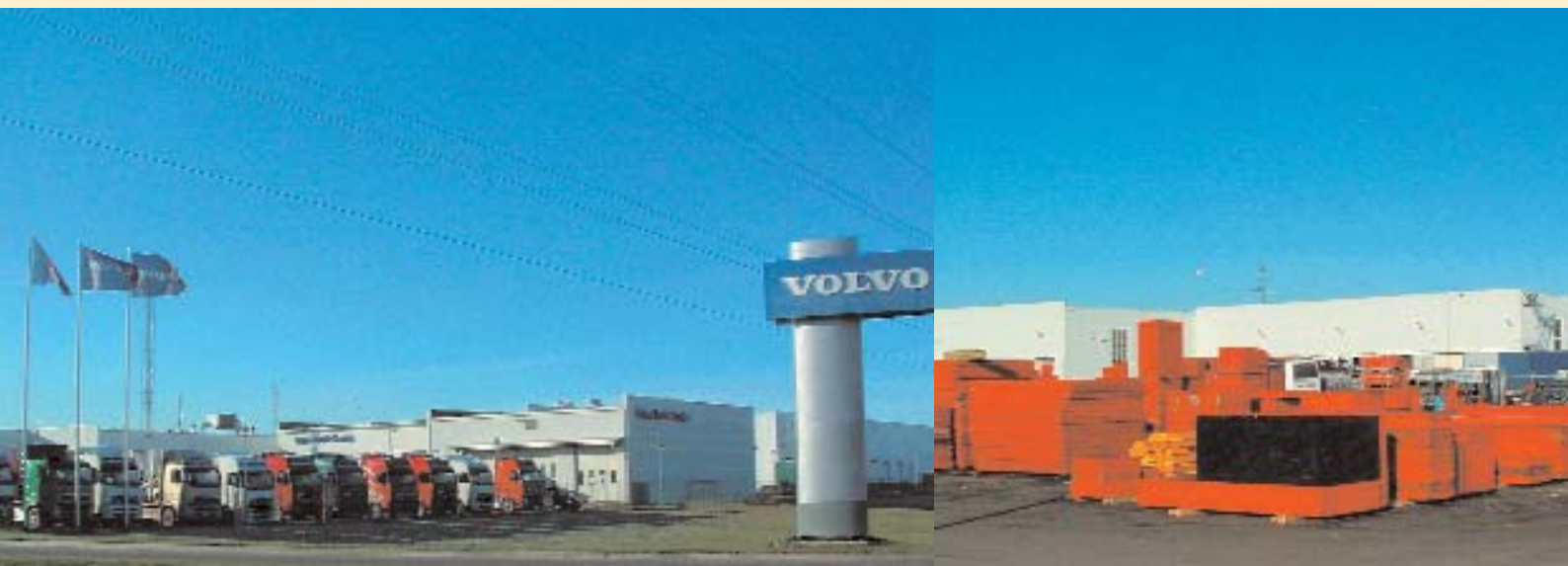
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Providing Favorable Conditions for Business Parks' Development

By Tatyana Komorskaya

First business incubators emerged in Lithuania in late 1990s. Today these entities are growing at an ever-increasing pace. It is planned to build industrial parks in Siauliai, Panevezys and Alytus with the EU structural funds and support. A completely new project, Technopolis in Kaunas, which will gather mostly innovative companies, has been called a "civilized breakthrough" in the country.

INCUBATORS WITH HIGH INTELLECTUAL POTENTIALS

A business incubator in Kaunas, now called Kaunas University of Technology Regional Business Incubator (*KTC*), was registered in Lithuania in 1998, followed by business incubators in Telsiai region, in Vilnius, Alytus and Kazlu Ruda. The seventh regional incubator supported by the government became operational in 2004 at Ignalina Nuclear Power Plant.

Most efficient presently are Shauliai Business Incubator, having "produced" 56 companies which created 570 jobs during its five-year history, Telshiai Business Incubator (44 companies, 368 jobs, correspondingly) and regional *KTC-incubator*, recognized by colleagues as the most efficient in the country. *KTC's* director **Pranas Milius** was interviewed by *BC*.

"Ten years ago, when manufacturing companies like Kaunas Radio Plant started closing down, a working group was set up in Lithuania and a national program aimed at developing small and medium enterprises support. Our Economics Ministry and Germany, the latter as part of their transport program provided funding for the program. We also were given 1,500 sq.m of floor

space; and soon we realized that there were far more potential tenants than we could afford.

The rental price is market-based. For example, currently we charge average monthly rent of 25 litas per sq. m (heating, security, etc. included). But during the first two years we offered a discount price of 15 litas. We also provide consulting to our companies and train them in traditional marketing services, e.g. communication with clients, negotiations, and sales skills. Afterwards, Kaunas county administration handed over to us a former hospital building in the city center, which had expanded our area to 5,400 sq.m, which we leased to 62 companies.

Under our rules, accommodations are available to fledgling companies, which have been in business for not more than three years. We operate on an assumption that if a company failed to establish itself on the market in three years, no incubator would help them. Our incubator is for making highly intelligent products. Companies reside here for five years and then leave. During their stay they can seek advice on business matters from our managers. In case of technical matters, the university professors would

SOME FIGURES ABOUT BUSINESS INCUBATORS IN LITHUANIA

Incubators	Number of employees as on Jan. 1, 2005	Number of incubators as on Jan. 1, 2005	Number of enterprise admitted in 2004	Number of enterprise left incubator in 2004	Number of jobs created in 2004	Number of associated members as on Jan. 1, 2005
Alytus	6	15	8	7	41	0
Ignalina NPP	4	12	18	6	36	0
KTC	8	59	23	7	44	18
Kazlu Ruda	5	9	5	6	15	0
Siauliai	7	31	10	9	170	39
Telsiai	4	20	12	16	49	25
Vilnius	5	26	22	17	28	7
Total	39	172	98	68	383	89

Source: Compiled by the author.

help. Sometimes the companies pay part of the costs for seminars that we organize. The state subsidy for our incubator last year reached 110,000 litas.

We do not have vacant spaces in the incubator, and the companies are queuing up to get in. At present we can already name those companies which have spread their wings and left our incubator. Thus, 12 engineers came to us in the early 1998, and in three years their company, *Aga Plast*, moved out of the incubator with a staff of 80 people. Another example: five years ago 4 software engineers started in our incubator their company *LK Soft*. Before they left our incubator their business employed 35 people and two more companies had branched off. .

We do not share liability for companies under our roof because we cannot directly influence their business. Here are some figures: statistics show that 50% of newly founded companies in Lithuania go bankrupt during first year. In our incubator this has happened only to 10% of companies. During *KTC-incubator's* more than six years' history companies from our incubator have created 350 new jobs.

TECHNOLOGY PARKS: STARTING AT GROUND ZERO

Three prospective sites for industrial parks development in Lithuania with support from the EU structural funds have been selected: in Shauliai, Panavežys and Alytus, according to *ELTA* reports. The fourth location will be chosen later. So called "empty field investment project" is a plot of land about 50-100 hectares and 4 million litas investments at first stage for preparing the documentation. As many as 27 municipalities offered land for the project.

Some time ago science and technology park was launched in Klaipeda University campus after receiving 2.5 million litas of start-up funding of. It is planned to build there premises that would accommodate some 20 companies. Another science and technology

park with an agricultural profile has been created at Lithuanian Agricultural University.

Juozas Gecevičius, chairman of science and innovation committee at the Lithuanian Confederation of Industrialists and head of Kaunas-based science and technical services company *GTV*, told the *BC* that a "civilized breakthrough" has been made; he presented a completely new project - *Technopolis* in Kaunas, which will gather mostly innovative companies.

Mr. Gecevičius acknowledged that territories with "free zones" status in Lithuania had been fully devaluated due to regional competition pressures, with only one exception, i.e. Klaipeda Special Economic Zone (SEZ). Nothing serious in business, for example, happened in Kaunas SEZ during last 15 years.

"In business it is impossible just sit and wait; it's not fishing where you cast your fishing-rod and wait for fish to take a bait. I'm pretty certain that our *Technopolis* would produce elite innovation generation".

It is planned that *Technopolis* would become a more specialized park than, for example, famous existing "business zones" and "business triangles" in Vilnius devoted to leasing out high-quality office space adjusted to business needs", he said.

Technopolis head Dr. **Albinas Bachilulis** described new project in a greater detail:

"This idea has a long history. During Soviet time, Kaunas was a city with predominant electronics and mechanical engineering development; since then it was too difficult for this highly qualified labor force to find employment. Most of these engineers had to take up other jobs, just a few managed to start their own business. It's apparent that it will be much easier for them to do business together.

First European assistance funds, about EUR 100,000, were spent on preparing a package of regulatory documents for the entire park. Now we have received 8 million litas and are working on two packages of documents, i.e. the concept model for the park and its infrastructure. First of all, we have to start with so-called groundwork assignment, providing basic infrastructure and utility lines. Tenders are being held for construction projects and design for administrative office building is being prepared from these funds, too. As to companies, they will be able either to rent available space or build here their own buildings, said Mr. A. Bachilulis. Quite recently, he added, we acquired the EU funding-tender, about EUR 80,000, for a project on to create a "Center of complex electronic service" which will house in the *Technopolis*, too.

We regard *Technopolis* as an integrated body, which will make possible complex problems' solution, using verbal communications and joint marketing service. It will be different from SEZ, a territory offering privileges to producers and businesses with the main objective to attract investors by means of lower production costs".

