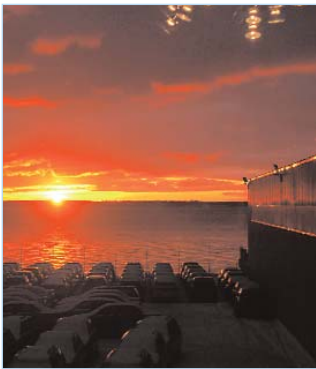


TRANSPORT: P. 8



PORTS: P. 12



INFORMATION TECHNOLOGIES: P. 14



REAL ESTATE: P. 16

Baltic States

Transport

8 Tariffs are both Changing and Increasing

Ports

13 Reduced Tempo in the Baltic Ports

Information Technologies

14 Demand for IT-service is Gathering Momentum

Market Review

Real Estate

16 Latvia is Following European Example

20 Lithuanian Real Estate Market's Got Bullish, although not due to Deals

22 Bullish New Construction Market in Estonia

24 Vadim Markov: "The Market is Presently Put before the Horse"

26 A View from London

Business & Travel

34 Bright Future for Business Travel Market

38 Business and Entertainment Go Hand-in-Hand for our Hotel Guests

Baltic States

Labor Market

40 Urgently Wanted: Engineers and Craftsmen

Innovations

44 Astro-Genetics's Role in Marketing

Banks

47 Time and Resources We Saved — Our Valuable Acquisition

European Union

Finances

48 EU Integration in Equity and Securities: Towards a Single Capital Market

CIS

Investment Forum

50 Latvia and Belarus: Cooperation Prospects

Figures & Facts

54 Statistics

OUR PARTNERS

Lursoft
Register of Enterprises of the Republic of Latvia
Free Economic Zone "Vitebsk"
NP Properties
Paldiski Sadamate AS
NORD LB Latvia
RVR
Reval Hotel Latvia
Le Meridien Villon Resort
Best Western Hotell Tallink

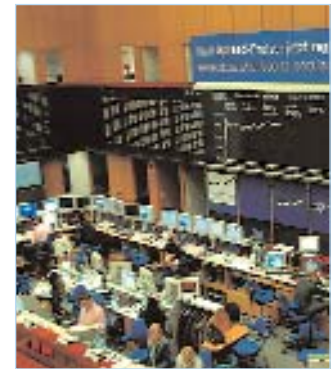
Latvian Railway
NIRA FONDS
Baltic Travel Group
Latvia Tours
Medzabaki
Dikli
BKT Real Estate Development
RMS
LETA, BNS
ITE GROUP PLC
ITECA



INNOVATIONS: P. 44

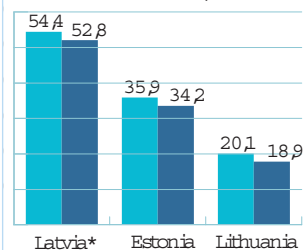


BANKS: P. 47



FINANCES: P. 48

■ 11 months in 2005, in m ln t
■ 11 months in 2004, in m ln t



STATISTICS: P. 54



STATE JOINT STOCK COMPANY "LATVIJAS DZELZCEĻŠ"
LATVIAN RAILWAY

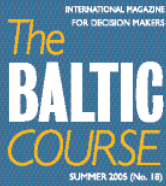
LATVIAN RAILWAY -

**reliable and
efficient partner
for transit
shipments
between East
and West**



State Joint Stock Company
"Latvijas Dzelzceļš"
3 Gogola Street, Riga, LV-1547, Latvia
Phone: +371 723 4940
Fax: +371 782 0231
Freight shipments: +371 723 4208
www.ldz.lv
E-mail: info@ldz.lv

www.baltkurs.com



Published quarterly since 1996
Winter 2006 (No.20)

Our readers are in Latvia, Lithuania, Estonia, the CIS countries, Western, Central and North Europe, the US, Canada, Latin America, Israel, etc.

The Baltic Course was registered in the Republic of Latvia Company Register on March 1, 1996.

Registration number 000701928

Editor-in-Chief: Olga Pavuk
E-mail: olgap@baltkurs.com

International Editor: Eugene Eteris
E-mail: euglis@home.se

Executive Secretary: Alla Petrova
E-mail: allap@baltkurs.com

Editorial Board:

Stanislav Buka – *Baltic Russian Institute, Chairman of the Senate, Dr. Oec., Latvia*

Raivo Vare – *Eesti Raudtee, Development Director, Estonia*

Janis Domburs – *independent journalist, Latvia*

Bo Krag – *Svenska Handelsbanken, Vice-president, Baltic finances' expert, Sweden*

Yevgeny Kostenko – *Minsk Free Economic Zone, deputy chief executive, candidate of technical sciences, Belarus*

Bronislavs Lubis – *Lithuanian Industrialist Confederation, president, Kazbalt association president, Lithuania*

Nikolai Mezhevich – *University of St. Petersburg, Professor; Center of Transborder Studies, Director, Dr. Oec., Russia*

Olga Pavuk – *Editor-in-Chief for magazines Банниўскіў Купс and The Baltic Course, Dr. Oec., Latvia*

Inna Rogatchi – *Rogatchi Productions & Communications, Vice-president, Finland*

Oleg Soskin – *Institute for Society Transformation, Director, Dr. Oec., Ukraine*

Dmitry Trenin – *Moscow Carnegie Center, Deputy director, Russia*

Eugene Eteris – *BC International Editor, European Integration Institute, Doctor of Law, Denmark*

Publisher:

Cordex Media
3 Balasta dambis
Riga, LV-1081, Latvia
Phone: +371 7062650
Phone/fax: +371 7062664

Distribution and Subscription:

Jelena Saikina
E-mail: jelena@baltkurs.com
Phone: +371 7062650
Fax: +371 7062664

Advertising Department:

Ludmila Fomkina
E-mail: ludmila@baltkurs.com
Phone: +371 6183630
Phone/fax: +371 7062664

Design Editor:

Peter Vladimirov
E-mail: p.vladimir@inbox.lv

Photo: B. Lindemann, A. Jermoliskij, V. Makarich, press-photo

Printed by Veiters
No fixed price

The editorial board is in no way responsible for the content or claims made by any of the advertisements published in this magazine. Reference to *The Baltic Course* must be made upon use of any material from the magazine.

Advertisements are printed on a toned background.

Present issue's feature articles, as usually, cluster around *BC's* main themes, i.e. that of the politics and economy in the Baltics, the European Union and the rest of the Eastern Baltic Sea countries' area.

The *BC's* Baltic States section reflects several perspectives the Baltic sub-region is facing with. These are such issues and problems as, first of all, labour market structures and workers' immigration. With the emerging evidence of the problem both the old and the new EU member states unfortunately are dealing with the problem in a different way. There are growing intentions that both EU member states and governing EU institutions would try to solve this intense problem. Anyway, efforts to re-draft the EU Service Directive is a good start for the Austrian half-a-year EU Presidency and active role of the EU Parliament.

Another important for the Baltic States and their neighbors' issue is transportation problem: it is well known that the three Baltic countries' economies greatly depend on transit, mostly that of goods. Hence, most urgent is railway transport where tariffs' policy in the Baltic States and adjacent countries can serve as an indication of progress. So far such policy lacks coherence and stability, both from Latvian side and her neighbors.

Property and real estate issues are the background for another *BC* analysis in the Baltic States. Although civilized property market dates back to beginning of 1990s, there are definite positive (as well as negative) sides in the three republics.

Quite remarkable are Latvian relationships with her South-Eastern neighbor, Byelorussia. Bilateral Byelorussian-Latvian cooperation forum is a good indication which quite remarkably underlines a thesis that sound politics with reasonable economic ties can make miracles. One of the examples is the *RVR's* initiative to design and manufacture a new diesel-type railway train for the neighboring country's transport network.

Main theme in the European Union's section is the third article in our series of articles on the Union's financial integration policy. This time we have reviewed the EU securities and stock exchange markets as well as financial integration efforts in this field.

In line with the major themes in the European development, an observation of major events in economic and political situation in the region is presented in *BC's* section "News and Views".

Finally, I have to attract readers' attention to our regular section of the Baltic States' recent major economic development outlook and statistics.

Eugene Eteris,
***BC's* International Editor**



RESTRUCTURING OF LATVIAN RAILWAY IS UNDERWAY



State-owned Latvian Railway Company's *Latvijas dzelzceļš (LDz)* three new subsidiaries are expected to start independent operations on July 3, 2006. *LDz Infrastruktūra* headed by production director **Stanislav Baiko** will be responsible for railway infrastructure. *LDz Cargo* devoted to cargo transport will be run by Freight Administration director **Eriks Smuksts**, and *LDz Ritosa Sastava Serviss* organized for servicing rolling stock will be managed by *Hanza Shipping* Board's member **Aivars Muravskis**.

LDz Ritosa Sastava Serviss will consist of locomotive and railcar repair shops and rolling stock facilities' administration. The existing *LDz* subsidiary, *Pasazieru Vilciens*, will continue carrying passengers on domestic routes; other existing subsidiaries will go on with their regular business, e.g. *Starptautiskie Pasazieru Parvadājumi* with international passenger service, *VRC Zaslauks* with railcar repairs and *Dzelzcela Apsardze* with all kind security issues.

The idea for *LDz* restructuring was voiced by Latvian Transport Minister **Ainars Slesers** at the beginning of 2005. He made the proposal in order to avoid cross-subsidizing of passenger services from freight transport service, as well as to separate railway infrastructure from "main activity" as is required by the EU directives. A number of experts could relate the restructuring with the initial steps to "covered" state railway privatization although the Minister repeatedly denounced the allegations.

LATVIA AND UKRAINE STEP UP RELATIONSHIPS

Latvian Prime Minister **Aigars Kalvītis** in late November met with Ukrainian President **Viktor Yushchenko**, country's Prime Minister and its Foreign Minister in Kiev. They discussed development of bilateral relation and organization of a special task force to step up business cooperation in various sectors, including transit of passengers and goods.

KAUNAS FEZ HAS OPENED IN LITHUANIA

It took ten years to launch Kaunas Free Economic Zone (FEZ) in Lithuania. The official inauguration ceremony took place in mid-December with participation of representatives from Kaunas region, the city council, as well from the Lithuanian parliament. A project for multi-modal terminals' integration in Kaunas region was presented at an opening ceremony, and a debate on "Balanced Terminals' Development among Kaunas Airport, High-Speed City Transport section, European and Russian Railway Tracks" took place.

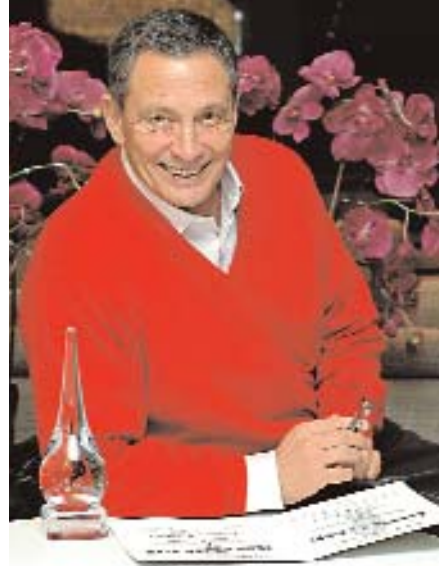


Lithuanian Parliament passed the law on Kaunas FEZ in October 1996. It was planned that the FEZ with area of 1,000 hectares would become the largest in the Baltics but then problems occurred with acquiring land from private owners. In 2004 the parliament amended the law and reduced Kaunas FEZ territory to 534 hectares. Infrastructure and utility lines facilities' construction on the site began in November that year. The founder of Kaunas FEZ, Belgian company *AOI NV*, has already signed agreements with several companies concerning leasing out land, and the tenants plan to launch their operations in summer 2006.

STUDYING COMPETITIVE ADVANTAGES

Production efficiency among the companies in the Baltic States is much lower than in the Central European states, on average, according to a competitive ability's study of the European companies carried out by *KPMG*. As to practical examples of efficiency in the Baltics, Lithuanian companies have shown the biggest growth rates, i.e. at 19% throughout 2005. Latvia is at the second place with 14% growth and Estonia ranks third with 4%.

DZINTARA SPALVA 2005 WINNERS IN LATVIA



BC's international editor, **Eugene Eteris** has been awarded an "Amber Stilo" Diploma (*Dzintara spalva 2005*) in a competition organized by Latvian Journalist Union and Russian Federation Embassy in Latvia in economics' journalism nomination for an article "Russia and the EU Need Each Other" in *BC* nr. 17.

Among the winners in various other categories there were reporters, mass-media journalists, TV and radio correspondents covering various political, cultural and economic aspects in Latvian-Russian relationships: **Margarita Sprancmane** from *Telegraph* daily, **Gregory Zubarev** from *Mix FM* Radio Channel, **Christina Moiseeva** from (*TV 5*), **Juris Paiders** (*NRA*), **Natalija Ketnere** from regional *Ogre Week*, **Svetlana Gartovanova** from *Chas* daily, **Olga Proskurova** from *LTV-7*, and **Vija Bajnerte** from *Majas viesis*, as well as a publishing house *Rigas Laiks*.

During the awarding ceremony held in the Union's mansion in Riga's downtown, Latvian Foreign Ministry's representative **Janis Mazeiks** heading Ministry's Russian Section has noted that journalists, rather than state bodies, can often make a better impetus to bilateral relations.

Russian Ambassador in Latvia, **Viktor Kalyuzhny** underlined that Embassy's staff has not in any way influenced the nomination results; the winners have been chosen by a competent jury composed of prominent Latvian journalists and editors. The ambassador expressed gratitude to all journalists for creating a climate of confidence between the two countries, which will further invigorate a favorable political dialogue.

LITHUANIA ADOPTS LAW ON MAZEIKIU NAFTA SALE

Lithuanian Parliament has passed a set of legislative acts enabling the government to buy from Russia's YUKOS shares in *Mazeikiu nafta* oil concern and to sell them to a new owner, borrowing up to 3 billion litas (EUR 0.87 b) for that purpose. The Constitutional Court in December ruled that provisions under the law about reorganization of *Butinges naf-*



ta, Mazeikiu nafta and *Naftotiekis* companies were contradicting to the Constitution. The agreements about investments signed by YUKOS and Lithuanian government in 2002 stipulated that any disputes between the parties should be settled according to the British law. In this regard, Lithuanian government decided to hire British lawyers for solving the problems related to sale of the oil company shares held by YUKOS. At present YUKOS owns 57.3% in *Mazeikiu nafta*, and 40.6% shares belong to Lithuanian government.

ESTONIA'S READY TO JOIN NUCLEAR PLANT PROJECT

If Lithuania decides to build a new nuclear power plant Estonia will be ready to take part in the project. The chances of "co-operative new nuclear power plant construction" have been discussed by Lithuanian parliament speaker **Arturas Paulauskas** and Estonian President **Arnold Ruutel** during their meeting in Tallinn in late November. The discussions did not involve any discussions on specific contribution that Estonia could make if the two countries decided to build a nuclear power plant together.

Therefore, while speaking about joint energy projects, President Ruutel expressed interest in the construction of a nuclear power plant in Lithuania, Mr. Paulauskas told the press after the meeting.

MAJOR INVESTMENT INTO LITHUANIA'S KLAIPEDA PORT



Kroviniu terminalas (Cargo Terminal) company which belongs to *Klasco*, the largest stevedore in Lithuania's Klaipeda port, has invested 110 million litas into construction of a new oil and chemical terminal. It is the largest private investment in the Klaipeda port, said the press release. Construction of the terminal, which will have the capacity of 2 million tons a year, began in summer 2004. The cargo terminal will have pier length of 250 meters and water depth of 14 meters. The pier will be able to receive vessels with deadweight of 60-65 thousand tons. *Klasco* holds 51% in *Kroviniu terminalas*, and remaining 49% belongs to individuals.

BIODIESEL AND GLYCERIN FROM LITHUANIA

Baltijos biodyzelino centras, a company building 80 million litas' worth biodiesel and glycerin plant in Sirvintos region in Lithuania, has signed an agreement for 100% distribution of future output. *Baltijos biodyzelino centras*' director-general **Juozas Pazusys** said that they would be exporting their products to Western Europe and only a small fraction would be sold in Lithuania. It is planned to produce annually up to 40,000 tons of bio-diesel, up to 5,000 tons of glycerin and about 60,000 tons of rape cake used as animal feed. The plant would need 86-90 thousand tons of raw materials a year for this purpose, all to be bought in Lithuania. The new plant would create up to 1,200 jobs.

MAJOR MARKET PLAYER

The world's largest insurance company *American International Group (AIG)* is planning to start long-term business activities in Latvia. Thus, *AIG Life* intends to become one of the leading players on the Latvian insurance market. The American insurance company has representation offices also in Lithuania and Estonia.

VILNIUS CHOSEN AS EUROPEAN CAPITAL OF CULTURE 2009

The EU Education, Youth and Culture Council at a meeting in Brussels has decided to nominate Lithuanian capital Vilnius and Austrian city Lenz as 2009 European Culture Capitals. That year Lithuania will celebrate a millennial anniversary of its name first appearing in written



records. A number of important culture events will be connected with the celebration dates, including the completion of the reconstruction of the Palace of the Rulers of the Grand Duchy of Lithuania.

BANK CASHIER SENTENCED TO 7 YEARS IN JAIL

Riga Regional Court found **Indulis Sturans**, former accountant at *SEB Latvijas Unibanka*, guilty of over 1.5 million lats of the bank's funds misappropriation and sentenced him to 7 years in jail with confiscation of his property. Sturans was charged with fraud, misappropriation and large-scale money laundering. The bank's accountant had been misappropriating the bank's funds for two years, legalizing criminal proceeds through foreign exchange transactions. He was detained on 5 September 1998.

His accomplice **Talis Kenins** was sentenced to 6 years in prison, with property confiscation. Two other co-defendants, **Mikhail Lyubinsky** and **Vladimir Luzganov**, were sentenced to 4 years in jail each with confiscation of property. Another criminal partner, **Ugis Lapins**, was sentenced to one year and 18 days in jail and released in the court room as this was exactly the period he had already spent in pre-trial investigation. Two more defendants in the same criminal case, **Ilze Dobrova** and **Aigars Kreigers**, got suspended sentences but their property will be confiscated anyway. **Gvido Petersons**, also a suspect in the fraudulent activities against *SEB Latvijas Unibanka*, is still at large.

LITHUANIA HAS ANNOUNCED A TENDER FOR WIND POWER PLANTS



Lithuanian utility operator *Lietuvos energija* has announced a tender for energy companies wishing acquire permission for building a wind power plant in Zone 5 linking it to the 110 kW power transmission line between two cities — Klaipeda and Retavas.

The winner of the tender will only get the right to apply to the Economics Ministry and seek in the statutory procedure the permission for expanding the power production capacity.

Envelopes with the bids submitted in the tender are opened on January 27, 2006, and the tender commission will name the winners on February 13. The territory for development of wind power plants in Lithuania has been divided into six zones, and a separate tender has to be held for each zone. The wind power plants will be built in order to fulfill Lithuania's EU commitment to increase power generation from renewable resources to 7% by 2010.

LITHUANIAN SCIENTISTS INVENT NEW OLED'S TECHNOLOGY

Lithuanian scientists have discovered a chemical substance that will be used in production of electro-luminescent OLED displays (Organic Light Emitting Diode) for TV sets, computers and mobile telephones. "The potentials of the new OLED technology excels that of liquid crystal and plasma technologies," **Arturas Zukauskas**, director of the Institute of Materials Science and Applied Research, in Vilnius University, told *ELTA*.

A consortium *Orgelita*, was organized for research purposes. It consists of three companies, i.e. *Vilniaus Vingis*, *Ekranas* and *Tiksloji sinteze*, Vilnius University, Institute of Physics and Kaunas Technology University.

ITALIANS' INTEREST IN LITHUANIAN CHEESE

The largest Lithuanian dairy producer *Rokiskio suris* has signed an agreement with another Italian company supplying cheese to large retail networks. "Italy's representatives from *Anguli* visited *Rokiskio suris* and very highly assessed our new technology for maturing cheese. Already during this visit Italian company ordered 154 tons of improved cheese "Montecampo" which is in high demand in southern Italy," said *Rokiskio suris*' production director **Dalius Trumpa**. Lithuanian company exports over 65% of its output, mostly to the EU and Russia.

RECORD-LARGE COCAINE SEIZURE IN TALLINN

Central Criminal Police officers in October last year seized over 40 kilograms of pure cocaine in the Estonian capital Tallinn and detained an Israeli national who was behind all the drug trafficking arrangements. This is the largest cocaine seizure ever not only in Estonia, but also in the Nordic countries, reported *Eesti Ekspress*. Its value is estimated at about 100 million kroons. The Central Criminal Police does not rule out that such large amount of drugs had been brought to Estonia for sale to local criminal groups. A prosecution representative said that a drug crime of this scope could even fetch a life sentence in case of a guilty verdict.

LONG-AWAITED VISAS

Latvian embassy in the Kazakh capital Astana on 15 December 2005, started issuing visas for tourists and businessmen headed for Latvia, Latvian Foreign Ministry press center reported. The ministry said that it would facilitate closer economic, trade, culture and tourist cooperation between Latvia and Kazakhstan.

THREE DAYS' FASHION WEEK

In December 2005 Latvian capital Riga hosted the 4th Baltic Fashion Week (BFW) in which Baltic designers presented their pret-a-porter collections. The patroness of the show was **Ilze Aksenoka**, wife of the Riga's mayor. The participants for the fashion show were chosen by BFW's project manager **Aivars Helds**. Of the 17 participants, one was from Russia, one from Lithuania, two from Estonia and the remaining designers were all from Latvia. Mr. Helds thinks that at least four of the 17 collections are already ready to be put on the market which is not a bad rate for beginning fashion designers. The guest of honor at the BFW was the distinguished French fashion critic **Godfrey Deeny**, the founder of the Internet agency www.fashionwiredaily.com. The BFW organizers hope that Mr. Deeny would assist in opening for local designers the doors into European fashion industry. Especially since the prominent guest reflected very positively about fashion show in Riga and promised that he would certainly attend the next annual event.

LITHUANIAN PIZZA CHAIN TO EXPAND TO BELARUS



Tadas Karosas, the owner of the largest Lithuanian pizza chain *Cilija* that also operates in Latvia, plans to expand his business to Belarus. *Cilija* owns about 30 pizzerias in Lithuania and 8 pizzerias in Latvia. The company's consolidated turnover in 2004 was EUR 19.1 million, rising 53.6% from 2003, and Latvian sales increased to 10.2 million litas from 5.8 million litas before.

ESTONIAN FARMERS' REVENUES UP 33%

According to preliminary Statistics Department figures revenues of Estonian agricultural producers in 2004 have increased by 33% from the year before. Lower production costs, higher sales prices and increased agricultural benefits all contributed to growth of revenues. Agricultural product output was 7.4 billion kroons, of which crop and livestock production contributed to 89% (88% in 2003); agricultural services, processing of agricultural products and other associated non-agricultural products accounted for 11% (12% in 2003).



NP Business Park Jelgava: a Former Automotive Factory Turns into the Largest Industrial Park in Latvia

NP Properties, one of the major developers of industrial parks in the Baltics, has started a full-scale reconstruction leading to appearance of *NP Business Park Jelgava*. Currently the first stage of the reconstruction is finished, and production, warehouse and office spaces are already available to the clients in Jelgava — one of the industrially developed towns in Latvia.

NP Business Park Jelgava is currently the largest industrial park in Latvia with a total area of 23 hectares and available for rent area of 111 000 sq. meters.

The newly created industrial park occupies the territory of late automotive factory *RAF* (Rigas Automobile Factory), which during the decades of Soviet era was one of the most prominent industrial sites of Latvian economy.

Elita Moiseja, *NP Properties*' managing director says that Jelgava has always been considered a town with highly developed industry and infrastructure. During the Soviet times, it has a reputation of an automotive metropolis. Pleasant environment for industrial development, infrastructure and strategic location on the highway to Western Europe and just 42 km away from the Latvian capital can be ideal for small and medium production companies working in different areas.

In spite of a massive reconstruction works in the industrial park, already now spacious facilities are available for rent and ready to adapt to the clients' needs. The industrial park is planned to become the most modern of this kind in the Baltics. From metal works to information technologies — the industrial park will be suitable for tenants with most varied needs.

NP Business Park Jelgava is not our only park! *NP Properties* owns eight industrial parks in different Latvian towns — Riga, Jelgava, Ventspils, Salaspils, Rezekne, Daugavpils and Olaine. All these facilities are located in strategically convenient places with a highly developed infrastructure, near the highways, railroads, airports or sea routes" says E.Moiseja. •



Superb development opportunities



7 INDUSTRIAL PARKS THROUGHOUT LATVIA, PROVIDING:

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





Tariffs are both Changing and Increasing

By Ivars Sturins
Latvia

Russian Transport Minister **Igor Levitin** in spring 2005 during meetings with Latvian Transport Minister **Ainars Slesers** in Moscow said that by 2009 Russia might gradually reduce high railway tariffs for cargos aimed for the Baltic ports. It was the long-awaited-for initiative. But recently quite different, non-populist, decision was made in Riga to increase railway freight tariffs on Latvian territory in 2006. Experts think that such move may lead to loss of clients and redistribution of cargo flows.

After the meeting with Mr. Levitin in spring 2005 Latvian transport minister made the following press statement: "Latvian transit business has finally seen the light at the end of the tunnel concerning the problem of discriminatory railway tariffs. This mentioned Russian decision would increase Latvian ports' competitiveness in the region and create necessary conditions for growth in the amounts of cargos and qualitative changes in the freight structure"

During the meetings transport ministers of both countries have discussed issues of bilateral cooperation and the need for closer cooperation in the transport industry, in particular in view of the opportunities opened by Latvia's accession to the EU. (It is well known that Russian railway freight tariff policy has direct influence on cargo turnover at Latvian ports as the latter have been handling less crude oil and oil products, ferrous metals and other "high-value" cargos because of high Russian's tariffs).

More than six months have passed since transport ministers' meeting; during that time administration and leaders in Latvian state-owned railway company

Latvijas dzelzceļš (LDz) have been replaced. The new *LDz's* board of directors in early December voiced support for an average freight tariff increase by 17.5% in 2006. Railway company (*LDz*) explained that final tariff's level would depend on cargo types to be carried, transportation distance and its direction as well as the world diesel fuel market price used for transportation; therefore the tariffs could vary between 17% and 22%.

Ugis Magonis, *LDz's* new board chairman already in August 2005 clarified that tariff's increase was based on the necessity to increase wages to company's medium and low-level staff. "We have had no alternative. Otherwise the staff will go to Ireland to work but we need them here," he said. Tariffs had to be increased, said Mr. U. Magonis, also due to high inflation and growing production costs; money was also needed for improving railway infrastructure and upgrading the rolling stock.

The decision described as a compromise move was not an easy one to make. Thus, members of Latvian Transit Business Association (LTBA) had eight official meetings with *LDz's* representatives. LTBA executive director **Girts**

Verners has reminded that in an attempt to reach an agreement several meetings were held to make necessary calculations, analysis, to develop tariff's price-forming methods, including other economic assessments. Despite certain members' objections LTBA has supported finally tariff increase... (It has to be noted that *LDz* and transit companies were unable to agree on a compromise for freight tariffs for quite a long time. E.g. in late September the sides involved agreed to make tariff's decision within a month but at the beginning of last November LTBA's general meeting adopted a resolution not to approve any new tariffs and to terminate negotiations).

DELIVERY RATES

LDz's previous contractual delivery rates will remain unchanged this year but inflation charges will grow from EUR 1.047 to EUR 1.075 per ton, the tariff's variable part will increase from EUR 0.32 to EUR 0.472 per ton, and excise duty will amount to EUR 0.274 per ton, compared to EUR 0.175 per ton before. Businessmen will be charged EUR 0.173 per ton in 2006. Thus *LDz* will

receive almost EUR 0.5 more per ton of freight transportation than it was in 2005.

If, for example, we multiply the amount of cargo carried in 2005, which equals to 50 million tons, by the new rate, then the railway company would earn additional EUR 25 million on this tariff increase alone...

According to LTBA's leader, no decline in cargo flow was however expected due to tariff's increase. "It will be rather difficult in the beginning to explain to cargo owners that they will have to pay extra but as time goes on, we hope, the cargo flow will stabilize and will increase after all," said



AINARS SLESERS: LDz would be able in six years to double its cargo turnover to 100 million tons annually.

Mr. Verners. Latvian Transport Minister Ainars Slesers thinks that LDz would be able in six years to double its cargo turnover to 100 million tons annually.

WILL CARGOS GO TO NEIGHBOR STATES?

There are somehow different views on LDz's future in freight transportation. Under conditions of tough competition all transport tariffs' increase might lead to cargo flows' redistribution and, as a result, LDz could run the risk of losing large part of its clientele.

According to some other views, transportation routes may change radically in the light of latest political turmoil. Many still remember situation when veterinary cargos from Riga have been quickly diverted to Klaipeda port only because Riga port did not have the appropriate sanitary infrastructure.

LDz's Freight Administration director **Eriks Smuksts** thinks that the situation is under control now. "Lithuanians in the last fall raised their tariffs by 18%! By the way, so far in general our rates are lower than that of our neighbors... And if some cargos may disappear from our routs

because of tariff increase there will be definitely some other cargos coming instead," said Mr. Smuksts. He added in conclusion that tariff's increase was calculated in such a manner as to prevent negative effect on the company's cargo turnover.

Latvian ports' representatives were generally optimistic in their comments on the situation. **Ivo Kolins**, marketing and investment department manager in Liepaja Special Economic Zone in south-western Latvia said that railway freight tariffs' increase was insignificant. "Let us just get to business; and it is transport forwarders' obligation to find the best routes for our shipments," he said. Riga port representatives also do not expect the cargo flow structures to change in the new situation. "There is another question, though, i.e.



UGIS MAGONIS: We have had no alternative. Otherwise the staff will go to Ireland to work but we need them here.

increases in transport rates could possibly push up product prices on the market because consequently all the charges for port services will also increase," said Riga port spokesman **Karlis Leiskalns**.

CARGO CARRIERS AND THEIR CLIENTS

Most of Latvian forwarders' response to the news was quite negative as for some of them tariff increase would lead not to 17.5% as it was announced by LDz but in fact up to 30%! Moreover, some details have appeared, e.g. it turned out that companies which pay all taxes would be in a disadvantage position compared to non-resident businessmen because they pay for deliveries in euros while Latvian companies make payments in lats and would incur notable losses through currency exchange.

When forwarders' opinion was asked, they wished to remain anonymous for understandable reasons, they pointed out to the fact that their clients in Russia were "in a state of shock" when they heard about new

tariffs. It is no wonder, as for several months the partners were being prepared for 17-22% growth of rates but actually they increased as much as 30%. Therefore the idea circulated by a number of forwarders to transport cargos by railway from Russia to Estonia through Latvia has been neglected too.

Thus, Latvian transport companies do not see their future in bright colors — there will be fewer cargos and they will be rerouted after all. Actually, the degrading process has been going on in Latvia since mid-1990s when transit of crude oil started to flow some other directions...

WHAT'S GOING ON IN RUSSIA

After the fourth meeting of the Russian-Lithuanian intergovernmental commission on trade, economic, scientific and cultural cooperation held in Lithuania's Palanga resort in November 2005 headed by Commission's co-chairmen, Russian Transport Minister Igor Levitin and Lithuanian Foreign Minister **Antanas**



ERIKS SMUKSTS: Lithuanians in the last fall raised their tariffs by 18%! By the way, so far in general our rates are lower than that of our neighbors...

Valionis it was reported that Russia had begun preparations for the process of "leveling out" railway tariffs for freight transportation in the direction of the Baltic states. The process is expected to be completed by 2009.

The "discriminatory" tariff has become a serious problem for Baltic businessmen. For example, railway tariff on transportation of diesel fuel to Latvia through Russian territory is three times higher than domestic shipment tariff, and tariffs on metal transportation are two times higher. But in view of joining the World Trade Organization Russia would have to level out the tariffs for transit and domestic cargos. And the Baltic States can't wait to see this decision to be adopted. •

Riga Carriage Building Plant is Heading for Baltics and Around

Although it was established precisely 110 years ago, Riga Carriage Building Plant (*RVR* in Latvian abbreviation) has become presently a modern and adequately adjusting to global requirements' company aimed to design and construct contemporary railway transport. The plant is generally regarded as a leading machine-building industry undertaking in the Baltic countries.



10 NOVEMBER 2005, RIGA: *RVR*'s Governing Council Chairman Mr. Valerij Igaunis (first from left), Latvia's Transport Minister Mr. Ainars Slesers (third from left), Republic of Belarus' Economy Minister Mr. Nikolaj Zajchenko (forth from left) and *RVR*'s Board of Directors' Chairman Mr. Lazar Raizberg (fifth from left) at diesel-train demonstration show for Belarusian railway.

A NEW PATH IN THE PLANT'S HISTORY

Everybody at *RVR* says that the year 2001 was a "Renaissance-year" for the plant: due to plant's staff unique experience and sophisticated industrial equipment it has become possible to overturn from railway-car-repair functions to car-building and construction. Through a short period of time old commercial contacts have been restored and new partnerships established. Thanks to enormous experience in building electro- and diesel-railway cars for various countries in the world, *RVR* Company can offer consumers' unique production

According to *RVR*'s perspective development plan for 2005-2010, its manufacturing capacity, in value terms, will increase to 100 mln USD, and the number of workers to about 1500. The Company is already cooperating with transport authorities in the following countries (alongside various firms and companies in Latvia): Russia, Ukraine, Byelorussia, Georgia, Lithuania, Estonia, Bulgaria, Finland, Kazakhstan, Croatia, Macedonia, Serbia and Cernogorija.

models both in repairing and car-building sectors.

People at *RVR* make words into actions, e.g. from January 2001 to January 2005 the following achievements have been reached: 38 newly built railway cars, 55 cars repaired and renewed, 31 electric- and diesel-cars renewed, 10 locomotives modernized, 8 car-frames repaired, 322 flatcars repaired, 2 timber-transporters newly built, 37 street-cars renovated and 1300 car-platforms repaired. The deals have been made with railway companies both in Latvia and two other Baltic states (Lithuania and Estonia), as well as with Russia, Georgia, Byelorussia, and Finland.

COOPERATION AND PLANS

RVR is an active participant in Latvian transportation system's development and implementation; it has acquired financial assistance from the EU Structural Funds, as well.

As *RVR*'s Board of Directors' Chairman Mr. **Lazar Raizberg** once mentioned, the company's main priorities are oriented towards new railway-car genera-

tion's construction. Thus, recently a new six-cars-diesel-train (DR1B-type) was accomplished following Byelorussian Railway's order (by this time another six-cars-diesel-train was supplied to Byelorussia). Cooperation between two countries has followed the Cooperation Program for Diesel-type Railway Car Development which envisaged design, construction and certification of all new diesel trains built for Byelorussia.

A new diesel-engine motor (up to 1 thousand Watt capacity) is being developed together with Russian Industrial Company *Zvezda* (the Star) in St. Petersburg. After exploration period in Byelorussia, the *RVR* Company will begin diesel-trains' manufacturing equipped with the mentioned engine motors; hydro-transmitters for the new train will be supplied by Austrian Company *VOITH*.

RVR's design department, which in 2006 is celebrating its 60th anniversary, is planning further modernization of the "DR 3-type" diesel-train equipped with European power drive motors system.

PERSPECTIVES AND DEVELOPMENT

RVR successful development is based on partnership relationships and import of resources from Russia, as well as on the European Union's information and technology integration schemes.

Latvia's Transport Minister Mr. **Ainars Slesers** at a diesel-train presentation to Byelorussian side has acknowledged that such cooperation has provided the *RVR* Company with a solid background for a future perspective development. He said: "This diesel-train construction is of extreme importance for our company, for our country's economy and for our Republic's image".

A strategy has been developed at *RVR* for penetration into the Baltic States' markets and that of Eastern European countries. In 2004 *RVR* has acquired ISO-2000-9001 certificate, the fact that provides additional awareness that the plant's production is actually at the level of leading world producers. Customers around the world can be quite aware of the fact that *RVR* is capable of producing modern electric- and diesel-railway cars and trains, as well as trams with low-floor and repairing modern railway-cars. •

We publish the interview with **Ugis Magonis**, the Chairman of the Board of the State Joint Stock Company *Latvijas dzelzceļš (Latvian Railway)*, given to *BC's* correspondent on the national railway development issues.

BC: Is Latvian Railway satisfied with last year's performance?

UM: In general, the management of *Latvian Railway* is satisfied with the company's results in 2005. During the last year *Latvian Railway* has transported a record cargo volume of about 54.9 mln. tons, which is by 7 per cent more than in 2004. If we compare *Latvian Railway's* performance with that of two neighboring Baltic States, we have the largest increase in cargo volumes. Main cargos transported are those of crude oil and oil products. Transit of bituminous coal through Latvian ports, e.g. Ventspils and Riga, has grown rapidly during recent years. The largest *Latvian Railway* cooperation partners are *Russian Railway* (47%) and *Belarus Railway* (34%). Looking at future prospects, I would like to mention changes in Russian tariff policy, according to which, starting from January 2006 unified freight rates for cargo transport through border crossing points (export) and to Russian ports (inland) have been introduced. Presently these rates are 12.8 per cent and precisely to this level tariffs for cargos to Russian ports have been increased. This fact gives ground for optimistic forecasts in future, because there is a chance to regain lost advantages and to make it possible to increase volumes of cargo transported from Russia.

BC: Last year Latvian Railway started structural reforms, what are the main stages of the restructuring and when do you expect to complete it?

UM: Railway restructuring was started according to the Decree of the Cabinet of Ministers adopted on May 10, 2005. At the end of the last year we established three new subsidiaries, i.e. *Latvian Railway Infrastructure Ltd*, *Latvian Railway CARGO Ltd*, and *Latvian Railway Rolling Stock Service Ltd*. Establishment of these three new subsidiaries has turned the company into a holding. At present the *Latvian Railway* holding consists of seven inter-dependent subsidiaries. The functions performed by the subsidiary enterprises are clearly divided, being structured in large operational blocks, i.e. maintenance and economic management of railway infrastructure, cargo transportation, passenger carriage and rolling-stock service. The main holding company will provide for management and centralized ad-

ministration services, coordinate development strategy of subsidiaries, protect the interests of the holding in relations with the state, municipal and public authorities and carry out other functions.

BC: Would the completion of restructuring lead to privatization of subsidiaries of the holding?

UM: I am sure that the railway infrastructure has to remain the state property. Also, I do not think that in the nearest future it will be possible to privatize the cargo transportation business. Although attracting of private capital would be even preferable.

BC: How does Latvian Railway use European structural funds?

UM: First EU structural fund resources became available in 1998 through the European Union's PHARE and ISPA programs as assistance to the EU candidate countries. *Latvian Railway* was one of the first enterprises in Latvia that started using this opportunity actively. During these years more than 150 mln euros were invested into railway infrastructure, of which about 80 mln euros came from the EU funds. Among the projects implemented during recent years I would like to mention the new freight train reception yard at the Rezekne-2 railway station, which is to be put into operation this spring.



Latvian Railway in the Process of Change and Development

BC: What can you say about the container train project Baltika-Tranzit development?

UM: The Container Train Baltika-Tranzit project is developing successfully. It can be considered in its way to be an inter-modal bridge between the Baltic States and the Central Asia. The project started in 2003 and over about 2 years great progress has been achieved. If in 2003 during the first eight months 31 train-trips were carried out on 604 platforms and cars, with 1297 container units, then in 2004 the number of train-trips increased to 61. The number of platforms and cars increased to 2103, while the number of containers reached 4364 units. In 2005, 76 train-trips were made, number of platforms and cars increased to 3422 with 6949 container units.