AS TO SPECIAL ECONOMIC ZONES

Subject to Lithuanian parliament approval, Klaipeda's SEZ will be expanded from 205 to 429 hectares, incorporating such companies as tobacco producer *Philip Morris Lietuva*, plastic products manufacturer *Nemuno banga*, and truck terminal *Autoverslas*. It has been estimated that about 100 million litas is invested presently in Klaipeda SEZ out of 650 million litas envisaged in various contracts. Being one of the last entrants to the SE-zone, Thai concern *Indorama* intends to invest 350 million litas to construct a plant for plastic materials' production. It is expected that Klaipeda SEZ launched three years ago will be functioning till 2045. •

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205 ha of prime industrial land in the heart of the Lithuanian port city of Klaipeda offering:

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- excellent location
- competitive labour costs
- support services
- easy entrance





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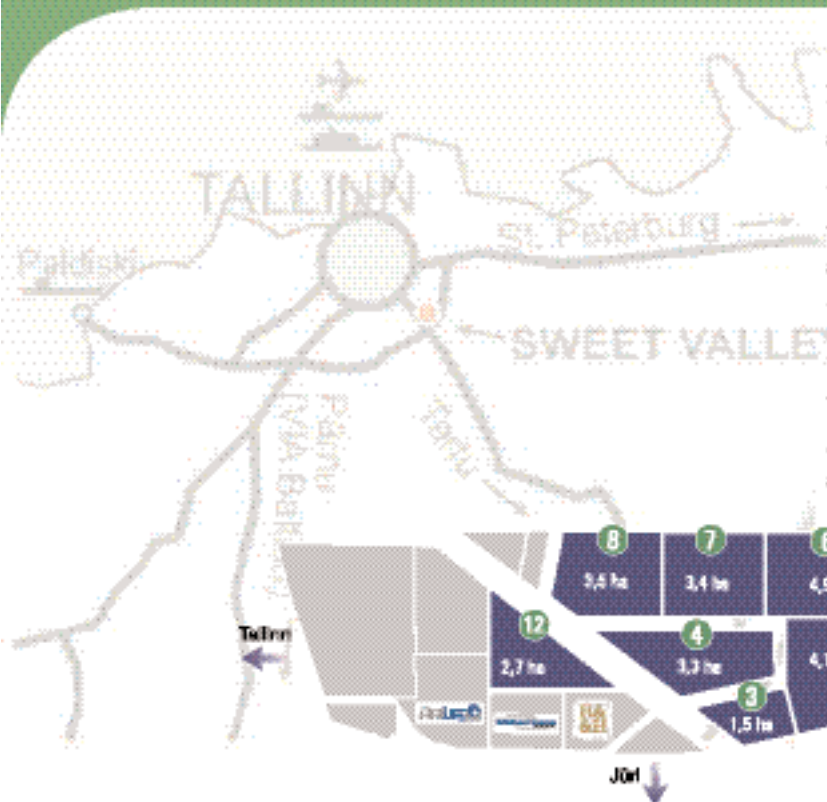
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BRC Real Estate started to operate in Estonia in 1998 as a member of the AS Hansabank Group. BRC Real Estate is now a Pan-Baltic real estate enterprise; its headquarters is situated in Tallinn, Estonia, and affiliates in Tartu, Jõhvi and Pärnu. The company has also branches in Riga, Latvia and Vilnius, Lithuania.

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Our aim is to advise the client and help to make optimum decision in purchase, sale, development, construction and management of real estate.



Incubator is Better than a Park

By Valentin Zvegintsev

In 2002 Tallinn city council undertook an initiative to reduce unemployment rate in the Estonian capital as quickly as possible. A decision was made to assist in small and medium enterprises' development. This is when the idea to build business incubators was born. Experts think that organization of business incubators in Tallinn has been one of the most successful projects.



TECHNO-PARK IN SUUR-SOJAMAE STREET: Such cottages are offered to clients as office-users.

Tallinn vice-mayor **Toomas Vitsut** said: "Development of small enterprises is a key to unemployment problem solution in the city. In Tallinn, for example, more than 85% companies are enterprises employing less than 20 people. Therefore the city council's ruling coalition declared support to small enterprises as one of its priorities"

SUCCESSFUL IDEA

Somewhere around 2003 first so-called business incubator was opened in Tallinn. For the construction of the first incubator some 1.75 million croons was allocated. Modern business atmosphere runs the building where in the beginning businessmen can have an office, communication facilities, secretariat and councilor's assistance during start-up period not exceeding two years. A businessman can get help in writing a business plan, finding partners and arranging sales channels. All that can significantly reduce businesses starting expenses.

The project turned out to be a successful business and in a short while Tallinn City Council opened two more business incubators in the busiest areas of Estonian capital. The city council told the *BC* that construction of another business incubator

would begin in the nearest future. In experts' opinion, development of business incubators in Tallinn is one of the most successful projects.

SWEET VALLEY

The situation with technology parks in Estonia is not so good. Everybody understands that the country needs such facilities and foreign investors have shown some interest but nothing much has been done so far with the exception of the *Sweet Valley* project.

Sweet Valley, located just a few kilometers from Tallinn, has been recognized as the most successful technology park. Real estate expert **Marek Jurna** described *Sweet Valley* as a technology park where all necessary conditions have been created for efficient business start-up, whether warehousing, production or sales are required. But still, most of the park's territory remains presently vacant.

"*Kalev*, sweets maker was the first company to buy land in our technology park; it happened in 2003 when the park was not yet fully functional and formally we were not selling land", said Mr. Jurna. Active advertising campaign

began only this summer. "Everything is ready now, all utility lines have been laid down, all roads are built. Now it has even become possible to sell those smaller plots that we had planned before, and it should be said that not only local but also foreign investors show great interest in our park," he said.

Active construction of a technology park on Suur-Sojamae Street on the outskirts of Tallinn will begin soon. The project is quite remarkable in that it will be built "to suit specific clients, who wished to divide the area into separate independent plots on which required buildings and installations will be constructed subsequently, preserving the overall concept of architectural designs acceptable to clients. There will be common access roads leading to each of the plots, and all requirements by future clients will be taken into account"

SERVING POLITICIANS...

It should be noted that politicians are actively exploring technology parks' idea. In particular, technology park construction in Paljassaare harbor in Tallinn was included in the municipal elections' program. Kohtla-Jarve city mayor has been ousted over the plans to build a technology park: some people might be very displeased with the plans.

ENVIRONMENTALLY FRIENDLY PROJECT

The only more or less successful project, although not yet put into commission, is technology park in the Sauga district. As Sauga district council chairman **Meelis Tomberg** pointed out, major financing share for park's development has come from the EU funds. The technology park is expected to accommodate nine companies, and Mr. Tomberg said that the facility will be intended mostly for light industry companies and not for heavy industry companies. "Electronic equipment producers, clothing factory and fireplace-manufacturing company have already showed interest in the future technology park. But we will refrain from accepting companies, which activities are not environmentally friendly", he said. When building the park, thoughts have been accumulated about peoples' health, as several residential houses are to be built near park's territory. •

Bank Sector in the Baltics: Solid Present and Doubtful Future

By Eugene Eteris

Like autumn leaves dropping from the trees, some things come round with monotonous regularity. One of them is bank sector's problems and all interconnected financial issues in the Baltics. Each year banking and financial experts around the Baltics gather at annual international conference in order to clear up the perspectives, as well as to assess present situation. The 11th annual conference "Banking and Finance in the Baltics 2005" was not an exception. Major problem in Baltic financial sector is such that the sector is still young and it has not been tested by really big macro-economic shocks.



Left to right: Minister of Finance of Estonia Aivar Soerd, Minister of Finance of Latvia Oskars Spurdzins.

PRESENT SITUATION SEEMS BRIGHT

General economic development in the Baltics has been fairly good during recent decade — about 5.5% on average, in Latvia GDP growth was in 2004 one of the biggest in the EU — 8.5%. Increasing domestic consumption and export expansion, in general, facilitated economic growth and the rate of investments. Thus, in private sector investments during 2001-2003, according *Lohnus Haavel & Vusemann*, grew by 51.8%, and about 15% on yearly average. External reserves in Bank of Latvia rose by about 39% in 2004.

Since 2001 the number of banks in the Baltics has become stable: 23 in Latvia (22 local and 1 foreign affiliate; at the same time total number of foreign bank daughter companies rose to 8), 10 in Lithuania and 6 local and 3 affiliates in Estonia. Only 8-10 Latvian banks are regarded as full-range bank service providers; others occupy certain niche market and are involved in special services, e.g. servicing non-resident customers from

Russian and CIS countries. Therefore Latvian banks have biggest in the Baltics non-resident deposit volumes.

Another important feature for the Baltic banks — it is becoming increasingly integrated and concentrated around two Swedish-group banks (*Swedbank* and *SEB*), two German — *Nord/LB* and *Vereins-und Wesrtbank*, and Finnish *Nordea*. They constitute about 60 per cent of commercial bank capital in the region. Main components in structure of assets in Latvian banks in 2003-04 has changed slightly: in credits - from 52% to 58%, in claims from credit institutions — from 23 to 25%; the rest figures are at the rate of 5-7%.

Growth of banks' credit portfolio reflects both improved economic conditions and household income, which resulted in increased population access to credits. Only in Latvia at the end of 2004 the total volume of credits issued to private persons increased by about 82% and reached 1.47 million euro. More than 60% of all the credits were connected to real estate (RE) boom in the region.

Foreign and non-resident share in Baltic States' banks during last 3 years has not changed significantly, though being



slightly reduced in Latvia. Thus, in Latvia non-residents' share decreased from 54 to 50%, in Lithuania it has been stable at 22-23%, and in Estonia — at around 13-14%.

TO GET TO KNOW THE FUTURE...

It seems that conference's participants, if asked, would unanimously agree that Baltic banks' future lies in diversified and value added services. Due to present high competition, banks are deemed to reduce operational costs in order to attract clients. The process is good for consumers but presents a growing problem for the banks. Thus, *Parex Banka's* representative at the conference mentioned such breakthrough ideas as currency risks' hedging, external deposit-card service, pension fund development and active insurance service, among other things.

Vice-president **Aivars Flemings** from *NORD/LB Latvia*, pointed to the following factors that would most probably provide changes in the Baltic banks: extensive Internet use, mobile and telephone banks, as well as increased ATP services. It sounds very optimistic from the side of the bank that occupies 7th place in Latvia by assets market share in 2005. At the same time A.Flemings mentioned some challenges for the future that would be difficult to overcome without Baltic States' government intervention in such spheres as labour force migration, over-

heating in real estate market and resulting factor -increasingly stable high inflation, e.g. in Latvia at a level of 7% during last year. "As to the main problem, said A. Flemings, the banks have not yet properly calculated risks".

Ugis Zemturis (*Hansabanka*, Deputy Chairman of the Board) formulated the following conditions for success in bank sector: marketing and service, good image and sales network, cheap capital and resources, good branch offices and low prices for office premises.

Great potentials in the Baltics lie in "plastic cards' development": in Estonia and Lithuania average cards' owners share is around 60-70%, while in Latvia — about 54%, or one card per two citizens. In European Union average figure is 1.15 cards per person.

Baltic banks have quickly grasped perspectives incurred in e-banking services: almost all banks (37 — in total) in the region provide presently such service. Somehow, most responsive in Latvia are *NORD/LB Latvija*, *Hansabanka* and *NORDEA* — over 70% of the market; average figures for Latvian banks in general are about 40%.

Valerija Gaponenko from *Lohnus Haavel & Vusemann* has formulated some remarkable features concerning bank service perspectives in the Baltics:

- Changes in the sector in Estonia and Lithuania can come from outside sources, e.g. Italian and German of banks,

FACTS & FIGURES: REAL ESTATE SITUATION IN LATVIA

- Foreign investment in Latvian RE has reached 450 mln lats (about 225 mln USD);

- Compared to 2003, the number of registered mortgages in Latvia in 2004 rose by 30%. Mortgages formed 79% of RE financial obligations.