Latvian, Estonian and Lithuanian railways have been collaborating within the operator-company *Trans-Siberian Intermodal Service (TIS)*. With common efforts reliable transportation of container freight from the Baltic State ports to the Central Asia regions is carried out in accordance with the adopted plans. At present, the key goal is to ensure that the container train is running full in both directions attracting new cargoes and extending transport routes to China, Iraq and Afghanistan. •



Paldiski Northern Port

Paldiski Ports Ltd is a new and rapidly developing private enterprise with the goal of being a trusted partner in international maritime trade and transit. *Paldiski Northern Port* is situated on the Pakri Peninsula by the Gulf of Paldiski, 50 kilometers to west from the Estonian capital Tallinn. We have determined to be an environment friendly port and due to the vicinity of Paldiski city we are specialized in handling the products that suit city environment: general cargo, dry bulk, rolling cargo, containers etc.

Paldiski Northern Port obtained international seaport passport in 2003 and ISPS code in 2004.

Paldiski Northern Port has excellent geographical location — the Gulf is ice free and navigable all year round. The Pakri Islands and Pakri Peninsula almost fully

protect the Port from the storm-winds and moving of ice. The travel time of vessels from Western-Europe to Paldiski is approximately 3-4 hours shorter compared to when going to Tallinn.

In order to meet the highest expectations of our clients, large investments have

been made during the past years. Today, the Port has 5 quays with length of 145, 140, 40, 35 and 25 meters. Dredging of aquatory and building of protective breakwater were completed in 2005. Construction of 6 new additional berths as well as new infrastructure will be finished by the summer of 2006. The new berths will be used for multipurpose vessels, ro-ro and ro-pax ferries. The Port will be able to serve even the largest vessels in the Baltic Sea with maximum length of 280 m and maximum draught of 17 m. The Port is also in a process of building 20,000 m² of warehouses and 100,000 m² of open storage areas; there are possibilities for even further developments according to the needs of our clients.

Both the port and the stevedoring services are provided 24 hours and 7 days a week. Our professional team and modern equipment guarantee providing top-quality service and customer satisfaction. •

Paldiski Ports Ltd Paldiski Northern Port
 Peetri 31, 76805
 Paldiski, Estonia
 Phone: +372 651 1010
 Fax: +372 651 1011
 E-mail: info@portofpaldiski.ee
www.portofpaldiski.ee



Reduced Tempo in the Baltic Ports

By Rita Purina, Latvia

Among the three neighbouring Baltic States fastest cargo transfer turnover has been registered in Lithuania. Thus, during January-November 2005 about 19.6 mln tons cargo have been processed in Lithuanian Klaipeda port, which is 6.3 per cent more than during the same period a year before. The rate of growth in the main regional ports during 11 months in 2005 has been the following: 5 per cent in Ventspils, 4.9 per cent in Tallinn, 1 per cent in Riga and 0.9 per cent in Liepaja. Butinge port's turnover has been negative during that period, i.e. cargo transfer reduced by 22 per cent up to 5.4 mln t.

As to the total cargo turnover, Lithuanian port is lagging behind other Baltic competitors. Present situation in the Baltic ports' turnover is the following: Tallinn is a constant leader with 35,92 mln t, followed then by Ventspils with 26.9 mln t, Riga with 22.2 mln t, Klaipeda with 19.6 mln t and Liepaja with 4.1 mln t.

LATVIAN VENTSPILS PORT INVESTS IN INFRASTRUCTURE

According to Ventspils port leaders' assessments the total cargo turnover in 2005 is expected to be around 29 mln t which is 1 mln t more than it was planned for the year. The figures for 11 months in 2005 have shown that the rate of growth has been 5 per cent higher than during the same period in 2004. The turnover has increased practically in all sorts of goods, except crude oil and ingredients for sugar production. The "Ro-Ro"-type load transfer increased by 32 per cent, coal shipment by 18 per cent, crude oil cargoes by 14 per cent and mineral fertilizers by 9 per cent. About 76 mln t of grain cargoes have been processed in Ventspils' new port terminal in 2005.

Port's Board of Directors has adopted the budget for 2006 and investment program of 29,6 mln lat. The program is aimed at general renovation of all port's infrastructure, 3rd quay's renovation which is used for liquid cargoes' transfer, as well as chemical cargoes' berth renovation and design preparation for another new terminal.

In 2006 main port's navigational channel to the harbour will be dredged and enlarged. Ventspils port authorities will invest 26,4 mln lat into innovation and renovation program and about 3,2 mln lat will come from various EU structural funds.

TALLINN PORT SETS ON COAL

Freight turnover in Tallinn port increased by 8 per cent to total 30,4 mln t; major share of processed goods, i.e. about 23,8 mln t (1 per cent plus) belongs to liquid cargoes, although the share of crude oil has reduced to 4,3 mln t. Expected turnover rise in processed goods is about 3-4 per cent; in the two previous years the rate of growth was about 10 per cent. The main reason for decreased rates is simple, i.e. Russian ports' in the Baltics strong activity in oil and oil

products' transfer. Therefore the increase in 3-4 per cent was possible due to increase in coal turnover, e.g. through 10 months of 2005 more than 3 mln t of coal has been processed (in comparison to 1,9 mln t in 2004). Coal cargoes are the second in importance freight items in Tallinn port and its export from Russia is constantly growing. Modern coal terminal — *Muuga Coal Terminal Operator*, opened last summer is a good impetus into the future prospect development. The terminal is owned and operated by the second largest in Russia coal extracting company *Kuzbasrazrezugol*.

"Ro-Ro"-type cargo transfer occupies the third line in port's load transfer, i.e. during 10 months of 2005 about 2,5 mln t of cargoes have been processed (about 2,4 mln t in the whole 2004).

Port authority's intentions are to continue construction works in *Muuga port's* Eastern part where new terminals and moorings are being built.

RIGA SEAPORT RAISES HARBOUR DUTIES

Riga port greatly reduced the rates of cargo transfer in 2005; thus if in January 2005 the rates, in comparison to the same month in 2004, have been at the level of 9.8 per cent, the corresponding figures for the 11 months in 2005 were just 1 per cent. In late December the harbour's Board of Directors decided to increase harbour rates and duties by an average of 30 per cent effective from January 2006. Latvian Transport Minister, **Ainars Slesers** did not however support the decision and said that he would try to alter it; so far without much avail.

LIEPAJA PORT TURNOVER IS SET ON GRAIN

Most of the cargoes — about 2.1 mln t processed in the port during 11 months in 2005 were so-called "general" freight cargoes. The reduction in turnover reached 79 per cent; for "Ro-Ro"-type of cargoes the reduction topped 28 per cent. The share of bulk-type cargoes in port's turnover reached 34 per cent (or 1.4 mln t) which reflects a general increase of 42,1 per cent on yearly basis, including 97,5 per cent increase in volumes of grain cargoes. About 6071 th t liquid cargoes have been processed (about 25 per cent of

the total), including 576.4 th t of oil products (24 per cent of the total volumes).

About 30 per cent of all cargoes in the port are those from/to Byelorussia.

Infrastructure development program for the port in 2006 envisaged the following works to be performed: construction of access motor road and railway to the port territory; modernization of a bridge crossing the port channel, maintenance dredging of the harbour entrance and deepening of the harbour basins. The grain terminal is presently being built in the port.

KLAIPEDA IS A CONTAINER LEADER

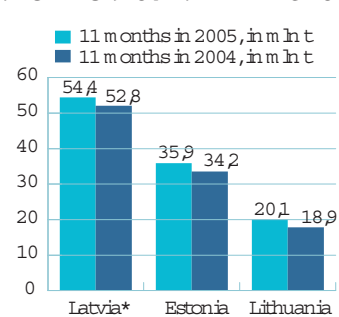
Active increase in volumes of containers' transport provides strong hopes for the general increase in the port turnover. Already at present this Lithuanian port is an absolute leader in this type of cargoes among the Baltic ports, e.g. during last November more than 20 th TEU have been processed in the harbour, which is an absolute record in port's history.

Recent novelty: Stevedore Company *Klaipedos smelte* brought from Antwerp port two powerful mobile cranes with 104 t lifting capacity and installed in Klaipeda port. *Klaipedos smelte* paid for the deal about 20 th litas and the cranes will be installed at the newly modernized 350 m long berth. Due to investments, the channel depth will be dredged to 12.5 m.

All the measures taken by the port authorities have created good opportunities for *Klaipedos smelte* to reach the yearly target of 250 th of processed containers. Present comparative figures are the following: in January-November 2005 period Klaipeda port dispatched 195.6 th TEU, which is 25.2 per cent more than during the same period in 2004.

Another fact in this regard has to be mentioned, i.e. redistribution of main goods' traffic is taking place. Thus, recently the major port stevedore and operator *KLASCO Co.* sold its containers' terminal. It's quite understandable that the new owner — *Klaipedos terminalo grupe* — which has acquired the terminal (the deal is said to be around 120-130 mln litas) is going to be a tough competing agent for *Klaipedos smelte*. •

FREIGHT TURNOVER IN BALTIC PORTS



* Including small ports.

Source: LETA.

Demand for IT-service is Gathering Momentum

By Martynas Visockas

By Vilma Lisauskaite

Prime Investment, Lithuania

In the first half of 2005, Prime's TOP-20 Baltic IT services companies recorded a significant 24 per cent revenue growth in IT services' sales, double the size of total revenue growth of 12 per cent. The share of IT services revenue in total revenues' collected exceeded 50% for the first time during last several years.

Several reasons are worth mentioning as to such IT service revenue growth compared to the size of total revenues. As soon as the IT infrastructure's technical side is already relatively well developed in most large Baltic companies, the latter have begun to turn their attention to more effective IT assets' utilization in efforts to reduce management costs. Hence, they began to focus on adoption of value-added software systems and solutions. Rise in business management processes investments, customized programming solutions and greater IT systems' security have already boosted IT companies services' revenues. On the other hand, fierce competition both in hardware and re-sold software sales, and consistently falling hardware prices slowed down growth in these IT sectors.

Top 5 companies in Prime's TOP-20 ranking list remained the same as in the ranking list of the year 2004. *MicroLink Group* has further reinforced its leading

positions by increasing IT service's revenues by 25 per cent.

Main driving forces behind such growth were increased number of customers outsourcing their everyday IT operations and larger customers' investments into business applications (like ERP, financial management systems, business analysis, document management) and custom software applications supporting their core business activities.

Sonex Holding showed an impressive growth of 58% and inched along closer to the 2nd place in the rankings, although *Exigen Group* managed to preserve its previous position. Infrastructure and systems integration solutions, business management systems, integrated security solutions, and specialized programming assignments were the main movers for growth in *Sonex Holding*.

Blue Bridge has chosen to concentrate its activities on 3 strategic directions — programming, information security services, and consulting, all

which resulted in outstanding IT services revenue growth of 127 per cent.

Webmedia, capitalizing on its experience and know-how in building application devices for telecom, finance, health care, and public sectors, continued its rapid growth by increasing IT services revenue by 68 per cent (data are based only on Estonian information, ed.). In Lithuania *Webmedia* already implemented several projects and employs about 30 programmers.

Regio showed the largest percentage growth of 342% in 2005 owing to successful launching of new technologies, orientation on export based expansion and increased demand in the location-based services market.

It is important to notice that IT service is mostly a project-based business and therefore half-year results may not fully reflect the real situation in the market. It is important that IT services market provides additional evidences in increasing demand for custom programming and business management solutions, systems integration, security solutions, and IT infrastructure maintenance services. While we expect that the market leaders will continue to consolidate their market position we anticipate new dynamic IT services companies such as *Regio* to emerge later on in ranking lists. •

IT News

E-BANKING'S MARKET IS STILL GROWING

E-banking market continues to grow in Lithuania. In July 2005 this kind of service was used by 1.1m customers, which is 40 per cent increase compared to the 784.7 thousand customers a year ago. *Hansabankas* which had 507.5 thousand users at the end of September 2005 and *SEB Vilniaus bankas* with 486.4 thousand users retained their market leadership. At the end of 2005 they shared 83.4 per cent of the market.

Other banks have also been active in promoting their e-banking services. The number of e-banking users at *NORD/LB Lietuva* has increased more than twice and reached 108 thousand at the end of September, 2005. *Snoras* also increased the number of users more than twice from 15 to 37 thousand.

In Latvia the number of *Hansabank* e-banking service users grew up by 33 thousand and reached 382.7 thousand in the 2005. *SEB Unibanka* added 278 thousand new users (reaching 206.7 thousand at the end of June 2005).

Estonian Uhispank, a member of *SEB Group* had 376 thousand users at the end of 2005 which makes a 10% increase compared to the beginning of 2005.

LITHUANIAN IT MARKET IS THE FASTEST GROWING IN THE BALTICS

According European Information Technology Observatory forecasts, Lithuanian ICT market is going to be the fastest growing among the Baltic countries in 2005. It is expected to increase by 11% while Estonian and Latvian ICT markets' growth will be at 9.3% and 6.3%, respectively.

Experts have noticed that this growth had been due to increasing demand for telecommunication solutions and constantly growing computer sales, which in Lithuania were accelerated by the tax incentive for private PC buyers. The law allows purchasers offset the costs of a newly acquired PC from their taxable income up to the end of 2006.

SONEX SISTEMOS TO SETTLE IN LATVIA

Seeking to strengthen its positions in Latvia *UAB Sonex sistemas*, a business management and accountancy systems provider, has established a daughter company *Softex Sonex Systems Ltd*.

According to *UAB Sonex sistemas* director, **Ruta Grigiene**, computer programming company *Softex Latvia* owned by *Sonex*

TOP-20 BALTIC IT SERVICES COMPANIES IN H1 2005, IN TH. EUR

	IT services revenue		Change in IT services revenue	Services as % of total revenue	Total revenue		
	H1 2005	H12004	05/04	H1 2005	H1 2005	H1 2004	05/04
1. MicroLink Group (Estonia/Latvia) ¹	12170	9730	25%	60%	20130	19990	1%
2. Exigen Group (Latvia) ²	9331	8326	12%	100%	9331	8326	12%
3. Sonex Holding (Lithuania) ³	8689	5503	58%	30%	28557	24038	19%
4. Informacines Technologijos Group (Lithuania) ⁴	4672	4677	0%	79%	5942	5029	18%
5. Alna Group (Lithuania) ⁵	3629	3111	17%	45%	8084	8006	1%
6. Elsis Group (Lithuania) ⁶	3150	2311	36%	39%	8089	5616	44%
7. IT Alise (Latvia) ⁷	2862	2674	7%	96%	2986	3537	-16%
8. Blue Bridge (Lithuania)	1709	753	127%	20%	8631	8022	8%
9. Webmedia (Estonia) ⁸	1223	728	68%	79%	1544	746	107%
10. Sintagma Group (Lithuania) ⁹	1179	941	25%	41%	2896	2693	8%
11. Tilde SIA (Latvia)	1055	1236	-15%	100%	1055	1236	-15%
12. HNIT-Baltic Geoinfoservisas (Lithuania)	818	346	136%	62%	1312	665	97%
13. Regio (Estonia)	811	183	342%	95%	851	233	265%
14. Algoritmu sistemas (Lithuania)	753	756	0%	100%	753	756	0%
15. New Vision Baltija Group (Lithuania) ¹⁰	740	685	8%	19%	3913	3888	1%
16. Profit software (Estonia)	711	985	-28%	99%	719	1045	-31%
17. Edrana (Lithuania)	527	400	32%	93%	564	427	32%
18. Compservis atvirostios sistemas (Lithuania)	463	464	0%	34%	1374	857	60%
19. Real Systems (Estonia)	371	479	-23%	66%	562	639	-12%
20. Baltic Software Solutions (Lithuania)	361	260	39%	100%	361	260	39%
Average	-	-	24.0%	51.3%	-	-	12.1%

Source: Prime Investment.

Consolidated companies:

¹ In H1 2005: AS MicroLink, AS MicroLink Eesti, SIA MicroLink Latvia, SIA Baltijas Datoru Akademija, SIA FMS, UAB MicroLink Lietuva (former MicroLink Data), UAB Baltijos Kompiuteriu Akademija (former MicroLink Netcoms), UAB Fortek IT. In H1 2004: AS MicroLink, AS MicroLink Eesti, SIA MicroLink Latvia, SIA Baltijas Datoru Akademija, SIA SAF Technika (Group's company till May 2004), UAB MicroLink Data, UAB MicroLink Netcoms, UAB Fortek IT, UAB Doclogiskas (Group's company till August 2004).

² SIA Exigen Latvia, DATI Exigen Group.

³ In H1 2005: UAB Sonex Kompiuteriai, UAB Sonex Sistemas, UAB Sonex Identifikaciniai Duomenys, UAB Informaciniu technologiju techninis centras, UAB Ars Computandi, SIA Sonex Riga, SIA Softex Latvija, AS Sonex Computers, Soneks (in Moscow). In H1 2004: UAB Sonex Kompiuteriai, UAB Sonex Sistemas, UAB Sonex Identifikaciniai Duomenys, UAB Informaciniu technologiju techninis centras, UAB Ars Computandi, SIA Sonex Riga, SIA Softex Latvija, AS Sonex Computers, UAB Sonex Lizingas, ZAO Sonex and ZAO Xorex-Service (both Byelorussia).

⁴ UAB Informacines Technologijos, SIA Mebius IT, UAB Mebius IT Vilnius, OU Mebius IT (since the 2nd half of 2004).

⁵ In H1 2005: AB Alna, UAB Alna Business Solutions, UAB Alna Software, UAB Alna Intelligence (former UAB Alna techninis centras), UAB Alnos infrastrukturos sprendimai (former UAB Infovita), UAB DocLogix, UAB Tesaurus, SIA Unitree, OU Persimplex. In H1 2004: UAB Alna techninis centras, UAB Alnos mokymo centras, UAB Infovita, UAB DocLogix, UAB Tesaurus.

⁶ UAB Elsis, UAB Elsis-Biuro sistemas, UAB Elsis-Verslo sprendimai, UAB Elsis-TS, UAB Elsis GP (the latter wasn't in H1 2004).

⁷ SIA IT Alise, OU IT Alise Eesti, SIA E-Protect.

⁸ Only Webmedia Estonia, without Webmedia Lithuania.

⁹ UAB Sintagma, UAB Sintagma technika.

¹⁰ UAB New Vision Baltija, SIA New Vision, AS New Vision.

In the list IT service revenues include software development, programming, system integration, maintenance, software and system implementation, training, consulting services, and sales of software products developed in-house. These revenues do not include any sales of hardware, resold software, office equipment or other products.

IT News

Holding created a department, which acted as a business management systems provider; the department has grown up into a separate company, *Softex Sonex Systems Ltd* which is subordinate to *UAB Sonex sistemas* and has 11 employees.

UAB Sonex sistemas expects a turnover around EUR 2.6m in 2005.

GLOBAL INFORMATION TECHNOLOGY REPORT-2004

According to the new Global Information Technology Report published by World economic forum, Estonia is a

leader among Central and Eastern European states in ITT sector competitiveness. In the overall rankings Estonia holds 25th position globally. Lithuania has lost one position-line during 2004 and is on the 43rd place and Latvia has dropped down from 35th to 56th.

According to the Report Central and Eastern European region is much more advanced than the biggest South American economies, because of numerous foreign investments and proper decisions by the governments while preparing for the membership in the EU.

Real Estate in the Baltic States

Information support:



REGISTER OF ENTERPRISES
OF THE REPUBLIC OF LATVIA

Increasing competition in Western Europe and slow economic growth has turned developers and investors' attention to emerging markets in the East, e.g. the Baltic States and Ukraine. When Lithuania, Latvia and Estonia joining the EU in May 2004 additional interest towards these markets had emerged.

Good-quality constructions in the Baltic capitals — Tallinn, Vilnius and Riga drew special interest from foreign investors. "Baltic States, although small in territories, are active and highly developing entities attracting investors' interests", said *Catalyst Capital EM's* European division representative **Kean Hird**. Most active in the Baltic region are investors from Scandinavian countries; other foreign investors and developers are also showing interest in the Baltic property market.

Real estate market formation in the Baltic States dates back to the beginning of the 1990s after these countries gained independence.

Important to mention that precisely at that period of time the first intermediary property consultancy firms rendering services have appeared. Among them there were both the companies with earnest intentions in business and those who wanted to earn quick money at any cost. The former behaved correctly treating property buyers and sellers respectfully, caring about their reputation; the latter frequently defrauded their clients. The activity of the latter became the source of crime and swindling in the real estate market, and, furthermore, set a negative seal on the real estate broker's profession in society. Big property companies have accumulated their efforts into professional real estate and property organizations in order to resist swindlers. These organizations have been engaged in regulating situation in the property market, increasing professional level of brokers thus establishing high standards in the quality of intermediary property services.

In this *BC's* issue we present our correspondents' analysis of property market situation in the three Baltic States.

Latvia is Following European Example

By Olga Pavuk

The outcomes of a study carried out by a System of Correlative Data published in last November have confirmed the trends that had been the object of discussion in Latvian society for a long period of time. For example, about 54 per cent of Latvians considered the most reliable investment options were investments into real estate which had been showing constant increase in returns. Latvian real estate market's share in national GDP equals to 6 per cent, and together with the construction industry involvement the GDP share exceeded 11 per cent.

Real estate acquisitions are most popular among young and active people with higher education and high incomes, mostly Latvians rather than Russian-speaking aliens. According to the surveys carried out by the Bank of Latvia, approximately one third, or about 29 per cent of Latvian population plan to take bank credits, of which 13 per cent are willing to turn into real estate mortgage. The number of those ready to pay 30-50 per cent of their incomes to cover credits has grown rapidly; according to the Bank of Latvia's forecasts this trend will further develop within the coming several years.

LATVIAN COMPANY HOUSE'S OPINION

There are today several quite different operational models functioning in Latvian property market, starting with big foreign companies dealing only with construction project's development and up to small local firms, which manage to combine the whole spectrum of real estate business. It is obvious that on rapidly growing market one can make pretty good profits; one can

have good returns too acting only as a broker. Important to note that experienced developers frequently select brokerage companies as partners, because they do not regard them as possible competitors.

According to *LURSOFT* data, main or substantial part of more than 2300 companies' activity registered in the Latvian Company House (Register of Enterprises in Latvia) is connected with real estate and property issues. These companies' turnover equals to 440 million lats (6% of GDP in 2004, an increase of 45.2% in comparison to 2003). More than 1000 enterprises' profits come from sale or rent of houses and apartments, 600 firms deal with property administration and more than 400 are engaged in intermediate services concerning sales and rent of property. According to the *LURSOFT* President **Ainars Bruvelis'** estimation the turnover of the companies engaged in selling real estate amount to less than 10% of all transactions on the property market.

It is impossible to find out amount of individual enterprises' turnover using the

LURSOFT data as many market participants register several companies and do not always use the company's head name in their deals. Besides, many companies earn profits in the way which is not directly connected with operations on real estate market.

Most of well-known property market participants are "LANIDAS" members, i.e. Latvian Real Estate Association established in 1994. At present there are 36 member-companies and more than 200 certified brokers and agents (the latter are so-called candidates to brokers) in the association. Recently Latvian developers created their own association with the primary task of creating a standardization system of behaviour patterns and standard rules in determining the quality of property constructions.

ONLY 2 PER CENT ARE FOREIGNERS

Regular statistical analysis conducted by *LURSOFT* together with experts from Latvian Land Register (LR's Land Book) provides some ideas as to the size of the real estate market in Latvia. Thus, for example, 87,243 contracts for real estate purchase have been registered in Latvia from July through September 2005. About 24 per cent were property settlements and acquisitions, about 44 per cent were pledge contracts. About half of all the property transactions are connected with buying and selling residential property, 33% are with land acquisition, 12% — with land and non-residential buildings (See Chart 2).

Almost half of all contracts (44.6%) are settled in the Latvian capital and suburbs; health resort Jurmala takes only 3.5%, Jelgava — 5%, Liepaja — 5.6%, Daugavpils — 3.8%, Ventspils — 3.3%. Approximately 86% of the property in the country is owned by Latvians (both citizens and aliens). Contrary to the opinion that foreigners in huge numbers buy-up real estate in the country, the statistics show that the foreigners' share is only 2%, e.g. 3.5 per cent in Riga and 4.3 per cent in Jurmala (See Chart 3).

According to *LURSOFT* data, a sort of record was setup in last November, i.e. the total sum of pledges fixed in the Register of commercial pledges during one week totalled 1 billion lats, or 1.4 billion euro. During 11 months in 2005 this index exceeded 8 billion lats which was the highest index since Register's creation.

HEATED MARKET'S EXPECTATIONS

According to data provided by real estate market experts, the apartment prices in Riga has risen by about 300% during last five years; central statistical office's data predicts that the prices will be rising rapidly in the near future too. The average sum of a regular real estate deal in the first half of 2005 was 17,700 lats (25.18 th euro), which was 43% more than a year before.

From December 2004 through December 2005 the average apartment costs in regular block-houses increased by about 40%. However, new constructions provided for an absolute record, i.e. in several constructions a two-fold increase in prices per sq m has been noted. Experts in the property sphere predict a slow down in the rate of price increase in the near future.

According to expert opinion, including that of *Latio* chairman, **Edgars Shins** and *NORD/LB Lietuva* CEO's Adviser, **Vadims Titarenko**, there is a significant distortion between the price of rent and the selling-prices in real estate deals. Thus, according to some experts' estimates, the sq. meter price in residential housing in the centre of Riga must not be more than 1000 euro, while the present price level is of 2500-3000 euro.

An increasing number of speculative deals where the property is bought as an investment with the purpose of re-sale have also affected the prices. According to real estate brokers about 50% of new residential property has been bought just to be resold at a later date. This activity forced many property developers to alter their contracts with clients, e.g. the model agreement now generally include a clause prohibiting the apartment owner resale of property until the deal has been completed by the developer. There are some other new safeguard



measures, e.g. landing banks no longer issue credit for land acquisition without already installed engineering communication. The latter made it possible to limit the number of transactions with the land in the "fake settlements."

THE PRICES COULD RUN OF UP TO 5,000 EURO PER SQ M

Property prices' growth in the beginning of 2005 coincided with the constant claims concerning property market's overheating. In December 2004 *Latio* real estate valuations have shown that average apartments' price in a typical residential construction in the capital was 559 euros per sq m, in the fall of 2005 the price was already 857 euro. The same trend has been recorded in the new housing sector: 720 euro per sq m versus present 1250 euro (the former price is for an apartment without finished interior, the second with just a white-pain finish). Today quite a few property developers would offer potential buyers an apartment without the interior being properly finished.

All in all, the activity on the market for residential apartments in the center of Riga and in Old Riga downtown during October remained at a constant level. Average transaction in old Riga during October was within the limits of 3000-4500 euro per sq m, and in the center of Riga — 1700-2000 euro. There is a lack of quality apartments in the center, thus 50 -100 sq m apartments within the price limit of 1400-1600 euro per sq m are in great demand. Altogether, the demand is divided into two categories: the first category includes people giving preferences to the apartments with no interior finish in the center's periphery; the second group consists of investors choosing renovated apartments

mostly in the "quiet center," e.g. along Kalpaka avenue, Rajna boulevard and Aspazijas boulevard. A new trend has been recorded, i.e. massive new multi-apartment houses' construction with the tentative price of 5000 euro per sq m in the historical part of the city. On the other hand, in old Riga territory the entire sector of the property market dealing with land acquisition has practically disappeared during last year. Brokerage firms do not even include presently the price of land in their evaluation materials.

The price situation in the "wanted-by-all" Jurmala district is both different and strange. For a two-room apartment in a Soviet-type multi-storied apartment block (many are still called "special construction projects") which often owned by local administration, prices are in the range of 70-80 th euro (1600-1700/sq m). For the same apartment with the finished interior the price will be about 100 th euro per sq m. And these prices are fixed combining complete lack of any proper infrastructure, poor and outdated accommodation facilities. In exclusive multi-apartment buildings in Lielupe-Dubulty district (residential premises are booming in the health resort) the price per sq m reaches 3 th euro and more. As to luxury houses in Jurmala, they are sold at a price of 2-3 million euro. Owners of 300 sq m apartment in the multi-storied block on the sea shore would ask a million for it.

EURO IS TO BE BLAMED

A year ago only optimists could predict such steep escalation in residential department's prices. It seemed initially that the period of prices' increase connected to Latvia's joining the EU would come to an

end. But already first months in 2005 destroyed all previous predictions. The main reason for drastic changes has been the changes of lat paged to euro instead of SDR-basket. One might expect slack time after the boom in prices when Latvia joined the EU. As it often happens, instead of converting dollars into euros (as all real estate transactions were settled in dollars) the developers have left the figures in contracts intact and only changed the currency abbreviation from the USD to EUR.

LOW INTEREST'S EFFECT

The credit market in Latvia has been rapidly developing during last five years. According to central statistical office data the general number of property mortgages has doubled each passing year reaching presently about 20% of Latvian GDP. The effect of low mortgage's interest rate and credits produced direct effect on the real estate market where the prices have been growing rapidly for the last several years although people's purchasing power was not adequate to such a growth. If the credit market development continues at the present rate, the volume of citizens' credits and loans in Latvia will approach the national GDP's volume. In this scenario experts predict a reduction in the demand for credits; at this stage it is possible to expect the decrease in economic activity, purchasing power decrease and lowering inflation.

According to Latvian commercial banks association's data, the volume of housing mortgage credits provided by the banks during 10 months in 2005 increased by about 77 per cent (or 682.3 mln lats). All in all, the amount of issued mortgage credits reached 1.57 bln lats, including 76.8 mln lats during one month, in October 2005. In the beginning of October mortgage real estate credits equaled to 40.6% of the total volume of banks' credits.

Under such property market conditions the banks' attention to the market has grown too with particular concern towards creditors' financial liability. In line with the increase in property prices the credit terms and sensitivity to changes in the interest rates increased too.

NEW PROJECTS' DEVELOPMENT

During two months — from August through September 2005 — *Ober Haus Real Estate Latvia* conducted its first complete and detailed investigation of Latvian new construction and development projects. The study showed that the multi-apartment construction was the most attractive sphere under new projects: out of total 454 construction projects about 67 per cent or 306 projects accounted for new constructions, which is double the

amount (!) as to a year ago. A share of new construction's increase in Riga is about 31 % or 5 per cent increase per month (!). In Riga capital region the prices have grown by 21 per cent and in other Latvian regions by 10%.

Some 115 new multi-apartment projects were initiated on the market in the first half of 2005 and more than 130 projects are still pending in the national construction commission. In 2005 some 63 multi-apartment construction projects have been concluded which increased general residential apartments' stock by 3025 new entities. With the active construction development some larger projects consisting of 200 and more apartments have appeared on the market; there are presently 17 such projects. Although it is only 6% out of the total number of multi-apartment construction projects, the total quantity of the apartments offered for consumers in these houses is quite impressive. In the near future an additional active involvement is expected into derelict military and industrial property to become desirable residential areas.

VENTURE INVESTORS ARE WINNERS

The activity of the American investment trust *New Century Holdings (NCH)* gives an example as to the way the venture investors act on Latvian and other Baltic States' real estate markets. *NCH* appeared on the market of Latvia in the beginning of 1990s. From the start it was involved in all kind of activities, e.g. from bank dividends and depositary investments, to privatization certificates and shares in industrial companies, before it has become one of the most serious real estate market players. But today this owner of the best projects and pieces of land in Latvian capital is selling out its property. However, as **Andris Kupcis**, Chairman of the Board in *Domus*, one of the *NCH's* subsidiaries, argued that the holding would not be leaving Latvian real estate market. "We just give our preferences to some other construction projects; most urgent of them are residential apartment buildings "Saules loks" in Yaunmarupe region and a trade & entertainment complex "Riga Plaza" in Pardaugava," said A. Kupcis. The holding plans to invest 3 mln USD in the new Yaunmarupe construction project.

APARTMENTS FOR RENT

According to *Ober Haus*, an increase in the number of vacant apartments' units appeared on the market in October 2005. The cost of a short-term apartment rent in the center or old Riga

still remains in the range of 30-100 euro per day; rental costs for a top-class apartment is within the range of 8-12 euro per sq m. Quality apartment's requirements for long-

term rents remain constant, i.e. sufficiently quiet place, convenient infrastructure, adequate leasing arrangements, good conditions of the house and its qualitative renovation.

COMMERCIAL PROPERTY MARKET

Commercial areas. During the fall of 2005 the demand for commercial property in the active center of Riga and in old Riga-city region remained invariably high. The demand was mostly instigated by foreign businessmen wanted to initiate business in Latvia, as well as by local traders wishing to expand. Active credit banks' policy stimulated the trend of purchasing property instead of leasing.

Together with the beginning of active property trade period the rental rates showed little growth, which is typical since the demand on the market significantly exceeds the supply side. Thus commercial property prices in the Riga center were in the range of 30-50 euro per sq m (including VAT and utility bills). In the existing shopping centers the rental expenses are within 15-50 euro per sq m (including VAT and utility bills), permanent leaseholders usually pay 9-11 euros per sq m. Prices in the old Riga territory are 20-45 euro per sq m including VAT and utility bills. Offers for sale of commercial property are a very seldom thing to find; therefore the cost for good property in down-town next to active peoples' routs can reach 2500-4000 euro per sq m and 5000-7000 euro per sq m in the old Riga.

Active search for good office premises in the market has been renewed recently and some additional supply followed. But there is still lack of new and renovated office's property both in the active center's part and city suburbs. Most of the apartments in new constructions — at the end of 2005 — have been already rented out long ago. At present the range of prices are the following (in euro per sq m): for A-class office areas 16-20, for B-class offices 7-15, for C-class offices 6 and less.

FORECASTS

Chairman of the *Arco Real Estate* board, **Aigars Shmits** is confident that the number of speculative transactions will be soon reduced and that the average price for a sq m in the newly constructed buildings has already reached its optimum level, which is about 1300-1800 euro per sq m (with the finishing), the price which today's market is ready to accept and customers are ready to accept. Probably under one condition, i.e. that wages are raising and national economy is growing, the latter will certainly affect the property prices' level.

The chairman of the *Balsts'* board, **Aigars Zarinsh** argues that during next five

years real estate prices will continue to grow, but not as rapidly as it was, maybe just in the range of 15-20 per cent a year: "So if there is a possibility and need you better buy it now then latter. In case of crisis the prices will drop, as well as developers' interests though the volumes in the market turnover will be different. But to my mind there will not be any critical times in the next five years, the market will grow permanently"; he added.

MILLIONAIRES AND THEIR TRANSACTIONS

Out of about 500 Latvian millionaires some 64 are involved in the sphere of real estate and construction sector. According to data published in the book "Secrets of Latvian Millionaires" written by **Lato Lapsa** and **Kristīne Yanchevska** it's the second rate of millionaires after trade and service sector with about 90 businessmen-millionaires. Most famous among them are realtors **Jevgenij Gomberg** (*Teikas nami*), **Edgars Shins** (*Latīo*), **Uldis Pilens** (*UPB* holding company), **Aldis Plaudis** (*Vesta*). Among most influential landowners in the country are: **Gatis Saknītis** (5.6 th hectares), **Agra Saknīte** (more than 4 th hectares), **Igor Skoks**, former *Ventspils Nafta's* president (1825 hectares with cadastral value of more than 500 th lats). Three businessmen from Liepāja, i.e. millionaires **Andris Grigis**, **Aivars Burgis** and **Ivars Kesenfēlds** are planning active business policy in Riga. The real estate company *Mes Liepājai* which they own has bought a building in old Riga at 6 Smilšu str. where now the *NORD/LB Latvija* office is situated. For two buildings in downtown Riga and the adjacent land plots the new owners allegedly paid about 6.55 mln lats.

According to *Dienas Bizness* information the following property assets have been sold in Riga from July 2004 to August 2005: 4 houses with total cost in the range of

2 to 4 mln lats, 7 houses valued from 1,5 to 2 mln lats, 9 houses from 1 to 1,5 mln lats and 19 property objects valued from 0,5 to 1 mln lats. For example, *Rudolfs XII Ltd* bought a six-storied building on 12 Blaumana str. with the adjacent large land plot of about 1,7 th sq m for 3,7 mln lats; the company was registered at the day of this transaction, and its only owner is presently the former *Latvijas kugniecība's* president **Andris Klavins**.

The *Dienas Bizness* newspaper wrote that according to real estate market information, several houses in the center of Riga have changed their ownership recently; the cost of some transactions exceeded several million euros, e.g. the building at Satekles str. and Lacplesa str. intersection was sold for 9 mln euros. However, none of these transactions had been registered either in the country's land register or in any other state register. According to real estate market participants, this fact underlines that these transactions were conducted through off-shore companies or with the use of some capital funds. Such arrangements make it possible to avoid public scrutiny and reduce tax liability.

Only 5 firms dealing with real estate have been included into the list of Top-500 Latvian enterprises in 2004 composed by *Dienas Bizness* and *LURSOFT*. In the list's second hundred were three property companies, i.e. *Uninams* (specific real estate projects with annual net-turnover of 178 mln lats), *Kurzemes namu apsaimniekotājs* (property administration with 11.7 mln lats turnover) and *Europas Partneri* (real estate transaction with 11.6 mln lats turnover). In the list's third hundred has been *Valsts Nekustamie īpasumi* with 6.9 mln lats turnover and one company in the list's fourth hundred was *NDX Depolment* with 5.7 mln lats turnover. It is interesting to

note that none of the above mentioned millionaires have been mentioned in the Top-500 list.

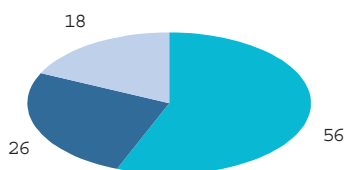
500 FRAUDULENT TRANSACTIONS DURING 5 YEARS

Notary officers, bank experts and National Economic Crime Police's representatives already acknowledged that consumers very often did not fully realize all the risks and legal consequences involved in real estate transactions. "Quite often customers' major attention is attached to the speed with which a property transaction is implemented. However hasty actions can often lead to loss of money or property", said Economic Crime Police Department Head, **Gatis Gudermanis** at a seminar on the risks in property deals' credits. About 500 notes about fraudulent transactions have been registered in Economic Crime Police Department during last five years, he said. At the same time in Latvian courts cases concerning property deals' annulment can last up to one-and-a-half year.

BECOMING A REALTOR...

From 1 September, 2005, engineering economics faculty at Riga Technical University began enrolment for a new bachelor program called "real estate management" with post-graduate qualification in "real estate economics". Student can be enrolled into three main specializations, i.e. real estate transactions, real estate assessments and property management & administration. This education project has been developed due to three professional associations' initiative and close cooperation, i.e. "LANIDA", "LIVA" (Latvian property assessment association) and "LNPAA" (Latvian property management association). In a couple of years a master degree program is scheduled to start as well. •

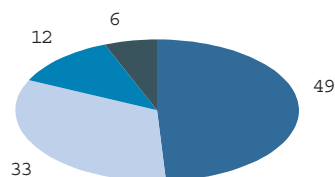
ENTERPRISES' DIVISION ACCORDING TO ACTIVITY TYPES, 2004, IN %



■ Sale or lease of real estate/property
 ■ Property administration/management
 ■ Intermediaries in property sales and rents

Source: LURSOFT, Zemes gramata (Land Register).

FORMS OF REAL ESTATE TRANSACTIONS IN LATVIA, IN %*



■ Residential property sales
 ■ Land acquisitions
 ■ Land and non-residential buildings' sales
 ■ Other transactions

*July–September, 2005.

Source: LURSOFT, Zemes gramata (Land Register).

GEOGRAPHY OF REAL ESTATE TRANSACTIONS IN LATVIA, IN %*



■ Riga
 ■ Jelgava and region
 ■ Riga region
 ■ Liepāja and region
 ■ Ventspils and region
 ■ Jumala
 ■ Other regions

*July–September, 2005.

Source: LURSOFT, Zemes gramata (Land Register).

Lithuanian Real Estate Market's Got Bullish, although not due to Deals

By Tatyana Komorskaya
Lithuania

As an outcome of the first ever in Lithuania general assessment of real estate property it has become evident that aggregated property value owned by country's citizens exceeds presently 85 bln litas. About 40 per cent of the new houses and apartments in the country belong to the market in its capital, Vilnius. Real estate per capita share in Vilnius is about 62.2 th litas or about 18 th. euro.

Average national real estate per capita figures are somehow more modest, i.e. about 25 th litas. According to the same pools, there only five cities and two regions in the country where a price for a sq.m of real estate exceed 1 th litas or 290 euro. As for the rest of the country's territory a sq.m costs less than 500 litas.