- Volume of construction in Latvia in 2004 increased by 13% compared to 2003; construction in the EU in the same period reduced by 3%.

- At the end of 2004 housing and apartment market in Latvia was 56 mln sq.m. Average per capita apartment size was 24.3 sq.m; in the EU average the number is 40 sq.m.

Source: *Latvian Central Statistical Board; Baltic Property Group Ltd.*

while in Latvia the changes can affect ownership structures;

- Specialized mortgage banks, as well as in other niches, e.g. consumption credits, may come to the Baltics financial market and apply for banking activities;

- Serving larger business groups' interest might be the reason for some middle banks in the region to survive;

- Banks in the Baltics will either sell their business or find a "strong" local niche. EU financial market has experienced further growing trend in mergers that could affect Baltic region as well.



Gatis Kokins, Vice-president, Parex Bank:

- Credit risks decreased significantly in Latvia, probably due to Latvia's pegging to euro; since 2005 all three Baltic States are within ERM-III system. As from January 2005, for some bank risks almost doubled, for most left unchanged.

Floating interest rate in most cases in our bank is at the level of 7% for the 15 years' loan.

For banks to survive means increasing service efficiency and costs reduction.



Aivars Flemings, Vice-president, NORD/LB Latvija:

- Baltic banks' profits are growing with every passing year. As soon as bank's profitability keeps growing, it's completely unreasonable that the number of banks will be reduced; they can lead quite a safe life. But challenges are there and banks are to deal with future threats. One third of bank's profit comes from fees and commission.



Ugis Zemturis, Deputy Chairman of the Board, Hansabanka:

- We somehow think that Latvian banks' future lies in servicing private clients. It's well worth mentioning that in 1990s we were heavily involved in "product sales", slowly moving to services (in 1998) and mortgage loans and credits, in 2005. Our potentials are in payment cards' development as their number in usage is still quite low. Private persons' deposits reached 41% in *Hansabanka Group*, which is largest in the Baltics with 2.8 billion euro.

REAL ESTATE IS BANKS' GREATEST CONCERN

Present real estate boom in the Baltics provided evident irritation to region's leaders due to the fact that, as **Edgars Sins**, *Latio* director said: "real estate is a flourishing entity, where business can operate without paying taxes." Personal income tax is not paid on real estate transactions if the owner has held the property for at least a year (*The Baltic Times*, 22.x.2005, p. 14). In other circumstances, if Latvian Finance Ministry draft

were adopted, property sellers would pay 25% of personal income tax on difference between the sales and purchase price.

Reasons for RE growth in the Baltics are evident: sound economic growth, low interest rates, favorable credit terms (in some EU members they are even lower, e.g. in the UK mortgage deals are at the rate of 4-4.5%, with 10-20% deposits), improved households' expectations, speculations on the RE market.

Mortgages' loans almost doubled during last 3 years; these loans' share in assets is presently

at 10-20% in Baltic banks. Quite remarkable that in Scandinavian countries this share reaches 80%!

Prognoses are such that mortgage credits would stay at constant level of 30-40% per annum in the coming years. Most of the borrowers are engaged in only one credit scheme and treat their obligations quite responsibly. In case that Baltic banks would initiate an increase in rates of mortgages, credit situation in the banks would not change but speculations could be drastically affected. •

RATING OF COMMERCIAL BANKS OF THE BALTIC STATES, JUNE 2005, MLN EUR *

Nr.	Bank	Country	Assets	Credits	Deposit	Equity capital	Profit
1	Hansapank	Estonia	5 854.081	3 714.951	2 832.071	630.941	89.604
2	SEB Vilnius bankas	Lithuania	3 140.118	1 881.082	2 046.397	333.932	18.101
3	Hansabanka	Latvia	2 298.973	1 765.168	1 379.156	193.062	27.685
4	Hansabankas	Lithuania	2 222.573	1 329.703	1 799.988	187.645	15.060
5	Parex banka	Latvia	2 206.680	1 087.455	1 527.738	195.658	14.358
6	SEB Latvijas Unibanka	Latvia	2 098.188	1 726.645	1 076.957	169.840	35.727
7	SEB Eesti Uhispank	Estonia	2 021.137	1 679.012	1 375.458	216.117	17.716
8	NORD/LB Lithuania	Lithuania	1 197.868	856.957	628.475	67.858	6.024
9	Rietumu banka	Latvia	1 006.929	321.689	884.046	71.043	12.135
10	Nordea Bank Finland Plc. Estonia branch **	Estonia	837.240	677.462	249.255	-	4.953
11	Sampo Pank	Estonia	744.173	560.881	404.796	45.575	5.810
12	Aizkraukles banka	Latvia	741.344	298.326	638.984	49.918	9.686
13	NORD/LB Latvija	Latvia	797.456	657.266	235.187	70.483	6.153
14	Nordea Bank Finland Plc. Latvia branch **	Latvia	690.334	581.865	228.778	-	n/d
15	Bankas Snoras	Lithuania	680.346	166.879	530.555	66.642	6.082
16	Latvijas Hipoteku un zemes banka	Latvia	523.599	442.159	257.263	37.089	1.683
17	Sampo bankas	Lithuania	610.548	465.361	196.333	41.126	0.434
18	Ukio bankas	Lithuania	605.016	123.089	297.266	34.523	1.535
19	Latvijas Krajbanka	Latvia	307.308	191.267	256.748	20.198	1.741
20	LATEKO BANKA	Latvia	352.281	151.510	235.959	27.101	5.023
21	Nordea Bank Finland Plc. Lithuania branch **	Lithuania	425.481	337.349	86.365	-	0.116
22	Bayerische Hypo- und Vereinsbank AG Vinnius branch **	Lithuania	348.587	226.048	114.747	-	0.463
23	Baltic Trust Bank	Latvia	293.766	110.651	218.867	20.983	1.834
24	Siauliu bankas	Lithuania	243.484	156.047	196.189	20.331	0.956
25	HVB Bank Latvia	Latvia	307.594	239.070	69.161	24.762	2.282
26	Eesti Krediidipank	Estonia	183.714	54.791	156.155	8.916	1.214
27	Latvijas Tirdzniecibas banka	Latvia	298.009	0.854	245.004	23.283	2.094
28	Trasta komercbanka	Latvia	179.968	37.486	157.912	11.320	2.683
29	Ogres komercbanka	Latvia	224.643	16.048	173.711	11.286	1.153
30	Parex bankas	Lithuania	129.431	77.502	67.916	10.426	1.274
31	Latvijas Biznesa banka	Latvia	115.588	23.390	96.942	16.246	0.815
32	Baltic International Bank	Latvia	104.535	34.001	81.098	8.960	0.929
33	PARITATE BANKA	Latvia	100.030	19.814	82.636	7.758	0.842
34	Multibanka	Latvia	69.502	26.825	51.750	11.646	1.268
35	SEB VB busto bankas	Lithuania	72.897	71.855	0.000	6.922	0.550
36	Sampo banka (Maras banka)	Latvia	56.281	44.368	31.479	7.617	0.350
37	Medicinos bankas	Lithuania	59.749	32.640	32.003	11.266	0.348
38	Komercbanka Baltikums	Latvia	73.772	19.310	41.070	7.894	0.504
39	Regionala investiciju banka	Latvia	40.383	23.229	28.432	6.582	0.863
40	Tallinna Aripank	Estonia	37.414	14.323	19.563	15.856	0.761
41	VEF banka	Latvia	25.716	15.476	17.477	7.573	0.410
42	SBM Pank	Estonia	17.128	11.856	8.315	6.378	-0.192
	Total		32 343.863	20 271.660	19 058.204	2 704.756	301.029

* Rating is done taking into account assets, credits and holdings.

** For branches and branches of foreign banks a capital is not divisible.

Source: LETA.

Real Estate Market Overview in Northeastern

By Vadimas Titarenko

CEO Adviser, NORD/LB Lithuania

In the recent years the rate of growth in the RE prices in Latvia, Lithuania and neighboring countries has exceeded most experts' expectations. Economists discuss if a new price bubble has appeared in the RE market.

Two main sources have been used in order to prepare this overview, i.e. CEPI (uniting European RE professionals) the members of which are most important professional organizations and institutes for Property managers and Property Agents in the EU member states; and Oberhaus information.

In the recent years the rate of growth in the RE prices in Latvia, Lithuania and neighboring countries has exceeded most experts' expectations. Enormous growth of RE prices can be noticed all over the world. Economists discuss if, in fact a new bubble has appeared in the RE market. Price bubble is a situation in the market when prices are influenced mostly by psychological factors rather than by fundamental economic factors.

Indeed never before have real estate prices risen so fast, for so long and in so many countries. Among all EU countries in 2004 housing prices decreased only in Germany, record high growth was demonstrated by 3 Baltic states (Latvia was the absolute leader in the region) (see Graph 1).

While RE sales prices increased, average rent prices fell down in many countries. Lithuania showed the most significant decline. Possible reason for this trend is a very rapid supply-growth in some segments of RE market, e.g. commercial premises and offices and accelerated investment into dwellings with the rental purpose. It seems that only in Latvia situation has been quite stable. Rent prices increased in line with sale prices. On the other hand it looks like rent market is underdeveloped in Latvia, while the EU accession caused significant

increase in demand, first of all in housing segment. At the same time supply of new apartments and houses is growing very slowly.

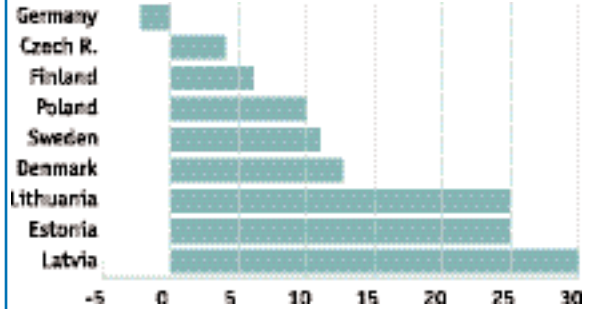
Will prices now fall or simply level up? Without deeper analysis of the factors that have impact on prices, and simply comparing Baltic states with other EU countries, we can get to the conclusion that prices still have enough room for growth. For example, prices in Vilnius are still six times lower than in Stockholm (see Graph 2). The difference is even bigger if we compare situation in the second largest cities in these countries (see Graph 3).

Office prices in the Baltics are quite similar but still lower than in other EU member states. However the gap between the Baltics and other EU countries is not so big if compared with the housing market. So, in all segments of RE market in the Baltics the prices are lower than in the rest part of the EU. However it is obvious that such comparison alone can not explain trends in prices. Some more fundamental factors shall be taken into consideration (see Graph 4).