MOST EXPENSIVE PROPERTY

Without doubt the most expensive real estate is in Vilnius with average sq.m price from 3 to 4 th litas; two-room apartment of 50 sq.m on the secondary market would be at the level of 200 th litas or 580 th euro.

Second expensive city is Klaipeda where the prices are not far away from the capital ones. Probably in Palanga a sq.m would be a little bit cheaper. In Kaunas, second by population city in the country sq.m prices are around 1.5 th litas, which ranks fourth as to general real estate

prices in the country. Renting an apartment in Vilnius would be around 500 litas, in Kaunas — 300 litas and in Klaipeda 350 litas per month.

At the end of 2005 the price curve ceased to ramping to skies, climbing slightly instead, e.g. in Vilnius and Klaipeda the prices had risen by 2 per cent a month.

SUPPLY AND DEMAND

During last five years an increase in construction volumes almost doubled; construction engineers suggested future constant growth for apartments, clearinghouses and office premises. Leaders in national construction association suggest 5 per cent growth in building market in the coming years, not less due to ever growing increase in old factories and offices renovation works, as well as various kinds of manufacturing premises.

As to residential sector, it has still experienced increasing growth in construction works; construction engineers do not hide the main reason behind the phenomenon — increasing availability of banks' mortgages credits to population. But there is still lack of private apartments in the country; besides an average per capita sq.m share in Lithuania is 10 sq. m lower than average share in the EU countries which is 32 sq.m. Experts in construction business doubt that prices for new apartments would go down; on top of all, the prices increased for construction metal, workers' salaries as well as land prices. According to statistics, construction sector profitability in last years increased by 1.5 times.

Lithuanian construction association's chairman, **Adacras Sheshtauskas** admitted at a recent press-conference that "wise people had been those who invested in civil construction sector, as growing prices on the property market

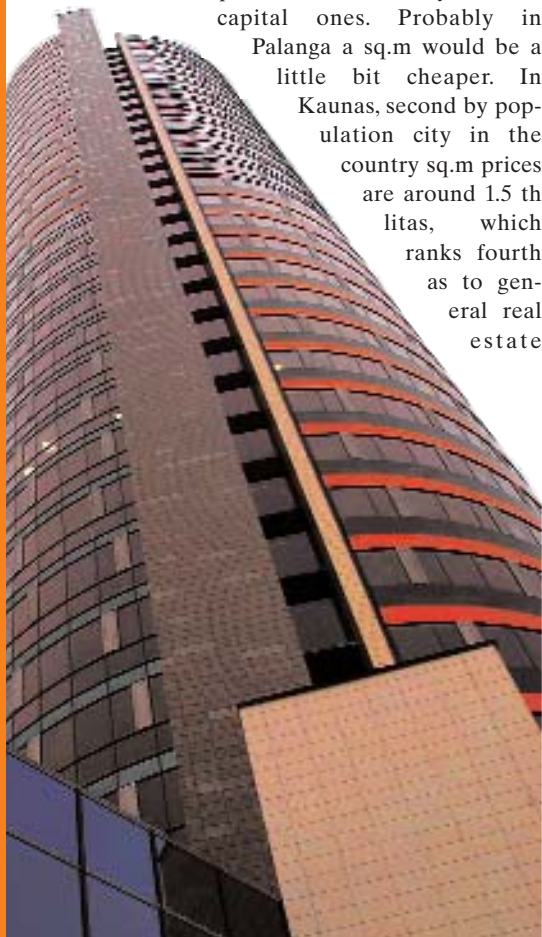
can assure good profits". On the other hand, construction engineers complain about lack of qualified local construction workers; they went to other Western countries instead. But growing construction volumes need more workers!

Contradictory evaluations of the real estate market and its development have been instigated by shocking prices which transformed previously stable property assessments. Thus, according to *Spinter tyrimai* pools made under order from *Delfi*-internet portal, about 84.4 per cent of Lithuanian citizens do not intend acquire any property in the near future. As realtors' research organization found out that only about 9.6 per cent of respondents would like to buy property. Only 76.6 per cent of respondents used consumer credits and 5.4 per cent used mortgage credits. Some experts argue, therefore, that speculative increase on real estate market has not been the factors of mass-breakthrough on the property market, especially in its secondary sector. But once jumped up the prices are not willing to descend!

Population pools reveal interesting fact: only 17 per cent of people in Vilnius entrust their deals with real estates to realtors and experts in such kind of deals. Pools conducted by *TNS Gallup* once again revealed already known thing, i.e. secondary property market is still quite popular. The *TNS Gallup* pool has shown that Vilnius' citizens look quite optimistic into the future: 38 per cent wanted to buy either new houses or new apartments, 26 per cent would rather seek opportunities in the secondary market (with 2 to 15 years old apartments and houses).

At the same time it is hard to believe that even regardless of cheap, until recently, availability of credits more that half of Vilnius population would buy new houses or apartments, not withstanding low share of per capita sq.m in the country, in comparison with general European norms.

Some other figures are used among real estate experts: only 7 per cent of people in Vilnius intend to acquire or sell property. As a matter of fact, the newly constructed houses and apart-



ments are in prevailing demand in the country; thus about 95 per cent of all new houses and apartments in 2005 have been sold long before the final construction. The rest apartments' 5 per cent owners have kept to themselves in expectation that prices would still go up. Realtors confirm that most wanted one- and two-room apartments are sold within 24 hours after appearing on the market list.

CREDITS ARE UP, DEALS ARE DOWN

According to Marketing and Evaluation Department chairman in *Ober Haus* real estate agency, **Saulus Vagonis** they expect an increase in people's investments in property market in the coming years. Somehow it does not mean an increase in the numbers of deals but first of all never seen before increase in property prices, both in houses/apartments sector and in some other sectors, as well, e.g. in logistics.

Some other factors influence the number of deals, such as people's migration and ECB interest rate increase. Although the number of deals has eventually reduced the resources involved in each deal have increased after all. Some experts in the market argue that the real estate prices are artificially overstated and supposed adequate bank credit's portfolio growth does not reflect the real situation in the market. This fact is recognized by banks' experts too admitting less number of property deals in Lithuanian civil construction sector in 2005 in comparison to the previous year.

THE TIME FOR CHEAP CREDITS IS OVER

Last December ECB raised interest rates for the first time in five years to 2.25 per cent; some say the next increase is on the way which will draw up credit prices. But ECB's interest rate increase by a quarter percentage point was not a big secret — some country's banks informed their clients in good time. One thing is clear in this regard — it seems that the era of cheap credits is coming to an end.

Some bank experts say that realtors' predictions concerning constant increase in property prices can have "boomerang effect". Besides mentioned interest rate growth Lithuanian property market is influenced by a new property tax on commercial activity which entered into force from 1 January 2006. The new tax will distort the whole

real estate market: thus, for example, almost all SMEs having no resources to rent office premises have been left to a simple option, i.e. making "working place" in their houses and/or apartments. Under the new law these activity is subject to taxation.

ADMINISTRATION CHANGES

As soon as previously functioning association which united all firms and companies working in the real estate market ceased to exist, acquiring reliable figures about the market is becoming a rather difficult problem. But changes are on the way: *Centro cubas Nekilnojamosis turtas Ltd.* Director **Zigfrid Rachkovskij**, himself member of the late association, maintains that very soon a new property brokers' Union will be established, most probably covering territory of all three Baltic States; our intention is to license that sort of activity, he adds.

According to statistics, which people in the sector confirm too, out of about 80 companies actively involved in the country's real estate market about 40 companies are situated in Vilnius. Among well-known companies and the following firms: *Inreal, Ober Haus, Resolutio, E.L.L., Koba, Centro cubas Nekilnojamosis turtas, Domus Optima, Faulana, Arx Legis, Matininkai korporacija.*

It has to be mentioned that the "distance" between those well-known real estate companies and all others is really great: in Vilnius only there are about 450 real estate companies listed in the capital's internet site *VisaLietuva.*

INVESTORS SPREAD THEIR NETWORKS

At the end of 2004 Lithuanian property development association was created which united 41 real estate companies. They have distinguished themselves from so-called intermediaries in the way that the former are as well main property development investors both in the country and outside. These are the following companies (mostly of Ltd-type): *Ogmios centras, Vilsota, E.L.L., Nekilnojamosis turtas, Erika, Hanner, Invalda Real Estate, Korporacija Matininkai, MG Valda, Ranga IV investicijos, Vilniaus Akropolis* and some others.

Most of these companies are the leaders in property development investments. Their activity is clearly seen in Vilnius, i.e. sky-scrapers and

modern houses constructed in various city regions.

Main idea behind the new association was to defend their members' professional interests but it is at the same time an influential body confronting local and regional administration's interests. Thus the association has complained over Vilnius major's activity whose relationship with the real estate companies has become quite tense, i.e. the realtors complained over major's inclination favoring "his own group's interests".

A share of complaints is connected with land acquisition: experts already envisage increasing land prices. A growing trend has been apparent lately: e.g. investors acquire big landlots with the idea of splitting them up later on and selling one-by-one to future developers. The land territories that are bought up actively are around Vilnius, Kaunas and Klaipeda.

Lithuanian investors are quite active not only in their own country; they strongly invest for example in Latvian capital Riga. Thus, at the territory of the former *Aurora Baltika* hosiery factory two Lithuanian real estate companies *Ranga IV investicijos* and *Hermis Capital* are going to invest about 99.2 mln litas (28.5 mln euro) for apartment house construction with about 300 ready-made apartments for Latvians.

At the end of last November Lithuanian realtor *Hanner* reported about the conclusion of a preparatory stage in apartment-house construction in Riga where the company intends to invest 57 mln litas, or 16.6 mln euro.

At the same time *Hanner* would like to invest 63 mln litas (18.3 mln euro) in the 12-stored apartment building (22 thousand sq m) in a resort city Gurzuf, Ukraine. The *Hanner* real estate company together with co-partners intends to invest about 1.4 bln litas (40.8 mln euro) in Ukraine, mostly in construction, e.g. apartment houses, trade and health centers, business offices premises.

Hanner has elaborated plans for 73 mln litas (21.3 mln euro) investment in Rumania. At the same time the company wishes to invest in the coming year about 175 mln litas (51 mln euro) into civil construction projects in Vilnius.

Total real state investments in Vilnius are expected to be at the level of 505 mln litas, or 147 mln euro. •



Bullish New Construction Market in Estonia

By **Dmitrij Kulikov**
Estonia

Property prices have been increasing in the country during the whole period of 2005. Most vividly the process is reflected in Tallinn and its suburbs where more people reside with higher income, in comparison to other country's regions.

Main trend in the property market is "sell & buy-type" deals; an increase per year has reached 51 per cent. Thus the total number of property deals increased by 90 per cent. In the third quarter of 2004 the general value of all property deals concluded in the country reached 5.5 bln crone, by contrast, in 2005 the corresponding figure reached 10 bln crone. Each year more than 50 thousand deals are concluded in the country, something that never happened in its history.

EVER INCREASING PRICES

In the first half of 2005 an average-sold apartment costed about 650 th crone (about 41.6 th euro), which is although different on a country's regions account. Thus in Harjumaa the prices were close to one million crone (about 64.1 th euro) whereas in e.g. Yigeva the prices were down to 100 th crone or 6.4 th euro. Almost ten-time difference is explained by Harjumaa's proximity to the country's capital where apartments were seemingly higher in prices than in other regions.

Main driving force behind Estonian citizens' property acquisition activity has been their general wellbeing growth, in particular in the capital, e.g. an avera-

ge month's income (before tax) increased last year by 8 per cent and reached 9,712 crone (about 622 euro). People have become richer and so have the demand for property; consequent prices' growth followed. Construction companies were not able to satisfy constantly growing peoples' property demands. The latter has affected the ever escalating level of prices.

Certain blames for escalating prices could be put on banks as citizens in growing numbers could easily afford cheap mortgage credits. Probably the trend is going to be leveled up due to ECB's interest rate increase at the end of 2005.

In the first half of 2005 the price increase affected almost all apartments' types in the capital's downtown and 3-bedroom apartment in the suburbs. During 2004 the increased prices trend has been evident for 3-bedroom apartments; during 2005 an average price increase here was 5-10 per cent. The price for twenty-years' old apartments, although renovated, was about 1.3 mln crone, or 83.3 th euro; 2-bedrooms' were available at a price increase of 5-7 per cent and an average such apartment has been at the level of 75 th euro.

Property experts have already noticed that the prices have been closely tied up with the property's quality: thus renovated apartments' prices in old bloc-type houses have reached the level of new apartments in the suburbs, according to **Pjarle Sepping**, expert from real estate agency *Pindi Kinnisvara*. This agency's market accounts are somehow different from that of their competitors. Thus, according to P. Sepping, apartment prices in Lasnamaa, the biggest Tallinn "sleeping region" have increased by 20 per cent, and by 10-15 per cent in other suburbs. Constant growth of prices has created a specific situation when people wishing to sell their apartments still kept hold of them expecting a further rise in prices. "In reality, said P. Sepping, the apartment price can actually increase during a couple of weeks by tens of crone." A drive for profit instigated the demand; quite often those wishing to find their own property were forced to pay unreasonably high prices. "Practically all sort of property entering the market is sold out in no time," concluded Sepping.

Another phenomenon can be noticed: people do not sell their old apartment with the aim of buying a new one; they do not have to: favorable mortgages allow for taking another bank loan covering the last payments in the previous credit and the old apartment serves as collateral. Quite interesting that people are not afraid of taking more credits as they are getting used to believe in growing profits from renting the old apartments.

It has to be said that some alarming signals have appeared in the market: due to a restricted supply (and citizens' low purchasing power) the price growth stagnated. So far the owners of suburban property have been mostly affected — in drive for profit they kept the second apartment. Sepping argued: "Now these people agree that it was not presently so simple to rent out an apartment, on the other hand, it's becoming too complicated to keep two houses." Presently Euribor index (euro interbank offered rate — ed.) has increased, communal payments will increase soon, all that would force people to sell second houses.

EXPERTS' PREDICTIONS

Most of them stick to scenario similar to the situation on the market existed before the country joined the EU, the period when people thought that they would make real profits on their property. It did not happen that way, although, and expected profits acquired only those who did not "wait for the EU to come". In fact, the prices stagnated after the country joined the Union; in some regions the prices went drastically down. One thing is probably clear, experts say, sooner or later the "property races" is going to an end.

According to experts the market stabilization will occur in the coming couple of years, although on a yearly basis the rate of increase on apartment prices will

10 BEST PROPERTY COMPANIES

1. Maarjamae Maja AS
2. Prisma Kinnisarade AS
3. Arco Vara AS
4. Ulemiste City AS
5. SRV Kinnisvara AS
6. Kodumajagrupi AS
7. Vestmann Grupp AS
8. KC Grupp AS
9. Kuldkuu Investeeringute AS
10. Kaarsilla Kinnisvara AS

GENERAL TURNOVER RATING, TH EEK

1. Arco Vara AS — 350000
2. Riigi Kinnisvara — 157742
3. Uuemoisa Invest AS — 155255
4. E.L.L. Kinnisvara — 126880
5. KC Grupp AS — 110480

PROFIT RATING, TH EEK

1. Arco Vara AS — 100000
2. Vestmann Grupp AS — 79620
3. E.L.L. Kinnisvara AS — 76760
4. Tallinna Kaubamaja Kinnisvara AS — 70498
5. Rocca Al Mare Kaubanduskeskuse AS — 39872

Source: Aripaev.

proceed at 10 per cent. The number of rooms will not affect the price. Therefore the demand for old-style apartments will sustain and this property would keep high liquidity. The "disposal time" for such apartments, i.e. from the moment of advertising to actual changing hands would be within 1 to 4 months. Prices' difference on apartments in old houses will sustain too; the general house condition and the need for renovation will be decisive factors in price formation. On top of this, apartments in downtown will be much more expensive in comparison to apartments in new constructions.

FUTURE PROJECTS

The market of new and renovated apartments has reached its high point: in the first half of 2005 about 1900 apartments had been sold. Experts acknowledge that all new construction projects are deemed to be successful with the greatest need for apartments with about 19 th crone per sq m (about 1217 euro). And again, growing demand pulled prices up: on a yearly basis the rate of growth reached 10-15 per cent and about 20 per cent in the Tallinn's center.

Taking into account such factors as demand, growth in construction materials' prices and that of property in general, experts reveal a moderate growth rate in the market of about 5-10 per cent. The number of people not covered by any form of mortgage loan has reduced; the fact that will instigate the supply. The rate of completed deals will be reduced too and fixed at the level of about 3 th a month. Some suggest that "exclusive-type" apartments and those with several bedrooms will be difficult to sell. So the message to construction companies, as well as for realtors, is to concentrate on apartment houses with an average level of prices per sq m in Tallinn's suburbs or regions next to the country's capital.

OFFICE-APARTMENTS MOVE TO SUBURBS

Most in demand are office facilities in the country's capital and adjacent territories; almost all available houses are occupied or sold out and only 5-6 per cent is still vacant. Office spaces from 20 to 70 sq m are of highest demand in the market. The owners of big apartments would rather split them up into smaller parts and rent them out. Recent rental prices have been kept at a constant level: newly constructed office (so called A-class offices) would be quite naturally higher in value and reach 230 crone per sq m a month (14.7 euro).

Less attractive old-style apartments will cost from 130 crone (8.3 euro) to 160 crone (10.2 euro) sq m per month.

Office places' market in Tallinn has kept attracting foreign investors; direct investments into the market are growing each year. Although some new trends have emerged: except Tallinn, some other cities in the country have been of interest to reach foreigners. Adequate flow of foreign investments has allowed for modern-style constructions there, which were not quite cheap after all.

At the same time experts do not envisage significant changes in office apartment's market. The trend here is towards moving industrial and office premises outside the cities where it's easy to solve transportation problems. Quite remarkable, the prices for such premises are not much lower than in the country's capital. One of the explanations for that were big developers' expectations relying on business' moving out of the city. As soon as presently there are several such "outside-the-city" construction projects undertakings wishing to find a place for new office have numerous options to chose from; the basic criteria is still the price and regions' reputation.

MARKET PARTICIPANTS

It has to be acknowledged that some of the real estate market participants have made great impact on national economy. There are 230 property companies in national register, having their own web sites; more or less influential company has to install its own internet-site.

As to "success stories"; *YIT Ehitus Company* (former *FKSM*) dealing with civil design, construction projects and their commercial application has strongly enforced its position among participants in the market. In *Aripaev Daily's* "Top 100 companies in Estonia in 2005"; the *YIT Ehitus Company* is among the first ten climbing recently from 23rd place to the 9th.

It can be concluded that construction companies have solid positions among successful companies in the market. That can not be said about companies that assist in selling property: thus a big Estonian Baltic property agency *Arco Vara* stepped down from the 9th place among the "Top-100" to the 28th place.

Aivar Bersin is regarded the biggest property owner in Estonia; he heads a real estate agency *Vestman Grupp* which is involved in selling, acquiring property, its administration and development. His agency owns land and forest plots totally accounting to about 326 mln crone. •

Vadim Markov: "The Market is Presently Put before the Horse"

By Olga Pavuk

Latvian *NIRA Fonds Company's* director **Vadim Markov** has been working on the property market since its formation in the country. As FIABCI-Latvija president, which is the Latvian branch of the International Federation of Property Experts, he is regarded as most respected professional in the property field.

BC: Mr. Markov, how would you assess the present property market state-of-the art in Latvia and other Baltic States?

VM: Let me just start with the law of physics which postulates that while having different pressures in various parts of the surface we assume starting unity formation, the pressures will be leveling up with occurrence of strong winds; the greater the pressure, the stronger the winds. The same situation has happened in the property market: due to very quick integration of our countries into European community, the consequential "leveling up" of prices is occurring very quickly, too. We can say that the market is, so to say, presently put before the horse. Although property value leveling up has not been complete yet, the leveling tempo was really great. This process is going on quicker than the leveling up of incomes.

The main explanation for the situation we have is hidden behind the fact that some property market's segments have become international, e.g. quite attractive to foreign investors; these are regions in Riga downtown and "old city"; Jurmala territories next to the sea, etc. These regions have quicker "integrated" into international market rules; as a result investors were acquiring property there on price levels which were unaffordable for Latvians. This process somehow instigated local buyers fearing further price increase. Such customers' activity forced banks constantly reducing interest rates: these two aspects have been major factors behind price increase during last years.