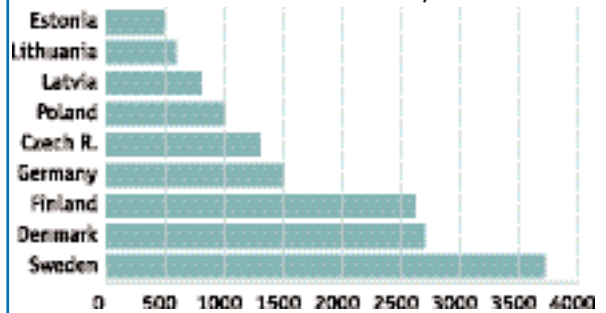
As we all know, prices are always predetermined by supply and demand factors in the market. Let us look at demand side. Loan portfolio growth in the Baltics demonstrated spectacular growth and together with very rapid economic growth, drastically decreased unemployment, accelerated enterprises' profits, improving expectations of both firms and households as well as stipulated demand for real estate. This diagram shows us only a part of the total loan portfolio, but this part was directly used for RE purchase.

Indeed, loans' growth rate is very impressive, but still, mortgage

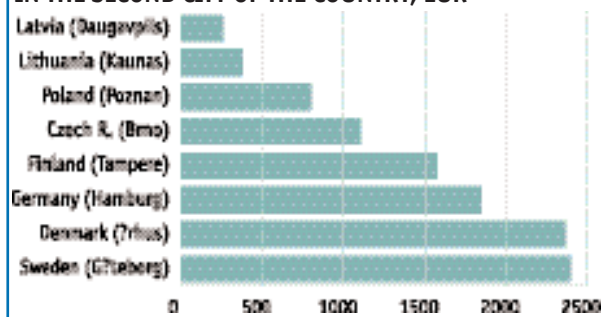
1. PERCENTAGE CHANGE IN AVERAGE SALE PRICES FOR APARTMENTS NATIONALLY IN 2004 FROM 2003



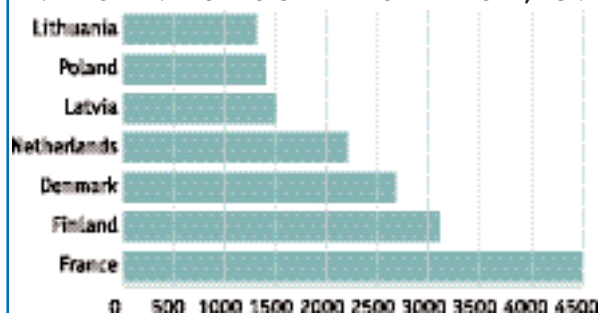
2. AVERAGE SALE PRICE FOR SQ METER FOR AN APARTMENT IN THE CAPITAL CITY, 2004



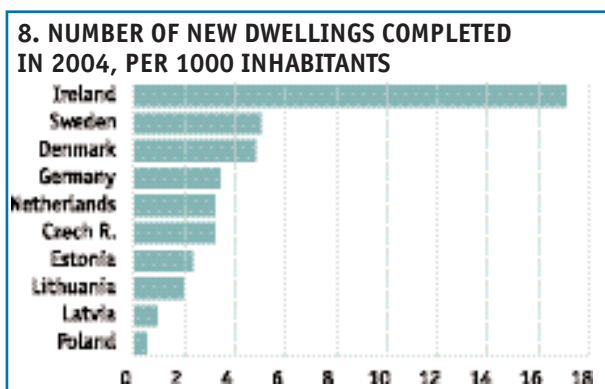
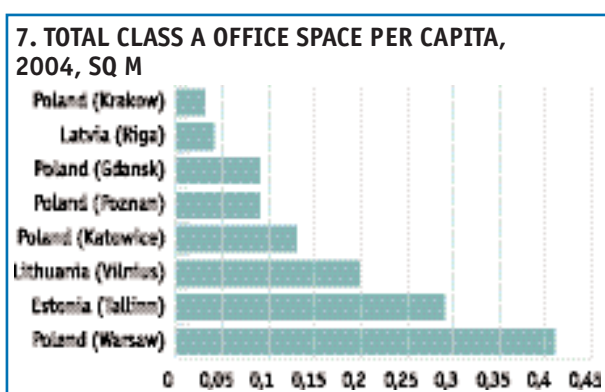
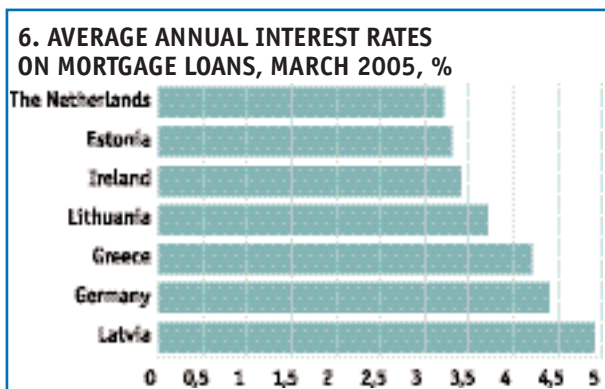
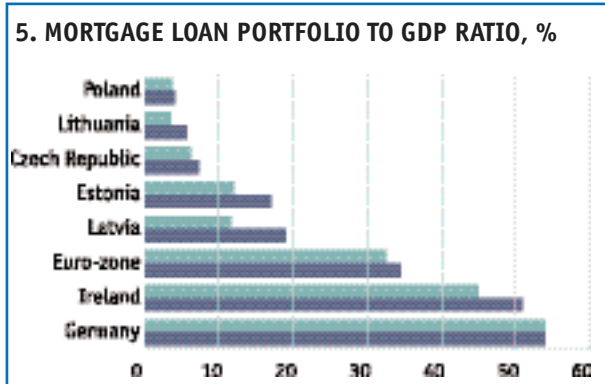
3. AVERAGE SALE PRICE FOR SQ METER AN APARTMENT IN THE SECOND CITY OF THE COUNTRY, EUR



4. AVERAGE SALE PRICE FOR SQ METER PRIME CENTRAL OFFICES IN THE CAPITAL CITY, EUR



Europe: A New Bubble?



credit in the Baltics has high growth potentials (see Graph 5).

Loan portfolio growth was stipulated by very low interest rates. Money in Baltics is really cheap. Since the beginning of 2003 euros' mortgage loans interest rates in Lithuania are lower than in the Euro zone itself. The diagram makes clear that there is an obvious correlation between interest rates in the Baltics and interest rates in Euro-zone or ECB base rates.

However interest rates depend not only on base rates but also on other factors, e.g. macroeconomic environment, structure of banking market and the level of competition, etc. On the other hand, Lithuania and Latvia had different interest rates but quite similar growth of credit portfolio. One of the reasons for higher interest rates in Latvia is quite large share of Russian capital and business related to Russia in the country. This is also reason for growth in loan portfolio. One more reason for loans' increase, first of all mortgage loans, is high inflation and inflationary expectation impact on firms and households (see Graph 6).

One of the fundamental factors of RE market expansion is economic growth. In terms of real GDP growth three Baltic States have been most dynamic region in the EU. There is obvious correlation between loan portfolio growth and economic growth (excluding Poland).

Economic growth, decrease of unemployment level together with acceleration of wages growth caused significant improvement of household's expectations. Increasing wages also added to expansion of credits since more and more people can apply for commercial banks' credits.

As it was already mentioned, RE prices in the Baltics are several times lower than in other EU countries. However total price level in Baltics is about

2 times lower than in the EU-15. That presented additional, but not very important, growth factor for RE prices, although not in all segments.

Several factors have been mentioned that stipulated fast growing demand for RE, first of all in housing. In fact, during last several years demand was growing faster than supply. Still in housing market there is a huge gap between supply and demand. On a supply side, housing stock per capita in Lithuania is lower than in other Baltic States.

In terms of commercial premises Vilnius and Tallinn are absolute leaders among other Baltic cities. Large figures correspond to and reflect large share of domestic trade in GDP. For example domestic trade share in GDP is 1.5 times higher in the Baltics than in the EU.

Riga is far behind other Baltic capitals in terms of total class-A office space. In Lithuania supply of offices has increased by 37.5 percent last year, which could cause decrease of rent prices.

In terms of office space per capita, Riga is an outsider not only among Baltic capitals.

Office occupancy rate in Vilnius is very high. A bit higher it is only in Tallinn. The reason for high rate is improving financial results of companies and increasing business activity (see Graph 7).

Construction of houses and apartments is one of the most rapidly growing segments of both construction sector and RE market. Very often people call existing situation in this market segment as construction boom. However, number of new dwellings per 10,000 inhabitants constructed in Lithuania and other Baltic states in 2004 was significantly lower than in other EU countries; the latter at the moment are under some sort of stagnation. So the gap between supply and demand remains quite considerable (see Graph 8). •

Fresh Winds over the Baltics

By Inna Rogatchi
Helsinki, Finland

Poland's new Ambassador to Estonia, His Excellency **Tomasz Chlon** in exclusive interview to *BC* talks about his vision of a new Europe.



Presenting credentials to President Arnold Ruutel.

One of the leading Polish figures in international security and politics, 44-year old Tomasz Chlon, from the new generation of Poland's politicians, recently handed over his credentials as the new Polish ambassador to Estonian president, **Arnold Ruutel**. In his exclusive interview to *BC*, Mr. Chlon shared his visions on cooperation between "old and new" Europe, among the neighbors and partners in the Baltic region at the moment when "old Europe" is getting both progressively younger and different as new member states joined the EU.

OLD AND NEW

Tomasz Chlon has started his ambassadorship in Estonia at a time of big changes both inside and outside Poland,

what experts in international politics are calling now "the Poland's factor?"

Inside the country, there are simultaneous changes in the government and in presidency. After many years in government, left-wing social democrats have lost their popularity and majority in country's recent parliament elections. This has brought to the Polish political scene the new government, which formed a coalition of Law and Justice Party and Civic Platform. The new government consists of many prominent figures from the Solidarity movement, still dedicated to its spirit and ideas.

At the same time, after two terms in office, Polish president **Alexander Kwasniewski** has left the office to a lawyer and Warsaw city major **Lech Kachinsky** (Law

and Justice Party), with a second leader of the right-wing parties, historian **Donald Tusk** (Civic Platform) for coalition.

From that point of view, the country itself, pointed out the ambassador, has been renewed completely; we expected now a new agenda for internal and external Poland's politics, based on new principles and pursued by new means.

"We shall see what Polish membership in the EU and the UN would be like under the new government and the president," says new Polish Ambassador to Estonia Tomasz Chlon. And he is quite confident that in any case, he is representing the country on the road to success, and it is a noble task of his mission.