Great lack of balance could be seen presently between local population purchasing capacity and property prices' levels. International property companies' profits has drastically reduced, the market ceased to be as attractive as it was 2-3 years ago. As a result, second half of 2005 has been a period of stabilization both for the international and local participants in all property market's sectors.

BC: Property prices in the Baltic States are completely out of any proportion as to the level of the old 15 EU members. How do you explain such a disbalance?

VM: If we take, for example, German apartment prices that are lower than prices in Riga, we have to take into consideration greater unemployment level in Eastern Germany which drags property market into depression. At the same time, an average German worker with a medium salary can afford to buy 70-80 sq m apartment within 4-5 years. A Latvian worker would need 12-15 years, keeping in mind that he puts aside all what he earns. On the other hand, construction activity in Germany is lower than in Latvia and consequently there are less contract deals. It is clear for Germans that changing apartments at the moment of high unemployment is a risky affair.

It has to be said that property market is a very "emotional market"; and not all its factors' development can be explained by the laws of economics; therefore great emphasis is to be paid to social psychology. Our people use un-proportionally much greater



VADIM MARKOV: Professional criteria are behind the longstanding and successful company's activity.

part of their budget on better living conditions than people in the West. In particular, young people have a constant desire to live better than their parents did. At the same time people want to live in new apartments and not in those out-dated construction blocks.

BC: Could you explain the sources behind property market development: what part of it is coming from the inner-sources, and which one is from outside economy sectors; which are these sectors?

VM: Property market is not the field that can develop based solely on its own resources; it is very investment hungry economy sector. Even companies with a high level of return can not develop big construction projects based on their own resources. In this regard, property sector and banks are closest partners; these are two closely interconnected sectors and we can witness presently appearance of special international segments of such "integrated" market. No wonder that property market analysis often starts with the credit market assessments. Therefore for Latvian banks which one of the first have become quite international players, it's not a big problem to attract financial resources from international banks.

As to other economy sectors involved in property market development, I have to say that during last 3 years people from various economy structures joined our sector. The reasons for that have been different: stagnation of other economy sectors, low level of profits, etc. For example, some people left retail market as returns degraded due to greater global trade networks; people from crude-oil transit joined property market as a result of reduced level of oil-transit. This is how people with their resources, initiatives and business management potentials showed up in the property market.

BC: About hundred years ago rental-houses' construction in Latvia went hand-in-hand with industrial development. What facilities could be used in order to stimulate commercial and living apartments in future?

VM: That depends on various political and macro-economic factors which are difficult to predict. Latvia, unfortunately, can not yet find its place in the European division of labour market. Due to country's geographical position, it could be transit of both cargoes and financial instruments. It's really a pity that Latvia does not develop transit as a strategic development sector. It has not happened due to, I would say, political awkwardness in apprehension of what we are going to make for our country in order to create a solid

political ground for our strategic business development. Unfortunately, we do not have such a program.

The same picture is with the banking sector, where we are loosing tremendous opportunities doing something against the grain, as well as implementing others' directives and enriching in this way other countries. I think there are serious doubts as to the sources for our prospective economic development. The existence of small countries surrounded by plenty of others is quite specific. Even small investments but made on the right track could make a strong impetus towards strategic lines in economic development. But it is a strongly political issue and without its resolution we'll have stagnation on the property market.

BC: About 6 per cent of national GDP is made in the property sector; what are the potentials of the market to your opinion?

VM: Potentials are still there, although the total growth capacities in all market segments have greatly outperformed the rates of profits. Next step in this market development will be connected, first of all, with the growth of people's and corporate units' income (as consumers on property market) rather than with the process of leveling up consumer prices with that of the European level. This process will be going on at a slower pace than during previous years.

BC: There are more than 2 thousand firms dealing with property issues in the Latvian Company Register; is it too much or quite a normal figure? Which companies could be regarded as professionals in the market; what are professional criteria for developers and realtors?

VM: There is a tremendous dynamics on the market; in particular, during the last 3 years a lot of new people joined the market. Some show up, others disappear after a couple of deals. On one side, it seems that there are too many players on the market, but for the country in transition it is quite a normal process. I think that in the coming 2-3 years due to increased competition on the market the number of those involved will become stable. To develop and sustain professional criteria such as prospective management tools' implementation, increasing the level of service, as well as quality and quantity of development projects, this is becoming a long-standing and successful path for any company to survive.

Quite serious changes have occurred on the developers' market: some strong international players have appeared (e.g. Israel's BSL); NCC has become more active; there are some strong local developers as well. But as the sum-total, there are not more than ten strong developers on Latvian market. As to civil construction, we expect consolidation in the near future; only strong companies will stay on the market, those which ability to survive is greater than that of small firms in case of difficulties with selling properties.

The leveling-up process is going on among brokers' as well, e.g. already at present about 5-10 companies cover the largest share of the market. All other kind of service, such as consulting, market evaluation, etc. are becoming auxiliary for big companies, as a rule.

BC: What is, to your mind, the share of foreign capital in the market? Has a foreign capital far-stretched perspective here?

VM: In the sector of big and complicated projects the share of foreign companies is dominating, including Lithuanian companies. Most of investments here are foreign; so to say, market of big construction projects is the market where we can really feel global trends.

As to the business property sector, foreign capital share is relatively small; here the pressure from economic situation in Western countries prevail where there are still plenty of vacant places for rent with rather low rental prices.

On the civil apartment market where previously mostly local companies were working, great changes have occurred and foreign companies have bought some big construction projects.

Then, to the issues of far-stretched foreign investment projects: for us 7-years' construction project is already a long-standing one; for foreigners — it's just peanuts. For verification it's enough to have a look at the center of Riga, for example where foreigners are already trying to get rid of their properties and invest in land acquisition instead.

For the biggest top-companies wishing to invest around 100 mln euro is rather difficult to find in the Baltics attractive construction projects (for us a 30-50 mln euro project is already a big one). There are just a few projects — about five or so — worth 50 and more mln euro. Besides, the rate of profit has reduced while penetration on the market becomes expensive; therefore the number of these investors on the Baltic market is limited. The biggest market in Europe is that of the United Kingdom covering 60-65 per cent of all big European foreign investments.

Small countries are too difficult for big players to operate; the Baltic market is already covered by big Scandinavian companies. They have been mostly interested in commercial property market. Apartment market in the Baltics is still too small for serious players.

BC: What is a foreigner's profile in Latvian, as well as that of other Baltic States, property market? What are the motives and inclinations of foreign investors acquiring property here?

VM: The motives are clear enough — to get profits which are higher than in Europe. Presently expected 5-6 per cent rate of profits is not any more attractive for them. The European rate of return level is just about 1 per cent lower but at the same time expenses incurred along market penetration are considerably less.

The foreigners interested in the Baltic property market could be divided into three groups: first, private persons buying apartments and land plots; these are generally small investors. Second, investment companies ready to invest into a project about 5-10 mln euro; they are medium on our account and small according to European scale. The third group is that of big foreign investment funds but their numbers are really quite small. •



Services:

- Intermediary services
- Legal services
- Mortgage services
- Property valuation
- Property management
- Consulting

Riga
5 Noliktavas Street
Riga, LV-1010
Phone: (+371) 721-66-78
(+371) 721-66-79
Fax: (+371) 721-25-30
nira@nirafonds.com

Saint-Petersburg
Litovny prospekt 2
Russia 191123
Phone: (+812) 272-68-90
(+812) 273-73-71
Fax: (+812) 273-65-04
nira@estate.spb.ru

www.nirafonds.com

A View from London

By Helen Romanova

Managing Director of BKT Real Estate Development, Latvia

After my recent visit to the three Real Estate Conferences in London: "UBS Global Real Estate Conference", "European Real Estate Opportunity & Private Fund Investing" and "British-Latvian Chamber of Commerce Real Estate Seminar" it was impossible not to notice a heightened interest of foreign investors in the Baltic Region.

A large number of real estate fund representatives, developers, and private investors kept inquiring about various aspects of investing into the region: from the general state of the market and bank financing to economics of the deals and development of the mortgage market.

All three conferences saw numerous discussions about opportunities, difficulties and particularities of investing in the Real Estate Market in the Baltics.

BALTICS — THE NEW LAND OF OPPORTUNITIES

After the successes achieved by foreign investors in the Czech Republic, Poland and Hungary the Baltic Region becomes the next logical choice for property investment. In 2005 the Baltics witnessed a stable developing real estate market with rising prices and demand for primary and secondary residential premises and a sharp increase in availability of mortgage financing. For the coming year analysts predict a continuing increase in prices, although not as steep as in the last couple of years, and a further development of local economic activity. In short, the current Baltic market presents an excellent window of opportunity for an interesting deal-making. Yet, while the region has the necessary infrastructure in place for forming successful partnerships, certain obstacles at times force investors choose other countries when making an investment.

SCARCITY OF LARGE SCALE PROJECTS

According to a number of investors, one of the main difficulties in entering the Baltics is the project's size and the required investment. The local market rarely offers an opportunity to invest in large-scale developments and the overhead of many major foreign funds and financial institutions do not justify an investment in smaller projects. In addition, the time spent on locating partners, due-diligence and assembling the financing is more or less identical for small and large projects. To solve this,

our Company, when working with foreign investors offers an opportunity to co-invest in several projects at the same time. Currently, we are involved in developing several mixed-use projects in the city centre, where we offered several foreign funds to co-invest capital across the properties.

FINDING THE RIGHT LOCAL PARTNERS

Another difficulty according to western investors is finding the right local partners: from developers and brokerage companies to contractors and consultants. Since the local market is still in the developing stage, the brands recognizable outside the region haven't been established yet. Often foreign partners are not able to check the transparency of the local developers and the quality of services offered or the professionalism of local brokerage and consulting firms. In short, the communication platform is missing which would bring investors and developers to the same table. To solve this problem, our Company with a number of other developers has recently established Eastern European Real Estate Developers & Investors Council which will be involved in facilitating the dialogue between the investors and developers.

In addition to the scarcity of large-scale projects and transparency of the local partners, there are other difficulties that exist in the eyes of the foreign partners. These include ever increasing scarcity of builders, overstretched with work architects, long and complicated building approval processes.

THE INVESTORS INTEREST IS GROWING

Even though the Baltic market presents a number of obstacles upon entering, the region remains to be of a growing interest to investors. One is not able to single out the most preferable by investors type of a real estate; all classes of real estate remain to be of an interest, ranging from residential developments and office buildings to industrial parks, golf-clubs and retail centers. In addition, many foreign bank representatives



HELEN ROMANOVA: The Baltic Region becomes the next logical choice for property investment.

were inquiring about the state of the PPP (Private Public Partnerships) market and the possibility to finance such projects.

The time will show how the Baltic Real Estate market will develop. But today it presents profitable opportunities and everyday changing dynamics to participants. •

BKT Real Estate Development

Granita Industrial Park
26 Granita Street
Riga, LV-1057
Latvia

www.bktdevelopment.com

E-mail: lromanova@bktdevelopment.com

Mobile UK: +44 78 3418 4397

Mobile Latvia: +371 8442 221

Direct line: +371 7266 911

Switchboard: +371 7266 900

Fax: +371 7266 903

Logistic operator rendering a unique complex of services



AVE TRANS GROUP

Our main aims are:

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

Our policy and purpose:

- Complex service is more efficient and less expensive

Our group structure:

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

AVE TRANS GROUP

Industrial Park

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

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

Transport Section:

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

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

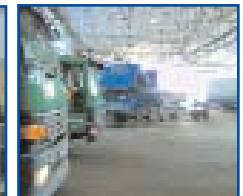
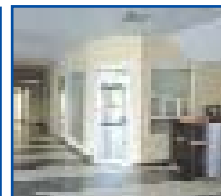
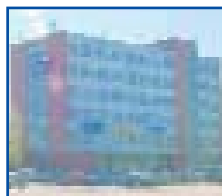
Auto-repair works' Section:

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

Contacts:

3 Uriekstes str., Riga,
LV-1005, Latvia
Fax: +371 7097970
E-mail: ave@ave.lv

Phone: +371 7097911
+371 7097912
+371 7097901
+371 7097902
+371 7097900



2006: Reval Hotel Latvija Becomes The Largest Hotel, Conference & Event centre in the Baltic States

The new extension of Reval Hotel Latvija will feature 587 hotel rooms for more than 1000 persons. The Hotel will become the largest hotel and conference & event centre in the Baltic states, offering 3700 m² total space for maximum capacity of 3000 delegates, featuring 20 modern conference rooms, 5 halls (one is built completely in glass) and business offices. The biggest conference room Omega, will host events up to 1000 people, offering a variety of set-up possibilities, including amphitheatre with removable chair system, cargo elevators for car exhibitions, high standard simultaneous translation systems and six interpreting booths. High-tech equipment, free wireless internet throughout whole hotel, modern interior and digital sound and light systems, possibility to make video conferences will make the new conference and event centre unique in the region.

The new extension will also feature underground parking, beauty parlour, casino and shopping arcade.

Reval Hotels

Reservation Centre in Riga:

Phone +371 7772345

Fax +371 7772332.

latvija.sales@revalhotels.com

55 Elizabetes street, Riga
LV 1010, Latvia

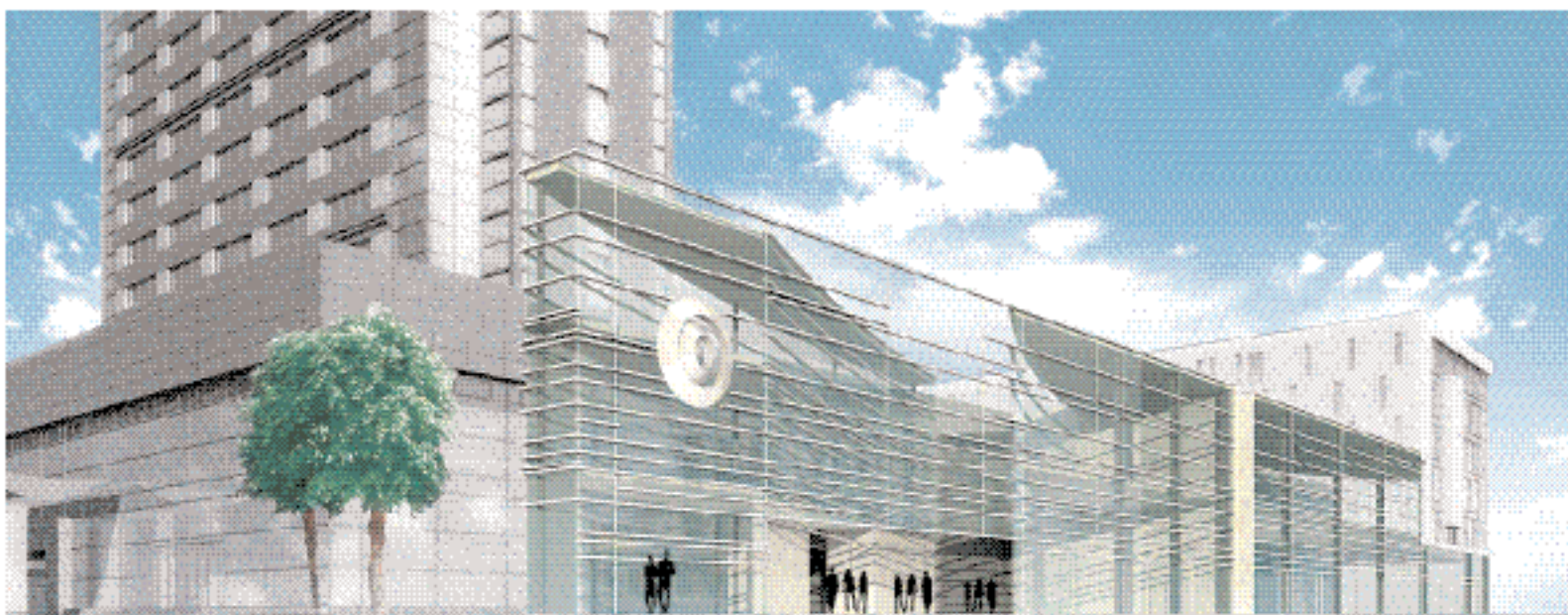


rooms	m2	theatre	classroom	u-shape	reception
Α ALFA	365	400	232	55	350
Β BETA	288	200	70		220
β BETA 1	142	70	50	20	130
β BETA 2	146	100	60	40	150
Υ GAMMA	96	90	60	26	65
Υ GAMMA 1	44	36	22	16	20
Υ GAMMA 2	52	36	22	16	20
Δ DELTA	130	50	30	20	70
Ε EPSILONS	44	42	24	16	20
Ζ ZETA	40	40	22	14	20
ι IOTA	22	16			
Λ LAMBDA	82	94	50	28	50
μ MI	25	16			
Ξ KSI	40	42	24	16	20
Ο OMIKRONΣ	40	40	22	20	20
ρ RO 1	15				
ρ RO 2	15				
Σ SIGMA	100	90	60	26	65
Σ SIGMA 1	40	42	24	16	20
Σ SIGMA 2	60	58	32	24	45
τ TAU	45	42	24	16	20
Ω OMBGA	962	856		185	1000
Ω OMBGA 1	505	482	250	55	420
Ω OMBGA 2	457	374		87	330

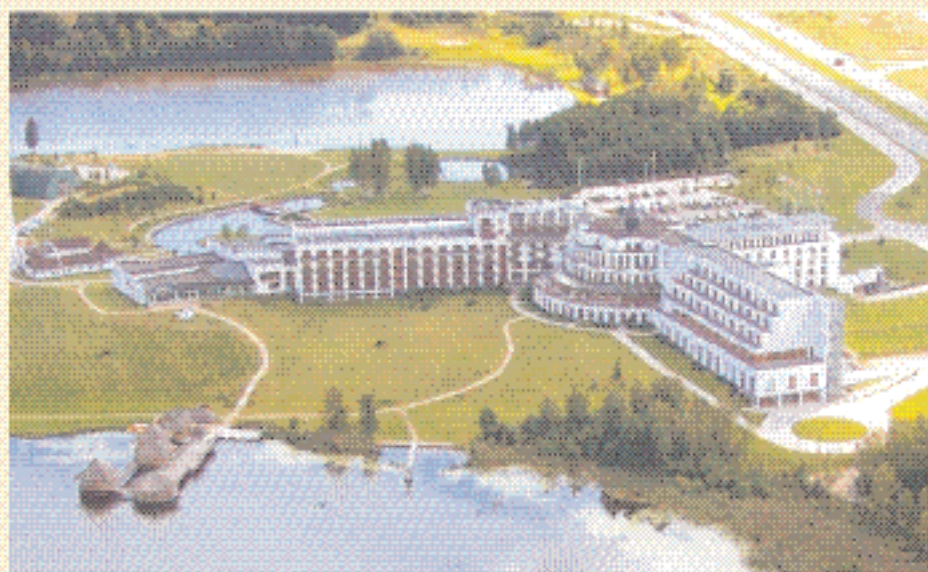
Services and equipment

Standard equipment:

- Screen, TV, flipchart
- Overhead projector
- Additional equipment:**
- Video conference equipment
- Simultaneous translation equipment
- Audio and visual equipment
- Courier services
- Printouts, copies and faxes
- Personal assistance during the event
- Security services
- Coffee breaks
- Business lunches
- Variety of banquets
- Flower arrangements



LE MERIDIEN VILLON - WHERE MEETINGS COME NATURALLY!



Le Meridien Villon is the summer and winter resort of Lithuania. Internationally acclaimed as the most elegant and luxurious resort & convention center in the Baltic States, the resort combines the best of International style, cuisine and service with the attentive and friendly hospitality of Lithuania.

Overlooking two scenic lakes, Le Meridien Villon Resort lies amidst lush and rolling countryside covered with birch and pine forests, yet only 10 minutes away from the capital.

The convention center, which opened in 2004, is designed to cater to the growing demand of international meetings in Lithuania. It covers an area of 5,000 square meters with 34 meeting rooms, including the Grand Opera Congress Hall, which is suitable for up to 1,000 delegates, a library, a dedicated reception area, a business center and a restaurant with terrace. All meeting rooms boast the latest technology and offer natural daylight and panoramic views over the lake and forest.