"It is really fascinating to represent Poland, a country of success, especially in the European region, where some of the member states, in particular in the Baltic region, know, remember and understand this history impact behind that success. For Poland and its people's hard efforts to reach the status we are having today, is remarkable gaining important and visible place in the region; and the country has all the reasons to sustain its leading position in the region."

Discussing with the Ambassador specific general aspects of modern European development, the ambassador pointed out that quite recently in peoples' mind Europe had been divided into the "old one," with 15 former EU members, and "the rest" of Europe, i.e. other countries that have been liberated from communist regimes before joining the EU. Those countries, including Poland and the Baltic States among other Eastern and Central European countries, with their dramatic history, very high intellectual potentials, and human capital, has become a new source of serious changes in the EU, after these countries joined the club last year.

Tomasz Chlon says: "It's one thing when global situation is taken for granted and quite different when you and your colleagues have to deal with it on a daily basis. For our children it would be quite natural that they are EU members and citizens of Big Europe. That gives them quite different reasons and grounds in their life, and lives it correspondingly. But it is up to us to make it happen, and more than that, but to make it just; this is really important," says ambassador Chlon.

He knows what he is talking about: previously Tomasz Chlon, who used to be a diplomat in the Polish Embassy in Finland in 1990s, was closely involved in two important events. He was Polish delegation counselor and political adviser to NATO, and as such he had been most actively involved in Polish negotiations in entering NATO, and also in the wider process of the NATO's enlarging towards Eastern and Central Europe. He was also a key figure in Polish team of experts and political advisers contributing to the new concept of the remodeling the UN to far bigger extent than it is publicly viewed. Becoming an expert on the international security and cooperation, Mr. Chlon had been also the head of security policy section in Polish ministry for foreign affairs.

TO CREATE A CRITICAL OPINION MASS

Nobody can deny that since May 2004 the "old" Europe, as we know the EU elite club, has started its transformation into something far more freshly, flexible, dynamic, more able, and interesting. This all occurred due to "new blood" the EU has got from its ten new members. Poland is definitely a leading member in that group, because of the size of the country, its history, its geography, its exemplary survival through various dictatorships in the dignified form, its huge intellectual abilities, its very high moral stand and tradition, largely thanks to the late Pope John Paul II.

With such "inheritance"; there is no surprise or wonder that Poland started to talk in the EU in full voice, since the start of negotiating process. It brought up many issues that had not been in the EU agenda before and having the stand, that the EU had not been accustomed to, previously. Political observers have noticed that such new members' appearance, which was not prepared to sit and wait in entrance halls as poor relatives, did cause substantial surprise in the EU institutions and also among some EU governments, that used to see themselves as indisputable leaders of Big Europe.

However, the ambassador goes on, that situation has been changed lately and some of the fastest thinkers on international political stage had to realize it quickly. For example, when potential leading candidate for France's presidency in 2007, most popular and strong politician in France, **Nicola Sarkozy** has created his very popular present "Big Five in Europe" concept, meaning to create a nucleus of European power among France, Germany, Britain, Italy, and Spain. He had to convert the concept into

"Big Six" immediately adding Poland; nobody serious in nowadays politics can allow itself any longer to ignore Poland as a crucial factor in European development.

When talking on serious changes facing the EU-25, Tomasz Chlon mentioned that "very often in the EU institutions and the European Parliament only Poland and the Baltic countries are active discussing certain issues, such as defending democracy in Belarus, or other vital for all EU members' issues, e.g. energy security or complex issues on Russia's relationships". From one side, it is quite understandable that Europe has become bigger now, although it does have its natural divisions, and that southern European countries do see priorities differently, trying to bring to the floor quite different agenda. It is also quite understandable that EU shall not be totally focused on certain issues, like Russia, solely, but there shall be found a balance that will prompt the steady and energetic development. At the same time, in order to be able to pursue a balanced and realistic as possible agenda that we might understand better and in more detail, due to our historical experience, we, together with our colleagues from the Baltic states, have to create that critical mass of opinion that will make it convincing for all EU members, as well as for the members of the European Parliament. In order to make us heard, we have to be together, to

countries that has made their choice towards democracy only recently are in serious need of international support in all and every direction, i.e. from helping them to create stable and operational legal system, to ensure democratic electoral processes, to bring real help to their long-suffering economics, to make sure that the cooperation in security area will go smoothly. This is the moment when our help, help of the neighbors and the countries that do know or understand their languages, both literally and metaphorically, that do have similar history and having greater and genuine understanding of what is behind current processes, all that is becoming invaluable. And it is incredibly important not to lose time, not to lose impetus and the moment for the real changes".

It is also important for us and our Baltic colleagues to make special and wise efforts towards efficient cooperation. It would be a pity, as well as ineffective, if we start repeating each other, doing same work, running the same projects, leaving unattended those things that had to be done but had escaped our attention for some reason. We shall not duplicate our efforts with our Baltic partners in this regard and we do not need to invent a new strategy here, it has been done already, and we are sharing the same understanding on what shall be done further on.



Meeting with the President.

modify our vices, to coordinate our arguments, to perform much needed work in order to reach the result from which the quality of life of the next generation will depend directly"; says Tomasz Chlon.

As examples of such coordination, he cites joint Poland and Baltic States' projects that they are doing together at the moment with Ukraine, Moldova and Georgia. "This is a unique historical moment when those

What we need to work on is tactics rather than how to do it in the best way. This is important right now, in my opinion, as at the top of our joint efforts with our Baltic friends and colleagues are ideas to define who would do what in Ukraine, Georgia and Moldova. While these countries proceed towards the EU and NATO that this path would be clear, decent, and effective. Such present efforts would create solid

ground for tomorrow both in these countries and most of Europe, and that's why it is especially important to do it both responsibly and professionally," says new Polish Ambassador in Estonia.

AMBASSADOR CHLON'S PILLARS

Tomasz Chlon does have quite clear picture on what and how he is going to perform his duties as new Polish Ambassador in Estonia.

"I am quite lucky to come to work as an ambassador in the best possible period, when the ground for this work has been laid down so well. My predecessor, Ambassador **Wojciech Wroublewsky** has left very well functioning mechanism, and great team to work with. Recent president Kwasniewsky's state visit to Estonia that took place this Summer, undoubtedly helped me as the new ambassador, as our bilateral relations had got the boost that was always needed in case of successful summits"

"When I am reflecting on ambassador's role in the current world, I just cannot help myself thinking that everything, absolutely everything, becomes important, from the global issues on the long-term functioning in Europe as one mechanism, to the concrete task of finding a new house for the embassy in Tallinn; as well as to important details of educating people here on some missing details in their understanding of Poland's culture. When some of the very famous Estonian politicians and members of the families, that forms the core of Estonian society, are making comments as it has happened recently, regrettably, that Solidarnost-movement was "not a significant episode in European history"; that lack of understanding must be corrected and people have to understand the real importance of Solidarnost for all European modern development, especially in the countries, which suffered from the communist totalitarian regimes themselves. Or when one reads in Estonian press, that due to not very high turn-out at elections, "Poles do not deserve to have elections as a democracy's instrument"; it is up to me as ambassador to correct that strange aberration of normally adequate media professionalism. Everything matters, every issue counts"; says the Ambassador, showing new Polish embassy premises situated almost in the heart of Tallinn, that has been regarded as ambassador's first concrete achievement in his work.

"The concept I follow, and that I presented to Estonia's president, Mr. Ruutel while handing my credentials, was that there is no need to "invent a wheel" in

friendship relations between our countries. But there is obvious room for knowing each other better, almost in any sphere of life"; says Mr. Chlon who, being a recognized linguist, made his speech during the ceremony in Estonian. Maybe, for him and his family being rooted in the Baltics (one of his grandmothers resided in Riga), it is easier to pick up a language quicker, as well as understanding mentality and culture better.

"Language is a great asset, no doubt about it. I have noticed that more and more of my colleagues, ambassadors of different countries here in Estonia, are able to use Estonian language more and more, e.g. both speaking and reading more and better, able to understand it in the larger extent. That has another positive side, i.e. with some command of this language you do not depend on your adviser solely, smiles the ambassador. It is, of course, a very good thing having able and wise advisers, but being capable to get to things directly definitely provides unparalleled feeling of immediate touch, which is invaluable for diplomatic work"; explains Tomasz Chlon.

To be able to carry out his mission, Tomasz Chlon had figured out a model he would follow in his work. "As far as I can see, ambassador's work is not that of a trade agent of his country; it is rather that of creating an atmosphere which would stimulate all kinds of bilateral activities and mutual interests of both countries and its people in every sphere of life. So, I modeled for myself several pillars in that general assignment of creating favorable atmosphere. These pillars are political, economic and cultural ones.

In its political pillar, a central place is occupied by those mentioned earlier coor-

dination efforts with our Estonian colleagues within the framework of NATO and EU memberships. What is important here is partnership dimension with Ukraine, Georgia and Moldova. But we do not have to reduce our cooperation just to military issues.

As for an economic pillar, it is simply amazing how blossoming our bilateral economic relations are: annual trade turnover between our countries is about \$ 400 million, which is more than our turnover with China. We are trading a lot in machinery, foodstuff, textiles, paper and its products. But as is usually happening in economy and trade, it has to be a non-stop work with all the time growing opportunities. So it is one of a very intensive field.

Describing a cultural pillar, I would like to emphasize that it is principally important for us not to impose anything to our hosts, but get them truly interested, e.g. to hear their inquiries and to respond to them in the best way. To do that, as soon as we move completely to our new premises, which will happen in the beginning of next year, we would arrange special meetings, or evenings, with wide horizontal cultural interests to be represented there. These evenings will be conducted under the motto: "On Thursdays you are in Poland". We will invite interesting people to Estonia letting to know Poland at first hand and in the most talented and creative way.

Embassy, as a rule, is the most valuable asset any country can get in order to promote its values and principles in the world, and it is up to us to realize it and use it to its best, concluded the new Polish Ambassador in Estonia, Tomasz Chlon. •

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Banking and Insurance Sector

This is the 2nd article in our 4 articles' series on EU financial integration

By Eugene Eteris

European Integration Institute, Denmark

Banking sector is in the core of any national financial system and the sector's role is therefore so important in Union's integration efforts. Such integration is aimed at facilitating better banking service with lower prices and ultimate benefits for consumers and companies. It is therefore generally regarded that integration of financial markets is supposed to enhance EU economic growth. The purpose for integration in financial market is that the price of identical financial service or instruments should be the same among all EU member states. In this regard, the EU objective to create single banking market is an integral part of free movement of services in the Union. It is to be remembered, on the other hand, that integration in this field greatly depends on a country's adhesion to euro-zone.