International companies, hosting meetings in 2004/2005 at Le Meridien Villon Resort and Convention Center include Bayer, Bristol Myers Squibb, Novartis, Johnson & Johnson, Levis, McKinsey, Nokia, Tupperware and Universal Pictures.



Le MERIDIEN

VILLON RESORT
& CONVENTION CENTRE



The resort offers 189 well-appointed rooms, ranging from standard rooms to luxurious suites and split-level studios. Most guestrooms are air - conditioned and feature marble bathrooms and balconies overlooking the wooden grounds and lakes. Each room is also equipped with a working desk and all modern conveniences.

Restaurants and bars include Le Paysage restaurant, which is renowned as one of the finest venues in Vilnius, featuring French fine dining cuisine and offering both indoor and al fresco dining. If you are looking for a place to relax with a cup of coffee or revitalising juice, join us at Café Villon, Ben's Bar or at the Oasis Sports.



The hotel offers exclusive recreational facilities and a vast range of leisure activities as well as team building. The Health Club and Spa Oasis offers a 20m indoor heated swimming pool, a Jacuzzi, a large gymnasium, sauna and steam rooms, as well as treatment rooms for massages and therapies.

Outdoor activities include a driving range on lake board, 4 tennis courts, a basketball and a volleyball court and a jogging track. A new 18-hole Championship golf course will be opened in 2007.

Whether on land, water or in the air, our professional partners deliver the widest variety of activities for team building and incentives such as 4x4 driving, shooting action, paint ball, ice fishing, canoe polo, kayaking or high ropes.

We are looking forward to welcome you at the Le Meridien Villon!



Highway A2,
Vilnius - Riga 19 km
LT-02005 Vilnius
Lithuania

Tel. +370 5 273 97 00
Fax +370 5 273 97 30
Email info@lemeridien.lt
www.lemeridien.lt



With its eye-catching facade Best Western Hotell Tallink is a brand new comfortable and dignified business and family hotel just in the heart of Tallinn City!

A great location assures a comfortable and fast access to business, shopping and entertainment areas.

The new 10-story hotel has 349 rooms. All rooms are equipped with air conditioning, Internet connections, telephones, satellite TV, Pay-TV, safes and mini-bars.



Best Western Hotell Tallink is an ideal place to carry out various company events - conferences, seminars, business meetings or receptions.

On the 10th floor of the hotel, there are modern conference halls Cityside and Seaside with magnificent views, which accommodate up to 100 persons. The halls may be arranged in a theatre, school, diplomat and U-style. Receptions may also be organised in conference halls.

Convenient meeting rooms are on the ground floor of the hotel and are arranged in a diplomat style.





Conference and hotel guests have the use of a large and spacious restaurant City Buffet and Restaurant for 160 persons on the first floor, as well as neighbouring, smaller and more intimate A la Carte Tallink for gourmets, Lobby Bar Piano and nightclub Cellar.



Hotell Tallink

Best Western Hotell Tallink
A.Lakmea 5, 10145 Tallinn • Tel 630 0800 • bwhotel.tallink.com



	Cityside 62 m ²	Seaside 72,2 m ²	Cityside- Seaside
 Theatre	30	57	100
 School	25	37	67
 U-shape	13	26	43
 Diplomat	15	30	45
Reception	40	60	100

City Buffet & Restaurant is well suited for conference lunches, dinners and receptions. The restaurant has each day a buffet table with diverse selection. In addition, a two- and three course Business lunch menu is offered, which is suitable for enjoyment at a business meeting as well as during a lunch break.

A la Carte Tallink offers the creation of the chef and a varied wine selection. In addition to the exciting a la carte menu, each month a special menu "Chef recommends" is available. Each month A la Carte Tallink organises exclusive gourmet dinners, always with a dignified selection of wines.

A cosy lobby bar Piano is ideal for relaxing or talking in a casual atmosphere after business meetings.

On the lower level of the hotel the nightclub Cellar awaits you for partying and dancing - live dance bands and DJ's! After a successful day, the nightclub is an ideal place for holding an after-party of any event. The nightclub Cellar is well suited for conference after-parties, various company events and receptions. In addition to large selection of drinks and exiting cocktails, the nightclub may offer a buffet table and refreshments. The nightclub accommodates 250 persons and is open every day.



Best Western Hotel Tallink offers for conference and business clients also a various range of additional services to make the stay in hotel comfortable. The hotel has WIFI on ground and 10th floor, Business Centre, Health Centre (incl. massage), Souvenir Shop, car rental, concierge, 24h Rooms Service, travel agency Tallink Travel Club and more.

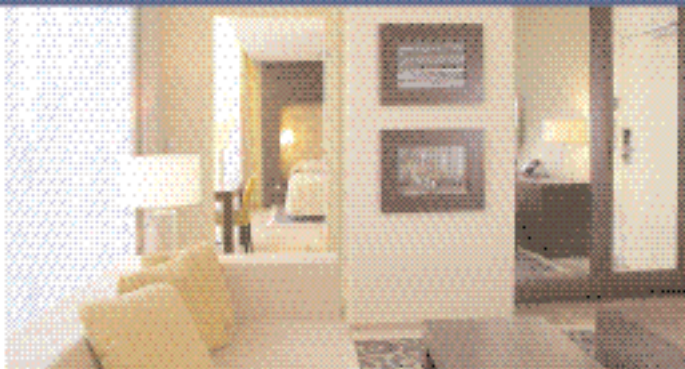
A warm welcome!



Hotell Tallink

Best Western Hotel Tallink

A.Laikmaa 5, 10145 Tallinn • Tel 630 0800 • bwhotel.tallink.com



Bright Future for Business Travel Market

By Olga Pavuk, Anzhela Rzhishcheva

By Tatyana Komorskaya

By Dmitrij Kulikov

Business-travel market development is closely connected with the availability in the three Baltic States of first-class hotels. For example there are more hotels in Lithuania than in Latvia; besides, there are many places in the former to arrange all sorts of business tours. The number of hotels in Estonia is quite comparable with that of Latvia although in the former there are more hotel rooms. In comparison to Latvia, there are more "economy-class" hotels, those of bed & breakfast-type and small guest-houses in Estonia. The demand for two-three-stars' hotels in the Baltic States is both constant and constantly growing as these relatively cheap hotels are in great demand in the travelers' market. In order to develop economic activity in the Baltics adequate business tourism network is designed to play a decisive and radical role.

Business tourism generally has a long history, although as an independent and highly profitable business this kind of tourism appeared in Europe and the USA only recently, in 1970-80s. Already in 1990s this sector of tourism activity has acquired prestigious status as one of the most attractive sectors both in travel and tourism business.

Generally, the role of organizers in such travels belongs to firms and companies wishing to make seminar and congresses abroad, as well as firms that arrange holiday-trips to their employees. Some corporate clients choose Eastern European cities and Baltic countries as destinations for such business arrangements. One of additional "regional" attractiveness is high level of travelers' security, whereas in various parts of the world the threat of terrorist attacks is not excluded.

LATVIA: BUSINESS TOURISM AS AN IMPETUS FOR ECONOMIC GROWTH

Two major directions can be distinguished presently in Latvian business tourism (BT), i.e. a) organizing seminars and conferences, and b) "incentive-motivational" tour-programs for employees. According to growing market, new hotels have been

constructed in the country; the existing ones have been enlarging their accommodation places.

One can say that Business Travel and Tourism is becoming the most dynamic sphere of modern tourism; often an English abbreviation is used to cover all major BT's ingredients — MICE (Meetings, Incentives, Conferences, Exhibitions). Main idea behind such companies' trips is to convene abroad seminars and/or provide incentive trips for employees. As a final destination, the countries of Eastern Europe and the Baltic States, including Latvia, are often chosen.

Some years ago BT was regarded by many as activity sphere for those tourist companies and hotels wishing to make profits. Presently this attitude is changing giving place to much broader idea which can support greater potential development in Latvian economy.

Experts say that BT in Latvia started to develop actively some 3-4 years ago: according to Latvian Hotel Association, in 2005 about 3,1 mln tourists visited Latvia and among them 20 per cent were business tourists.

Uldis Vitolinsh, Latvian Tourism Development Agency's director said to *BC*: "Business tourism is the trend that can help to survive all big and small hotels during out-of-season's periods." It's well-known that high-season in tourism lasts in Baltics 4-5 months, usually from May to September. "During that time about 80-90 per cent of hotel rooms are booked; the rest of the year the rooms are occupied by some 40 per cent", he added. Attracting business tourists can help to solve the problem. A right step in the right direction was done in Riga's Congress Bureau — *Inspiration Riga* which was funded by the state, municipal bodies and private capital. Such a multiple establishment composition has been required because serious international or European trips' preparation needs several years, as a rule from 2 to 7 years, and all actions are planned much ahead of time. Without a proper coordinator representing Latvian interests on international market, adds U. Vitolinsh, it is almost impossible to find interesting business projects. Such opportunities have appeared now and therefore Latvian MICE can have big perspectives.

Inspiration Riga's executive director, **Igor Klappenkovs** in an interview to *BC* acknowledged that Business Travel is really a good

TOP-10 CONFERENCE-CENTERS IN LATVIAN HOTELS, IN HALLS AND SQ. M

Rank	Hotel	City	Number of halls	Sq. m
1	Reval Hotel Latvija	Riga	13	2070
2	Baltic Beach Hotel	Jurmala	13	1145
3	Maritim Park Hotel	Riga	10	2018
4	Radisson SAS Daugava	Riga	12	1095
5	Konventa seta	Riga	5	334
6	Reval Hotel Ridzene	Riga	7	330
7	Park Hotel Latgola	Daugavpils	5	323
8	Hotel de Rome	Riga	3	262
9	Hotel Bergs	Riga	2	182
10	Amrita	Liepaja	1	76

Source: Latvian Hotel & Restaurant Association.

business direction: “an average business tourist’s visit to a foreign country lasts 2-3 days whereas regular tourist’s — 1-7 days. Besides, business guests spend 3 times more in another country than other kind of tourists, he added.

Business tourism is, in fact, gaining momentum in Latvia: each month about 408 different conferences and meetings take place in Riga and Jurmala; some 10,8 th people take part in these events. About 42 per cent of all conferences having international status and 54 per cent business tourists use local companies’ services. In comparison to 2004 the number of business tours in 2005 increased by 52 per cent, their duration increased by 27 per cent and the number of participants increased by 21 per cent.

According to Riga Information and Coordination Tourism Center there were 45 hotels in Riga with 8693 beds in 2004; at the end of 2005 there were 66 hotels and the number of beds increased to about 10.5 thousand. In 2006 it is planned to build 10 new hotels in Riga with 1300 rooms.

The biggest hotel constructed in Riga in 2005 was *Domina Inn Riga* at Pulkveza Brieza Street with 248 rooms. About 100 rooms are in the new hotel *Profitcamp* on Tetra Street, in *Tomo* hotel on Raunas Street and in *Kolonna* hotel on Tirgonu Street.

The biggest among new hotels in 2006 is a hotel on Brivibas Street with 441 rooms. Some other hotels are expected to appear in Riga in 2006: *Island* on Kipsala with 350 rooms, after renovation works some 200 rooms will appear in *Reval Hotel Latvija*. It’s participation in Baltic market the company *Reval Hotels* intends to strengthen by constructing a new hotel in Riga down-town at Elizabets Street.

Latvian Hotel & Restaurant Association’s executive director, **Santa Boka** told *BC* that most of the conference facilities, more than anywhere else in the country, are taking place in Riga and Jurmala and in the following four hotels: *Reval Hotel Latvija*, *Baltic Beach Hotel*, *Maritim Park Hotel* and *Radisson SAS Daugava* (See Table 1). There are, of course conference-centers’ facilities in other hotels as well, e.g. *Reval Hotel Ridzene*, *Hotel de Rome*, *Hotel Bergs*. Conference-halls can accommodate from 50 to 500 participants. Renting fees are from 7 to 150 lats per hour depending on the level of comfort. In other hotels some 20 to 100 people can be provided with conference’s facilities.

As S.Boka reminded, so-called motivational or incentive business tourism is becoming popular recently; such kind of tourism deals with new products presentation by companies as well as a sort of “encouragement” tours for company’s employees. Quite popular becoming “combined-tour- programs”; i.e. 1-2 days of conference and a couple of day’s entertainment. In the latter case tourists visit not only historical and cultural sites in Riga but in other Latvian cities as well. This idea is not foreign to Latvian companies, e.g. quite often they arrange such incentive programs for employees on Latvian territory using numerous old castles’ facilities in Rundale, Mazotne, as well as in other historical places in Venstpils, Jaunpils, Jaunmoky, etc. There are private tourist arrangements for foreign tourists as well combining business and holiday; in this way tourists can prolong their stay in the country for a couple of more days.

Experts in tourism sector acknowledge that such big events as World ice-hockey tournament and NATO-summit can be a good litmus test. Rather on hotels, much depends on government policy in attracting tourists and making, so to say “an attractive Latvian image” abroad; and on transport companies (e.g. air companies arranging discount tickets and new ferry rout from Stockholm to Riga). In order to attract more foreign tourists in Latvia some active efforts are needed to advertise various conferences, forums and seminars.

As Mr. Igor Klapenkovs explained, serious attention shall be paid to renovation works in Latvian House of Congress which provides accommodation for 1200 people. Among major disadvantages

in this building are the following factors: lack of adequate infrastructure in order to allow conference work in different sections simultaneously, and good kitchen facilities. There is a great need in construction a new Congress Center in Latvia which could accommodate about 5 th guests. Important that such Center is supplied with modern infrastructure facilities. Only in this way our country can claim to be a competitive and attractive business-tours’ destination for European and international companies.

LITHUANIA: BUSINESS TOURISM HAS A GOOD SIGN OF PERSPECTIVE

According to country’s statistic department about one million tourists visited Lithuania in 2004. Experts predict that a yearly growth by 30 per cent; and each second tourist visited country on business purpose.

This is precisely that kind of modern tourist the whole sphere of tourist incoming and outcoming as well as hotels, restaurants and business forums are concentrated upon. Besides a direct respect for business as such there is a good share of commercial advantages. As is known, an average tourist in Lithuania spends during a short visit about 5 th litas, whereas a “regular” tourist only 957 litas. The 2004 statistics could be too presumptuous but it is not too far from the truth.

An explanation of Vilnius’ popularity among business representatives in the world lies in various backgrounds, e.g. the country’s capital is an active member of European conference-cities’ pool and is represented on all internet-sites with all pertinent information about business tours in Lithuania. Quite natural that business people throughout the world would like to have a look at the place and often



HOTEL
MEDZĀBAKI
LATVIA
ANNO 2005

P	i	☎	☎
🍴	🍸	🏠	🏠
🛏	🚗	🚢	🚢

Welcome to Medzābaki!

Medzābaki-2, Lilaste,
(Rīga Tallinn highway 21st km)
Carnikava parish,
Rīga district LV-2163
Tel.: +371 714 7070
Fax: +371 7116 061
hotel@medzabaki.lv
www.medzabaki.lv

chose it as their meeting's spot. The following is just an indication of special seminars arranged in Lithuania recently: cardio-surgeons and infectious treatments, French utility specialists, arbitration experts from Baltic countries, Esperanto scientists (the Vilnius city council's tourist administration issues a special tourist guide in Esperanto)...

A special magazine is published for people in business tourism and Vilnius city administration issues regularly MICE's brochures in European languages for these tourists.

Last year at a world tourist conference in Barcelona country's business tours' companies made a common exhibition presentation, which was a great success to be repeated this year, e.g. Lithuanian tourist association will take part in IMEX exhibition in Frankfurt. The latter is the most important special exhibition in the field of so-called stimulating tourism. The following Lithuanian tourist companies will take part in IMEX: *Lietuvos turizmo birza, Delta Tours, West ekspress, Baltic-clipper, Lietuvipkos atostogos, Baltic Saitas, Kelioniu laikas.*

There are 10 regional companies for organizing conferences; among them are the following: *AAA Wrislit, American Express Travel Services, Baltic Clipper, Baltic Travel Group Ltd, Baltijos keliai, Visus plenus, etc.* These companies offer the whole set of business tour requisites. In this regard *Visus Plenus'* director, **Patras Naprushis** said (the company is a member of European Conference Association and is engaged in organizing business tours) that they deal both with people that wanted either a hall for the conference or/and the "whole pack", i.e. from calculating tour expenses and hotel reservations to entertainment program following business arrangements.

The choice of the hall depends on clients' requirements -some like it in the city center others prefer suburbs. Farmers' guest houses

are becoming quite popular recently and the request for these places occupies good share of business conferences.

Most popular conference-halls are situated in the following hotels: *Reval Hotel Lietuva, Le Meridien Villon, Radisson SAS Astorija, Holiday Inn.* (See Table 2). The price for renting a hall depend on the hall's capacity and its rank; an average hall's rent for half a day would be around 300 litas (for a small one) and up to 6,600 litas for a ha; for about 1 thousand people. The price for the whole day conference would be from 550 litas to 11 thousand litas.

In some hotels there are certain specific attractive features, thus in *Le Meridien Villon Vilnius* besides beautiful natural surroundings there is a huge health center with a swimming pool, saunas, jacuzzis, sport complex and aerobics' halls. In another hotel *Reval Hotel Lietuva* besides wonderful adjacent city park people can enjoy a splendid view over the city from a roof restaurant.

Even if conferences are not organized through special business-tour companies and made directly through hotel reservation service, guests can be pretty sure that they can get all the necessary service including guides, interpreters, car rent, etc.

As was mentioned by Mr P. Naprushis, wide-spread opinion that guests after the conference would strive for entertainment tours was greatly exaggerated. Only about 20 per cent would choose that path after the conference, the rest would follow their plans. Probably the only different groups are the businessmen from the USA and Japan; making the long way to the Baltics they would like to participate both in Vilnius guide-tours and those through Latvia and Estonia. According to P. Naprushis, this segment of tourist sphere is growing steadily as well as that of tourist exhibitions.

It is quite interesting to note that there are only 7 Lithuanian companies that organize big dinner parties in the country. But according to national statistics department, this tourist sector alone earned in 2004 about 824 mln litas. No doubt the things are becoming really good in hotel and restaurant business!

Vilnius City authorities are trying hard to make the city both an attractive for tourists place and popular business center, as well. There are totally 219 hotels in Lithuania which can accommodate more than 5,300 guests.

TOP-10 CONFERENCE-CENTERS IN VILNIUS HOTELS

Rank	Name	Number of halls	Main halls' capacity, in persons
1	Le Meridien Villon Vilnius	39	1200
2	Reval Hotel Lietuva	20	800
3	Crowne Plaza Vilnius	8	550
4	Karolina Hotel and Conference Centre	13	550
5	Best Western Naujasis Vilnius	7	500
6	Holiday Inn Vilnius	4	250
7	Conti	4	250
8	Sarunas Hotel	5	230
9	Narutis Summit Hotels and Resorts, Baltpark Hotel Vilnius	3	200
10	Europa City Vilnius	4	150

Source: European Conference Association.

OTHER PLACES TO ARRANGE CONFERENCES IN VILNIUS

Rank	Name	Number of halls	Main halls' capacity, in persons
1	National opera and ballet theater	1	1130
2	Congress Hall	1	967
3	Teachers' House	12	900
4	Litexpo Exhibition Center	7	500
5	Lithuanian National Drama Theater	2	467
6	City Hall	4	350
7	Forum Palace	5	230
8	Modern Art Center	5	200
9	National International relations and Politics' Institute	2	140
10	Vilnius International Airport	2	70

Source: European Conference Association.