FRANKFURT AM MAIN, GERMANY: European Central Bank main building.

BANKING HARMONIZATION PRINCIPLES

Since the EU internal market inception the banking sector's integration undertaken by the EU institutions has proceeded along the following lines:

- Measures to remove obstacles to financial integration;
- Integration process assessment;
- Integration impact on Interbank competition, banks' efficiency and better customers' service (customers' costs in inefficient banks are as a rule about 30% higher than in the efficient ones).

Banks' foreign operations in the EU are aimed at full harmonization within the Union; there are two instances that attract particular attention, i.e. application of national treatment principle and mutual recognition principle. The former means

that foreign financial service providers have free access to national financial markets and are subject to the same supervision procedures on par with the local providers. The latter means each EU member states acknowledges the regulation of another country, so foreign banks can operate in the domestic market by providing direct service or through establishing a subsidiary. The mutual recognition principle (incorporated into 2nd Banking Directive, 1989) means at the same time that on a certain territory banks from different states compete subject to different regulatory regimes (1st Directive was adopted in December 1977). This principle's application can encourage different countries to harmonize financial legislation. In fact, presently, national authorities can prevent entry into the domestic market for foreign banking service providers on the pre-

text of "protection of public good". On of the later examples is the defence position of Italian banks against foreign penetration on the market.

It is important to underline that banking harmonization in the EU proceeds on so-called minimal rules, when member states still retain sufficient autonomy in banking sector.

BANKING SECTOR INTEGRATION: MAJOR STEPS

There have been five main periods in the EU history through which banking sector integration has been regulated:

1. Initial stage: domestic market entry deregulation measures: 1957-1973;
2. Harmonization of the EU banking regulations: 1973-1983;
3. EU Internal market completion and its effect on financial services: 1983-1992;
4. Single currency introduction: 1997-1999;
5. EU Financial Services Action Plan: 1999-2005.

Following the EU Second Banking Directive (1989) the number of foreign branches in the EU member states' banks increased by about 60% just in the last three years' time.

For about 30 years since first EU efforts in banking sector integration in 1973, there were adopted 14 important directives in this field in the Union.

EU financial integration has been most successful in retail banking and capital market; although in the former the success was far from a desirable level. Main reasons behind that were purely economic: domestic banks not only know local customers better but they are quite aware as how to overcome domestic legal and information obstacles, as well as difficulties in creating branch networks. The same can be said about USA where there is no single banking group with major operations in all the US states; only 6% of the banks operate in more than one state.

THE EU AND ECB BANKING REGULATORY FRAMEWORK

Major driving forces in payment structures are that of the market itself, by the agreements between the parties and by the member states' regulatory cultures. But there have been some EU measures regarding more efficient and integrated payment systems.

The initial regulatory steps were taken in January 1997 when the EU Parliament and Council adopted a Directive (COM 97/5/EEC) regulating cross-border credit transfers. But the real changes took place due to EU regulations in 2000s. Thus, the EU Parliament and the Council regulation nr. 2560 adopted in December 2001 established that charges for cross-border ATM withdrawals in euro (and card payments) must be at the domestic level. Also credit transfers, according to EU payment criteria, must include international bank account number (IBAN) and international bank identification code (BIC).

Major role in promoting smooth operation of the EU payment system belongs to the European System of Central Banks (ESCB). Articles 105(2) of the TEU and article 22 of the ESCB statute envisage that the national banks provide facilities and ECB makes regulations concerning efficient and sound payment systems. These provisions entered the Draft Treaty establishing a Constitution for Europe, e.g. article III-185 (1d) specifies the ESCB's tasks as "to promote the smooth operation of payment systems".

Important as well is the role of TARGET system introduced in early 1999; presently this EU system includes over 1,500 direct participants and over 40,000 banks. TARGET is constantly evolving; the new version of TARGET-2 is being developed in order to harmonize payment services among all the banks using this system. The ultimate idea is to make the same costs and prices for basic services in domestic and cross-border payments.

Bank mergers in Europe are still going on: between January 2000 and August 2004 all banks in the region spent EUR 305bn on 355 acquisitions. UK banks spent more than third of it — EUR 139 bn and earned about 10.5%.

PAYMENT SYSTEM'S INTEGRATION

In modern economy instruments and methods of payment are varied, they include, for example, various payment cards, cash and cheques. Payment methods include credit transfers in an online bank or/and at giro ATM, too.

The payment system integration was, of course, much quicker and efficient among the euro-zone countries. Here the European Central Bank assisted in creating and maintaining payment system serving the need of the single currency market. And the EU member states have developed the centralized TARGET payment system where inter-bank payments could be made

in real time regime with harmonized transaction payment prices.

But there are still some inter-bank payments that are less integrated, e.g. credit transfers, card payments, etc. that are mostly subject to national regulations and solutions. Such payments on a cross-border level require additional handling and are therefore costly and largely inefficient.

Both additional number of EU member states in the Euro-zone and greater mobility of labour and corporate entities in Europe would require the need for more reliable and efficient integrated payment systems.

It can be acknowledged that only capital market banking activity is highly integrated in the EU: in wholesale banking integration have assisted by the euro introduction as it removed various barriers in banking. As a result, prices of several banking services have been substantially reduced (reaching the US level). Considerably slower pace of integration occurred in retail banking, e.g. lending and deposit rates are still very different across EU. Strange enough but banks reacted to increased competition by... merges and acquisitions both on local and cross-border financial markets, and curbing competition in this way.

INTEGRATION EFFORTS IN THE EU INSURANCE SPHERE

Another important feature in the EU financial sector development is an increasing connection and ties between banking and insurance. The process started in early 1990s in the Netherlands and presently evolves both through merges between banks and insurance companies and by establishing insurance sectors in the banks to sell insurance products. Sometimes insurance companies establish their own banks to expand their financial services.

The sector has been heavily regulated in the EU, e.g. starting from the first insurance directive which entered into force in 1964 (Council Directive 64/225/EEC of February 1964 on reinsurance and retrocession), although harmonization in this sector has been very slow. In 1970s some efforts have been undertaken (First non-life and life assurance Directives in 1973 and 1979) to remove obstacles in life and non-life insurance between member states: insurance companies were allowed to establish subsidiaries and/or branches in another EU member state (at that time — only among 6 countries). Responsibilities to control insurance operations were to be exercised by the host country authorities, i.e. so-called "host country control". In 2002 these two first

directives, as well as the third of 1992 (nr.83), were repealed by the directive of the European Parliament and the Council concerning life assurance. Still several member states have not implemented recent EU insurance harmonization efforts.

Among proposals under discussion in the EU are such issues as: requirements for capital adequacy, insurance mediation, reinsurance supervision and solvency requirements.

INSURANCE: LEVEL OF INTEGRATION

The growth of the EU insurance sector can be illustrated by insurance premium growth which is presently about 9% of the EU GDP (in 1990 it was less than 6%). As for the EU insurance companies' premium income (as % of GDP) the highest figure is in the UK — about 15% and the Netherlands — about 10%, France, Finland, Ireland and Belgium — at the level of 8.7%.

There is a specific correlation between life and non-life insurance in the EU states, i.e. in most states non-life insurance dominates

Integration progress in insurance sector has been much slower than in banking, as the profit is based mainly on premium income from home country. But non-life insurance integration proceeds constantly, although reinsurance is still the most integrated sector.

The EU is expected in 2005 to adopt a new regulatory framework for the reinsurance industry that would break down national barriers and create a single European reinsurance market. Reinsurers will be allowed to operate on the 25 EU market as long as they meet the requirements of their home country supervisor. Major "stumbling block" to the directive is the dispute over provision of collateral for the potential damages covered. For example, France and Portugal presently demand such collaterals in the form of letters of credit or bonds. The US insisted on dropping such collateral requirements, and most probably the EU would faze them out. •

SHARE OF PREMIUM INCOME, 2001

	Life insurance, %	Non-life insurance, %
Spain	23.7	29.1
United Kingdom	25.8	57.8
Austria	33.1	44.6
Germany	15.4	14.3
Finland	4.0	35.4
Denmark	17.5	37.4

Source: Compiled by the author.

Welcome to America!

By Marina Dianova
Riga, Latvia

For the first time in the Baltic fashion history Latvian designer participated in *Couture Fashion Week*, held in New York City this September. **Anna Osmushkina**, a successful designer who works in Europe already for a long time, crossed the ocean. Famous businessmen politicians together with the designer went to the USA to share with her highly acclaimed reception.

New York Fashion Week is the event that can be regarded as important as Paris Fashion Week.

Here as well as in France there are a lot of rising stars and the whole world starts to talk about them. For example, in spring a designer-to-be Jennifer Lopez has risked to present her first collection to New York's fashion event and due to positive critics' reviews from that time J. Lopez creations started to conquer the world. However, not only newcomers can make a try during *Couture Fashion Week*; most prominent Fashion Houses from around the world can present their collections here too.

In the beginning of last year A.Osmushkina was invited to participate in this *Couture Fashion Week*. Her so many successful displays in Italy, Germany and England have been praised by all big European magazines, such as *Observer Magazine*, *Berliner Zeitung*, *Stern*, *Italian Figaro*,

Liberation, *Collezioni Haute Couture*. They were all writing about Latvian designer. As it turned out later, the American Council of Fashion Designers — ACFD, closely watched this. Only after ACFD was convinced that A.Osmushkina's Fashion House presents new collections two times a year, it sent the official invitation to Latvia.

After it was known to the public that the designer is going to America to participate in *Haute Couture Fashion Week*, the number of eminent Latvian persons, i.e. **Dace Boyare** (the spouse of Riga's ex-mayor) and **Ligita Zorgevica** (the spouse of Latvian railway's former head) expressed their intentions to accompany her to the USA. In New York **Dmitry** and **Regina Krupnikov**, who crossed the ocean a little bit earlier, joined them.

American public with great interest has received Latvian couture designer's collection with the remarkable



title "Heaven". The collection that was a set of weightless designs in natural silk, taffeta and terry threads, embellishments in Swarovski's precious



stones, ostrich feathers and natural furs were very different from what was usually presented in America. It was not casual-business but gracefully feminine design. That is why "Heaven" collection was the highlight of New York Fashion Week, as critics summed up the results of the week.

Except for above mentioned "cheerleaders" in the hall could be noticed **Ingrida Udre** (speaker of Latvian Parliament, Saecima), MP's **Oleg Denisov** and other well-known persons. When they appeared in New York on business trips,

they found it necessary to support their compatriot. Local journalists were quite surprised by the occasion, as not every designer's displays are attended by prominent public figures. When A.Osmushkina returned to Latvia, several large trading houses invited her for cooperation. However, she has not responded yet. Before making the decision it is necessary to weigh up everything, she acknowledged. •



German Feudal Lords' Wine

By Peter Vladimirov

Riga, Latvia

Travelling from Riga to Kuldiga, your way pass through a small town called Sabile that is famous for its most northern vineyard in Europe. While going by narrow twisting road along charming valley of the river Abava, we suddenly saw a long traffic jam entering the city. We found out that last weekend in July was devoted to Wine Holiday in Sabile.

The city of Sabile (in German — Zabeln) is situated on hills around Abava river valley. From these hills opens the view to small pastoral town with its rich history. More than a thousand years ago, when the Kurshi-tribe came to Sabile, there lived Livens-tribe. In historical sources Sabile is mentioned for the first time in 1253. At the end of XIII and the beginning of XIV century German feudal lords built here a castle, and the settlement started to grow. During Duke Jacob's rule, Sabile turned into manufacturing and trading center. Here operated many factories for textile manufacturing as well as production of different goods. In the middle of XIX century Sabile became a wealthy economic center. In 1897 Sabile's population totaled 1680 persons. The charter of Sabile-city was appropriated to it in 1917.

GRAPE MOUNTAIN

One of the most remarkable places in Sabile is Vinakalns (Grape mountain, in Latvian), which is 33,5 m of height. The vineyard is lying on the right bank of Abava river and wine produced from that grape was highly appreciated and even sent abroad. During Kurshi-tribe period this wine was highly praised in all castles.

In modern time first grapes were grown since 1937 and already two years later Sabile wine received a prize at all-Latvian agricultural exhibition.

During the Second World War, when Germans occupied Sabile they did not continue ancestors' tradition of wine production.

In Soviet times wine growing was ultimately abandoned and destroyed, as planned economy was quite satisfied with Georgian wine. At last, during the Second Latvian Republic the group of enthusiastic students renewed tradition of wine production. The very first wine festival, so called "Wine Holiday," took place in 1998. Today, on one vineyard's hectare alone about 2 thousand bushes are growing. According to the City Council's website (www.sabile.lv), the city produces several thousand Sabile wine bottles a year.

It has to be mentioned that red Sabile wine is similar to some German brands. It has a rather specific taste, although quite pleasant to drink. The price for one bottle is about 5 lats, however to my mind wine quality does not deserve more than three and a half. Sabile wine is produced and bottled in Latvia by *Latvijas Balzams* Company, which itself is a sort of guarantee for product quality and technology.

SOME OTHER SIGNS OF INTEREST

Besides so called Grape Mountain in Sabile, an ancient Kurshi-tribe settlement at the right Abava-river bank is well-worth seeing. From that place one can enjoy a beautiful view over the city, the Abava-river valley and the adjacent park.

Not so far from the settlement at the end of Talsu Street there is a small hill and an ancient cult place called Sacrificial Mountain is situated. Feudal lords transformed it into an execution place for rebellious peasants and even some gallows were built there. Nearby XVII century

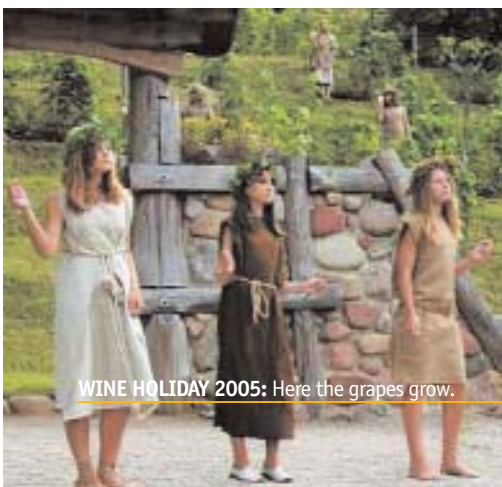


SABILE'S RED WINE.

Lutheran church another architecture monument is located that was constructed in Roman style.

Near Sabile, some 4 km away from its center, there is a picturesque waterfalls called Abava's rumba that reaches 2.5-3 m height. At about 2 km from Sabile there is a sulfuric water-spring containing various iron-mineral elements. Between the city and the water-spring at Abava-river turn there is so called "Sabile Egypt". Here Abava river, just in the way Nile in Egypt does, is overflowing its banks in spring leaving a thick layer of silt-sediments.

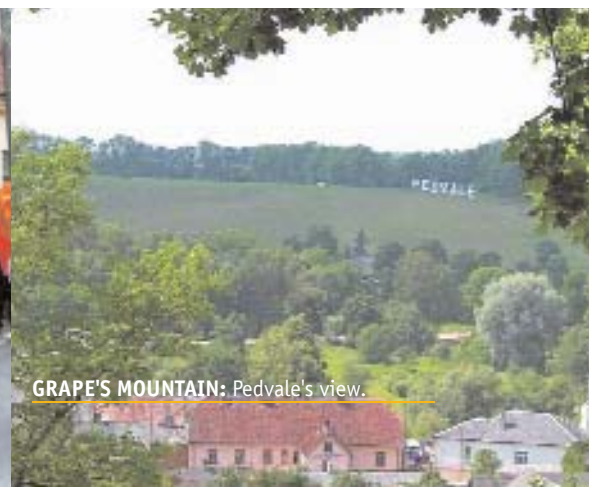
The trip to Sabile is a very interesting route to explore, in particular, during weekends. City dwellers in Sabile are very friendly, although for some strange reason tourist's infrastructure does not exist in the city. So it was almost impossible to find a place for a dinner; the closest pub (Latvian "krogs") we found somewhere in Pedvale. •



WINE HOLIDAY 2005: Here the grapes grow.



WINE HOLIDAY 2005: The parade.



GRAPE'S MOUNTAIN: Pedvale's view.

GROSS DOMESTIC PRODUCT

	Latvia	Lithuania	Estonia
GDP at current prices, mln EUR			
Q1 2005	2622	4254	2321
Q1 2004	2383	3812	2088
GDP at constant prices, %			
to Q1 2005	107.4	105.7	107.2
to Q1 2004	108.7	107.1	109.3
GDP per capita, EUR			
2004	4742	5218	6703
2003	4216	4711	6012

Source: The Central Statistical Bureau of Latvia.

WAGES, EUR

	Latvia	Lithuania	Estonia
Monthly average, Q1 2005			
Gross wage	322.0	368.0	475.0
% to Q4 2004	98.5	96.9	96.4
Min. wage, July, 2005	114.0	159.0	172.0
% to July 2004	100.0	110.0	108.5
Old-age pension, monthly average, Q2 2005	114.0	114.0	157.0
% to Q2 2004	113.8	114.3	106.8

Source: The Central Statistical Bureau of Latvia.

FOREIGN TRADE, H1 2005, MLN EUR

	Latvia	Lithuania	Estonia
Export (FOB):			
total	1908	4186	2850
to EU-25	1470	2862	2253
% of total	77	68	79
Import (CIF):			
total	3042	5435	3697
from EU-25	2220	3156	2801
% of total	73	58	76
Balance of foreign trade	-1134	-1249	-847

Source: The Central Statistical Bureau of Latvia.

FOREIGN DIRECT INVESTMENTS

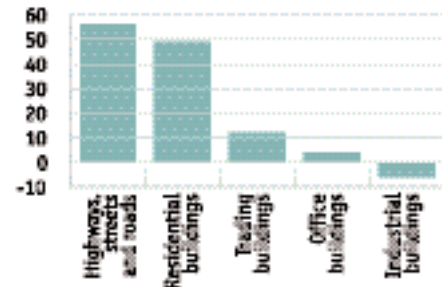
At the end of quarter	Latvia	Lithuania	Estonia
FDI, stock, total, mln EUR			
Q1 2005	3484	5078	9023
Q1 2004	3018	4160	6101
Per capita EUR			
Q1 2005	1511	1209	6698
Q1 2004	1301	1485	4516
FDI, flows, mln EUR			
Q1 2005	174	164	886
Q1 2004	121	208	214
% of GDP			
Q1 2005	6.3	3.9	38.2
Q1 2004	5.1	5.4	10.3

Source: The Central Statistical Bureau of Latvia.

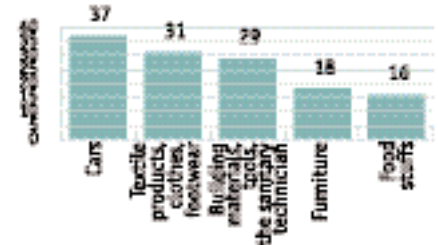
INFLOW OF FOREIGN INVESTMENTS, 2004, BN EUR

	Latvia	Lithuania	Estonia
total	0.6	0.7	0.8
from EU	0.4	0.5	0.6
from other countries	0.2	0.2	0.2
comparing with 2003	+ 0.3	+ 0.5	0

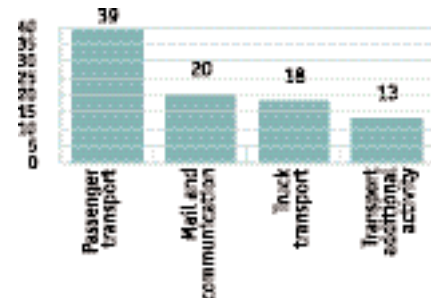
Source: Eurostat.

**BUILDING IN LATVIA,
Q2 2005 COMPARING WITH Q2 2004, %**

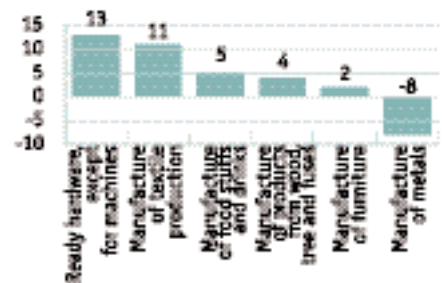
Source: The Central Statistical Bureau of Latvia.

**RETAIL TRADE IN LATVIA,
Q2 2005 COMPARING WITH Q2 2004, %**

Source: The Central Statistical Bureau of Latvia.

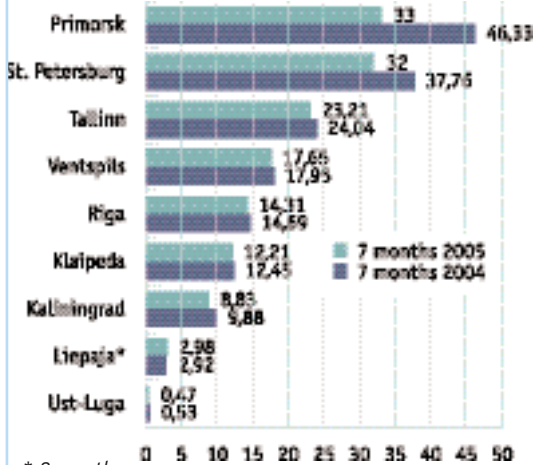
**TRANSPORT AND COMMUNICATION IN LATVIA,
Q2 2005 COMPARING WITH Q2 2004, %**

Source: The Central Statistical Bureau of Latvia.

**MANUFACTURING INDUSTRY IN LATVIA,
Q2 2005 COMPARING WITH Q2 2004, %**

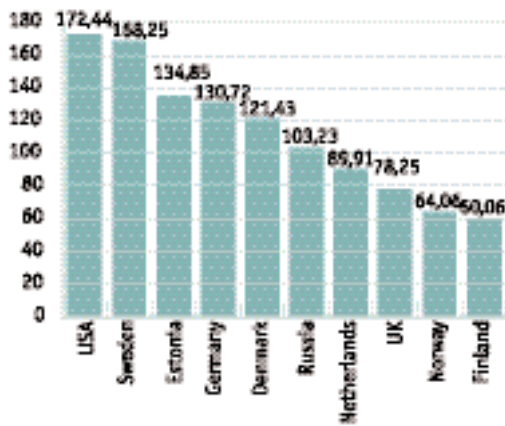
Source: The Central Statistical Bureau of Latvia.

CARGO TURNOVER IN THE EASTERN COST PORTS OF THE BALTIC SEA, MLN T



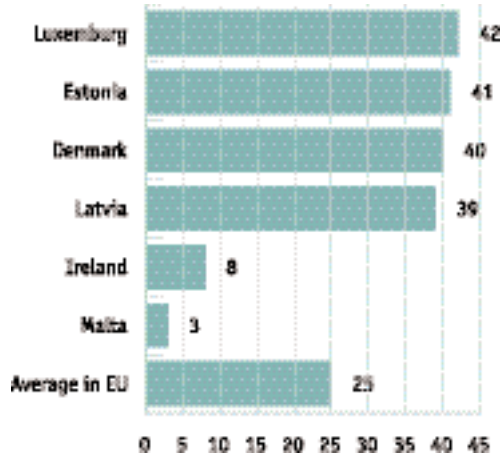
* 8 months.
Source: RZD-Partner, LETA.

TOP 10 LARGEST DIRECT FOREIGN INVESTMENTS INTO LATVIAN ENTERPRISES' FIXED CAPITAL, MLN LVL



Source: The Central Statistical Bureau of Latvia.

RETAIL GASOLINE PRICE GROWTH IN SOME EU COUNTRIES*, %



* January — August 2005.
Source: LETA.

INDUSTRIAL OUTPUT IN SOME EU COUNTRIES, 2004, %

Place	Country	Comparing with 2003
INCREASE		
1	Estonia	+ 11.1
2	Latvia	+ 9.2
3	Hungary	+ 6.5
4	Lithuania	+ 5.2
	Titoal in EU	+ 0.4
RECESSION		
1	Finland	- 11.5
2	Greece	- 2.3
3	Luxemburg	- 2.0

Source: Eurostat.

AIRPORTS IN THE BALTIC STATES, 7 MONTHS 2005

Airports	Cargo turnover	% to 7 months 2004	Passenger traffic, thou pers.	% to 7 months 2004	Number of flights	% to 7 months 2004
Riga	10605	+69.2	994.9	+84.6	19454	+29.4
Tallinn	5880	+95.8	779.6	+45.1	18990	+18.2
Vilnius	2956	-1.3	728.9	+36.5	17319	+40.2

Source: LETA.

THE PRICES FOR NEW CARS IN BALTIC STATES, MAY 2005, EUR

Model	Latvia	Estonia	Lithuania
VW Polo	9523	9052	8694
VW Golf	11890	11757	11061
Toyota Avensis	16956	16956	16956
Volvo S40	20432	20261	20090
Subaru Legacy	20453	19832	19764
Peugeot 807	22997	24035	24909
Mercedes C180	26512	23240	23290
Volvo S80	29272	29101	31780
Mercedes E220	34611	31887	31455
BMW 740i	58642	58621	57019
Mercedes S350	60325	56282	54074
Audi A8	64179	61179	64179

Source: European Commission.

AVERAGE PRICES FOR GOODS AND SERVICES, EUR PER KG

	Latvia		Lithuania		Estonia	
	April 2004	July 2005	April 2004	July 2005	April 2004	July 2005
Beef	2.45	2.72	2.20	3.24	2.58	2.85
Pork	2.57	2.55	2.43	2.48	3.21	3.23
Chicken	1.98	1.96	1.58	1.71	2.39	2.34
Sausage boiled	2.66	2.72	2.46	2.59	2.43	2.63
Butter	2.92	3.33	3.40	4.55	3.36	3.93
Milk, 2,5% of fat, 1l	0.46	0.50	0.47	0.51	0.45	0.44
Eggs, 10 pcs	0.93	0.84	0.76	0.66	0.91	0.75
Rye bread	0.67	0.70	0.62	0.65	0.80	0.82
Rolls of high grade wheat-flour	0.82	0.85	0.81	0.85	0.91	0.93
Sugar	1.00	0.92	0.94	0.86	0.46	0.98
Potatoes	0.21	0.44	0.19	0.43	0.34	0.51
Vodka 40% alc. vol., 1l	7.98	7.36	6.96	7.19	8.36	8.72
Petrol A-95, 1l	0.64	0.81	0.73	0.87	0.62	0.82
Electricity, per 100 kWh	6.85	6.40	8.40	8.98	7.00	7.86

Source: The Central Statistical Bureau of Latvia.

International exhibitions and conferences in which BC is planning to participate

Name		Place	Date
POWER & ENERGY 2005	E	Kiev, Ukraine	08.11 — 11.11
OIL AND GAS 2005	E	Kyiv, Ukraine	08.11 — 11.11
GLOBAL FINANCE UKRAINE	C	Kyiv, Ukraine	08.11 — 10.11
AGRITECHNICA 2005	E	Hanover, Germany	08.11 — 12.11
FRANCHISE 2005	E	Kyiv, Ukraine	10.11 — 12.11
New Materials for Design and Architecture Conference and Trade Show	C	Frankfurt am Main, Germany	10.11 — 11.11
3rd BALTIC BRANDING CONFERENCE	C	Riga, Latvia	14.11 — 15.11
EBIF — European Banking & Insurance Fair	E, C	Frankfurt am Main, Germany	15.11 — 17.11
INVESTCITY — Polish Cities Investment Fair	E	Poznan, Poland	15.11 — 18.11
ENERGY TECHNICS & TECHNOLOGIES 2005	E	St. Petersburg, Russia	15.11 — 18.11
EXPONET 2005	E	Cologne, Germany	15.11 — 17.11
EUROPORT 2005	E	Amsterdam, Netherlands	15.11 — 18.11
AUTOMATION 2005	E	St. Petersburg, Russia	15.11 — 18.11
TRANSPORTATIONS OF METALLURGICAL LOADS IN CIS AND BALTIC STATES 2005	C	Moscow, Russia	16.11
ADVERTISING, ADVANCE AND SALE 2005	E	Almaty, Kazakhstan	16.11 — 19.11
FRANCHISE KAZAKHSTAN 2005	E	Almaty, Kazakhstan	16.11 — 19.11
BALTIC SEA REGION COMMUNICATIONS FORUM	F	Riga, Latvia	22.11 — 23.11
IT:M — IT Event for Medium-sized Enterprises Hamburg, Trade Fair and Convention for IT-Solutions in Small and Medium-sized Enterprises	E	Hamburg, Germany	23.11 — 26.11
3rd INTERNATIONAL BLACK SEA & CASPIAN ECOLOGY SUMMIT 2005	S	Istanbul, Turkey	24.11 — 25.11
2nd INTERNATIONAL EXHIBITION "REAL ESTATE"	E	Riga, Latvia	25.11 — 27.11
HOISTING AND TRANSPORTING, STOREHOUSE EQUIPMENT 2005	E	Kiev, Ukraine	29.11 — 02.12
UKRWELDING 2005 — International specialized exhibition technologies, equipment and materials	E	Kiev, Ukraine	29.11 — 02.12
PRODUCTION AND SAFETY 2005	E, F	Kiev, Ukraine	29.11 — 02.12
ADVANCED AUTOMATION TECHNOLOGIES (AAT) EXPO 2005	E, F	Kiev, Ukraine	29.11 — 02.12
ENTERPRISE MANAGEMENT 2005	E, C	Kiev, Ukraine	06.12 — 09.12
12TH INTERNATIONAL FORUM RUSSIAN BANKING MAXIMISING PROFITABILITY AND MINIMISING RISKS	F	London, UK	06.12 — 08.12
TRANSPORT AND LOGISTICS IN INTERNATIONAL TRADE. INFORMATION TECHNOLOGIES	C	Tallinn, Estonia	08.12 — 09.12
ECONOMIC TURNOVER ELECTRONIZATION CONGRESS	C	Warsaw, Poland	14.12 — 15.12
HEIMTEXTIL 2006	E	Frankfurt, Germany	12.01 — 15.01
INTERNATIONAL EXHIBITION OF IT AND COMMUNICATION TECHNOLOGIES	E	Warsaw, Poland	26.01 — 28.01
ADVERTISEMENT — PARTNER 2006	E, C	Minsk, Belarus	01.02 — 03.02
AIRCRAFT EXPO	E	Moscow, Russia	07.02 — 10.02
ADVERTISING TECHNOLOGYS	E	Moscow, Russia	14.02 — 18.02
SPRING FASHION WEEK 2006	E	St. Petersburg, Russia	15.02 — 18.02
INTERNATIONAL CIS METAL SUMMIT	S	Moscow, Russia	15.02 — 17.02
AIRPORT INDUSTRY	E, C	Moscow, Russia	16.02 — 18.02
KIEV EXPOSHOW 2006	E	Kiev, Ukraine	20.02 — 22.02
EXPOTEL 2006	E	Kiev, Ukraine	20.02 — 23.02
BAUTECH 2006 — Exhibition of building technologies & architecture	E	Berlin, Germany	21.02 — 25.02
BUSINESS ACCOUNTING. AUDIT. BUSINESS-SOFT 2006	E	Minsk, Belarus	22.02 — 24.02
INFRA TECH 2006 — International Exhibition of Infrastructure	E	Warsaw, Poland	22.02 — 23.02
CORPORATE IT STRATEGIES IN RUSSIA	C	Moscow, Russia	28.02 — 02.03
THE RUSSIAN AUTOMOTIVE INDUSTRY	C	Moscow, Russia	14.03 — 15.03
KAZAKHSTAN INVESTMENT SUMMIT	S	London, UK	15.03 — 17.03

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