ESTONIA: CONFERENCE TOURISM MADE A BREAK

The reason for such a conclusion is simple — the country lacks adequate infrastructure. In 2004 the country visited 1.37 mln tourists and only 5 per cent (about 63 thousand) came in order to participate in a seminar, conference or exhibition. In 2005 the situation with total number of tourists was not much better although the number of business-tourists reduced by 5 thousand to 575 thousand. In comparison to the previous year the picture in 2004 was pretty good as the number of business tourists increased

BIGGEST ESTONIAN COMPANIES IN BUSINESS-TOURISM MARKET

PCO (Professional Conference Organizers)	Destination Management Estonia Estonian Holidays Corpore Conference Estonian Conference Centre Frens Conference Service Via Hansa PCO Estravel — PCO osakond
DMC (Destination Management Companies)	Event Management Companies East Express EstCruise LunaVista Travel Vitamiin
	Travel Eventus Group Go Travel Cassandra Restling Event Via Hansa DMC
	Baltic Event Service Baltic Tours Baltic Travel Group Broadline Events

by 28 per cent. The situation commented tourism research coordinator, Mr. **Piret Kallas** from tourism department at National Entrepreneurship Center: increased flow of tourists can be explained by general trends in tourism sector affected by the country's entering the EU. Among other factors were free movement of people, low prices (in comparison to Western level), country's popularity and intentions to see more.

Record number of guests visiting the country as business travelers in 2005 was reduced by 3 per cent, in comparison to 2004, which is explained by low quality of services in this tourism sector. During last years nothing has been done in Estonia in order to renovate conference halls, exhibition premises and hotels oriented towards this kind of tourists. According to experts, one of the main difficulties was lack of a single big central conference-hall in Estonian capital; as a rule all business conferences are organized in big hotels instead.

Senior expert on conference-tourism from Tourist Office in Tallinn City Council Entrepreneurship Department, **Meeli Jaaksoo** is of another opinion arguing that Tallinn provided for many good initiatives on business tourism market and organizing conferences during last years. For example, International organization ICCA acknowledged that Tallinn has become one of the most actively developing cities in the world in this tourism sector with the rate of growth reaching 50 per cent during last 10 years.

This progress could be achieved, first of all, due to close cooperation with European Federation of Conference Towns; second major step in the positive direction was broad Tallinn city's advertising efforts organized in various European cities which definitely helped in attracting interest in visiting Tallinn. The city itself has definite prior tourist advantages, e.g. suitable geographic position, adequate level of prices and quality; even on professional level of services Estonian prices are markedly below that of European states. On top of this the city's infrastructure is becoming more comfortable for convening various business meeting and seminars and besides already known hotel

names the number of international hotel network developing in Estonia is constantly growing.

Hotel representatives and business events' organizers have calculated that in 2003 about 4.2 thousand various conferences, meeting and seminars have been convened in Estonia and about 200 thousand delegates participated. Out of that number, there were about 1.5 thousand international events and about 52 thousand foreigners participated. Analysis has shown that the "conferences' high season" covers the months in the fall when about 900 conferences had been convened. The most popular theme for seminars has been economics with 762 conferences.

Most of the conferences are convened in Tallinn and less often in Tartu and Pärnu. Only 8 per cent of foreign conference-tourists visited Tartu and 5 per cent — Pärnu. The most popular places for conferences in Tallinn have been *Reval Hotel Olumpia*, *Sokos Hotel Viru*, *Radisson SAS* as well as *Pirita TOP SPA Hotel*. In Pärnu the popular place was *Strand SPA & Conference Hotel* and in Harjumaa — *Laulasmaa SPA & Conference Hotel*. Usually big tourists companies are main event-organizers, such as *Estravel*, *Reisiekspert*, *Via Hansa Estonia*, *Raeturist*.

Average conference-halls' capacity is around 500 participants, although some new facilities have to be envisaged: thus in June the biggest ever in Estonian tourist history will take place, i.e. international youth business conference will be held in Estonia (JCI-Junior Chamber International) and more than a thousand delegates is expected.

In an interview to *BC*, vice-president, Malle Pottsepp from *Estravel* tourist company expressed his opinion about Estonian business-tourism future: "Conference-tours' business is presently on the rise, although it is clearly seen that some countries, e.g. Hungary and Czech Republic are trying to oust us from the market. The reason is simple, i.e. these countries have much better and favorable geographic position as well as advanced tourist infrastructure. On the other hand, we can feel some tourist interest from Italy and other southern countries. Estonia has some advantages too, e.g. attractive prices and European level of services, and everything else including sea and fine sand beaches. Probably our only biggest disadvantage is that we lack a big conference hall. And nobody knows when it's going to be constructed, if ever at all. Nobody wants to take such a big risk as such a construction is a long-standing project. If constructed such a hall could make good profits, but investors prefer to develop some other tourist sectors, i.e. hotels, amusement parks, etc. with a much quicker rate of returns. Due to these factors we often lose clients who wanted both to live and hold conferences at the same place." •

TOTAL NUMBER OF TOURISTS VISITING ESTONIA IN 2003-2005

	Holiday	Conferences	Business-tours	Others	Total
Jan-Dec 2003	639275	49193	253082	116937	1058487
Jan-Dec 2004	902507	62936	249477	159494	1374414
Jan-Nov 2003	602130	47305	236365	109521	995321
Jan-Nov 2004	844163	59674	233015	150032	1286884
Jan-Nov 2005	917819	57587	236863	158417	1370686

Source: State Statistic Department.

Why do some people enjoy their stay in the Baltics more than others?

- hotel reservations
- transportation and multilingual guides
- fine dining and unique entertainment
- series and special interest groups
- land services for cruise ships
- conferences, meetings and incentives

Native knowledge of the Baltic region, thorough approach to your business needs, rich professional experience and our will to think beyond the conventional, will ensure success for event of any scale or purpose.

www.baltic.travel

Baltic Travel Group
Destination Management

Business and Entertainment Go Hand-in-Hand for our Hotel Guests

In interview with the *BC* correspondent Mr. **Heikki Vanhanen**, *Reval Hotels* country manager in Latvia and general manager of the *Reval Hotel Latvija* described the present and future of the hotel.

BC: Latvian “section” in the *Reval Hotels*’ group provides the largest business and conference opportunities in the Baltic region. What is your average statistical guest’s profile?

HV: It is true, we are the biggest in the Baltics. Our primary guest flow is coming first of all from Finland, secondly from Germany, then the UK and Estonia is on the fourth place followed by tourists from Sweden and Norway. It should be noted that tourists from Southern Europe are becoming our frequent guests, this is a relatively new and unconventional market for us. The main reason for the significantly increased number of guests is Latvian and other Baltic States membership in the EU and improved air transport connections. Our guests are those who want to explore new destinations and businessmen who are looking for new opportunities. These are main reasons they come to Latvia and that is why we have a strong presence here.

BC: How is business tourism developing in Latvia?

HV: An interesting shift in the present situation of the *Reval Hotel Latvija* is that it is gradually becoming the largest conference and event centre in the Baltic States. Historically, it has been a 50/50 situation of leisure tourists and business travelers. Now the situation has changed as about 60 per cent of our guests are coming for business purposes, to participate in various conferences and seminars during spring and summer time, as well as staying over the weekend. Business travelers choose our hotel because we have the most modern and sophisticated facilities to offer. We have 20 multifunctional conference rooms and offer tailor-made solutions to various events and participants. In addition the hotel has restaurants, bars, night club, casino, fitness center and beauty salon to serve our guests. It is important to provide our guests with various entertainment options.

BC: And what are the hotels recent achievements and perspectives?

HV: The main idea behind our hotel’s expansion was to provide more space and facilities for increasing number of tourists and different events. Of course, we would like to provide more opportunities for business as we are an upper mid-market hotel, but we do not have to forget about entertainment options. Travelers usually do not look for cheapest places to stay, they choose good facilities and services both for pleasure and business. We want to help Latvia become the most attractive tourist destination.

BC: What are further expansion direction plans for the hotel?

HV: We are looking for good opportunities in and around the Baltics, especially in Russia, i.e. in St. Petersburg and Moscow, as well as in Ukraine. The strategy of our chain is further growth.

Another direction is completion of the *Reval Hotel Latvija* expansion with the goal to increase events and entertainment facilities (the latter will increase to about 1,700 sq m). Plus, we will have 205 new guest rooms mostly in superior category and one more new facility — indoor parking, a significant addition to the new part of the hotel.

BC: How do you regard the business-tourism opportunities in Latvia?



HEIKKI VANHANEN.

HV: One thing is certain — business people are more active around the world finding new opportunities and we have to face the challenge. On the other hand, these travelers play a very important role in balancing out the yearly occupancies as generally we are fully booked during the summer months but that could not be said about let’s say winter when our occupancy drops to around 50%. And then there are such “mega-events” as ice-hockey championship in May which I am sure we can handle all right. It is a big challenge for us and as it is a huge promotion opportunity for Latvia, too.

BC: How do you see your hotel’s future in Riga?

HV: After completion of our expansion and all renovation works finished in April, 2006 we will be the most competitive and attractive hotel, conference and event centre for our guests and Latvian citizens. No wonder that *Reval Hotel Latvija* is sometimes called a “blue dream”; it really is. •

REVAL HOTEL LATVIJA (FROM APRIL, 2006)

- The largest business and conference hotel in the Baltic region
- Situated in the main Riga business district and shopping area, 5 minutes walk of the scenic Old Town
- 587 modern guestrooms
- Conference & Event Centre offers: 20 conference rooms, 5 halls, 3 business offices, meeting and banqueting space for up to 3000 participants

REVAL HOTELS IN THE BALTICS

- 3 countries — Latvia, Lithuania and Estonia
- 7 hotels
- 1894 hotel rooms
- 62 conference rooms
- 10 restaurants



Con-ex team specializes in Conference, Delegate and Destination management

Our task is to produce a convincing beneficial proposal for your industry conference, countryside incentive or exiting motivational event which will be gladly remembered by the participants.



8 Kaļķu Street,
Rīga, LV-1050, Latvia,
Phone: +371 7085082
e-mail: conex@latviatours.lv
www.con-ex.com



LET'S ORGANIZE YOUR SUCCESS!



★★★★
DIKLI PALACE HOTEL

AN EXCEPTIONAL PLACE

ARE YOU LOOKING FOR SOMETHING SPECIAL?



**FOUR - STAR HOTEL • RESTAURANT • RECREATION CENTRE
CONFERENCE AND BANQUET FACILITIES**

Address: Dikļu pils, Dikļu pagasts, Valmieras rajons, Latvia
Phone: +371 4207480, fax +371 4207485, e-mail pils@diklupils.lv
www.diklupils.lv

Urgently Wanted: Engineers and Craftsmen

By Olga Pavuk
By Tatyana Komorskaya
By Dmirtrij Kulikov

Qualified workforce migration from the new Baltic States to the West has been growing with the frightening dimensions. As many as 40 thousand to 100,000 economically active people, according to various sources, left Latvia since the country joined the EU. And it seems to be just the beginning. The situation in neighboring Lithuania is even worse, i.e. up to half a million people have left Lithuania for work or studies abroad since 1990. Although Estonia experiences annually a shortage of 500-1,000 specialists in different economic sectors, hiring foreigners doesn't seem to imply presently any dangerous consequences for Estonian labor market. Local politicians so far failed to define the nucleus of the problem — whether it is a natural manifestation of globalization or the most dangerous trend about which something had to be done urgently.

LATVIA: FOREIGN WORKERS ARE NOT WELCOMED

Total number of people employed in Latvia is slightly over one million. At the end of 2005 there were 99,400 jobseekers in Latvia which accounts for 8.7% of the economically active population. According to Latvian National Employment Agency's statistics, young people aged 18-25 made up 13.7% of all the unemployed registered in 2005; about 8.5% of unemployed were those with a university degree. Numerous polls and studies show that over 80% of senior high school students do not associate their professional future with Latvia and will be looking for employment abroad. These figures cannot be perceived with anything but concern.

Latvian Prime Minister's adviser on social issues, **Ilze Stobova** argued that youngsters are very poorly informed about Latvian labor market development and the number of specialists the country will need in future. "Senior schoolchildren still cherish their thoughts about careers as economists, lawyers or psychologists, although we have a longstanding surplus of those specialists. At the same time, school graduates know nothing about professions currently in high demand, such as

engineers, top-level managers, technicians or tourist managers"; Stobova complained.

Considering growing outflow of workers from Latvia, an issue of inviting the needed labor force from such countries as Russia, Belarus or Ukraine may become urgent already in four-five years. Prime Minister **Aigars Kalvitis** is convinced that there isn't solid ground presently for opening Latvian labor market to foreign workers: "so far situation is not critical and it doesn't require opening our labor market now".

His opponent, **Augusts Brigmanis**, deputy chairman in Parliament's committee for human rights and public affairs told recently the press that the committee had examined the situation which might occur in Latvia in future and concluded that theoretically Latvia might need workers from eastern countries, e.g. Russia, Belarus and Ukraine in four years' time. "The reasons for this are quite simple: on one side, we have existing labor force's ageing, on the other, young people in growing numbers going abroad for work", he said. But Mr. A. Brigmanis added that it is not clear yet "how many foreign workers we would need, if any".

At the same time, a number of construction experts think that as the demand for

construction workers is increasing the shortage of qualified specialists and workers willing to work in Latvia will become more obvious. According to figures from Latvian Office of Citizenship and Migration Affairs (PMLP), some 40,000-50,000 Latvian residents are working in the EU member states. The PMLP said that 37,018 Latvian citizens and 1,772 Latvia's non-citizens work abroad. As soon as not everyone has a work permit the true number of Latvians employed abroad is therefore higher, said PMLP's deputy head **Maira Roze**. Experts have estimated that the actual number of Latvians working abroad is as high as 150,000! PMLP's data shows that 13,103 Latvians are officially employed in Ireland and 9,150 in the United Kingdom.

Latvian residents mostly go abroad to work in order to improve their financial situation. Some businessmen but mostly unqualified workers go to the CIS countries while the EU is the destination for both low-qualified labor and well-educated people, who could contribute to the motherland's welfare if they had worked in their native land. The Central Statistics Office has information suggesting that most Latvia's residents, who went to work abroad returned back in less than a year.

The British, Irish and Swedish labor markets are presently fully open to Latvian residents. Other EU member states will decide in May 2006 whether to open their labor markets or sustain current restrictions. Eight EU newcomers, i.e. Latvia, the Czech Republic, Estonia, Lithuania, Hungary, Poland, Slovenia and Slovakia have called on the European Commission to take measures to stop discrimination against companies and workers from the new EU member states on the EU labour market. In other words, the issue of free movement of labor and services in the EU is at stake.

A poll conducted among businessmen by Latvian business newspaper *Biz-*



ness&Baltija has shown that the most highly demanded profession in Latvian labor market is shop assistants (because it is increasingly difficult to find somebody willing to work for 80-150 lats a month — 50-70 USD). The job is taken mostly by people of pre-retirement age and high school graduates. Experienced cashiers, who speak English, are going abroad where they count on a monthly salary of at least 1,000 euros.

Cafes, restaurants and other public catering facilities are in the second place, and cooks are needed most badly. "Professionals in this field are worth their weight in gold, and competitors try to lure them away"; said a restaurant-owner. The main thing is that the situation is only going to get worse in future. Thus, Latvian Cabinet of Ministers' regulations which will take effect in 2007 would make it mandatory for chefs, senior bartenders and managers in cafes and restaurants to have a professional education certificate.

Strange as it may seem, construction industry is the third on the "wanted list" with the biggest shortage among engineers; only a few students started engineering science studies after Latvia's independence in 1991. Workers with narrow specialization

are also in great need. For example, there is not a single school in Latvia for training crane operators; those, who work in this field, were educated mainly during the Soviet period. There is also a deficit of bulldozer and excavator's operators, cement workers, stone carvings, painters, etc.

About 13.7% of all the unemployed registered in October 2005 in Latvia were young people aged 18-25, about 8.5% were people with university degrees. Over 80% schoolchildren at graduate level do not associate their professional future with Latvia and are going to look for jobs abroad.

Manufacturing industry specialists occupy the fourth place in the deficiency list. Enterprise owners admitted frankly that it was not a big problem to hire and quickly train personnel to perform simple operations (like packing) but it was extremely difficult to find qualified specialists. One of the underlying reasons is the high cost of training engineering specialties. The Baltic Russian Institute experts have estimated that to train an engineer costs about

2,000 lats a year while for lawyers and economists it's 700 lats. This is why a number of Latvian higher education institutions turn to quick education the latter ones.

Reports about high unemployment rate (around 26-27%) in the remote eastern Latvian region of Latgale are only partly true. The Baltic Russian Institute experts said that unemployment problem among "capable males" did not exist in the region's largest city Daugavpils, although women did have problems finding jobs. Most of unemployed men were both unwilling and unable to work for the simple reason of alcohol abuse. For example, *Lokomotive* rail car repair plant experienced shortage of qualified craftsmen with a monthly wage of around 250-400-800 lats. Young generation refuses to follow their fathers' footsteps preferring instead to wash dishes in Ireland or the United Kingdom.

LITHUANIA OPENS MARKET TO IMMIGRANTS

It was announced in late November that Lithuania, just like other EU member states, will begin consultations to introduce the European Qualifications Framework (EQF). It will make possible for people to look for an

"Social Dumping": Intentions and Deeds

By Eugene Eteris, *BC International Editor*

No doubt that both old and new EU's integration partners are concerned about the same problem, i.e. creating more open and liberalized internal market based on so-called "four basic freedoms" — goods, capitals, people and services. The first two basic freedoms in their implementation do not preclude serious obstacles, it's just a question of time and things are getting better with each year. The other two freedoms have become in fact a matter of serious concern among the old, the new member states and the EU leading politicians.

Symptomatic enough, but the reasons for concern on both sides are rather different. As is seen in the *BC's* reports the three Baltic states' leaders express serious concern on labour flows from these countries, the process becoming dangerous for certain economic sectors in the Baltics.

The leaders in the "old EU members"; on the other hand, have shown a political resistance to workers' free movement. The impetus to "worries" has been coined at a time of an initial services directive draft, the proposal set for the EU agenda in January 2004. The fact which is important to remember: both the directive's initiative and the whole preparation work were performed by the old 15 members' Commission and the old Parliament (without about a hundred new MEPs from Central Europe).

It seems that major stumbling block to workers' free movement in the proposed service directive has been long ago envisaged although decorated by the pretext of "social dumping." What could be simpler: you want to work abroad, go ahead, if you can find the

employment according to your intentions and remuneration. But politicians in the rich EU member states have detected a dangerous symptom in such "simplicity"; i.e. labour flows from central Europe with wages generally at least 3-5 times lower could result in unemployment increase in the West.

That was the reason that almost all EU states adopted 3 to 7 years' restrictions on free labour, except Britain, Ireland and Sweden to allow unrestricted access to their labour market. According to latest EU data, about 300,000 east Europeans applied for work in Britain since enlargement in May 2005, Ireland took in 85,000 while Sweden absorbed about 22,000.

In order to sweeten the pill, "social dumping" doctrine has been coined into EU's regulatory network as the need to protect services of public interest, in the first place. Western trade unions' approach was such as to prevent new recruits ready to work for "half-price" wage which could demolish trade unions' more than hundred years' combat for higher salaries and social guaranties. But do eastern Europeans really have to wait until they catch up with the Western welfare level?

Social solidarity seems hardly bother Western political parties. Even social democrats are cautious about definite decisions trying to invent some preventive means. Thus at recent Danish social democrats meeting an issue of "workers' green-card" was seriously discussed, along side western-type employment rules and payment conditions for the new EU members. The latter is in fact a barrier difficult to overcome. Frankly speaking, that difficulty could be challenged if the resources devoted to the social dumping control are derailed into more prudent aims to support freedom of labour and services' movements, a right enshrined in the European law.

So far this sensitive issue is dividing Union's politicians. And lack of unanimity on social dumping is apparent. But good news is that the EU voiced a serious concern to resolve the issue, thus in February-March the Commission is expected to make public a "sensitive report" on the matter. Things are getting better, aren't they! •

occupation in Europe on conditions where both a job seeker and a potential employer would understand perfectly clear what exactly is written in the certificate or a document on future employee's professional competence.

The EQF will help hundreds of thousands of people moving all over Europe to attest their education certificates. The EQF is composed of eight levels of professional competence and makes it possible to compare knowledge acquired in different European states. Every person will be able to apply for a document listing in detail their education and qualifications' levels.

The EQF project will be completed in three years and it is financed from the European Social Fund. It means that Lithuania will get for project implementation 6 million litas (EUR 1.74 mln) and that would make things easier for those wanted to work abroad. However, market analysts are rather skeptical about further mass workers' migration from Lithuania.

As unemployment rates in Lithuania have dropped recently to the record-low level in the past decade, increasing concerns are being voiced that the country is running out of labor resources because major part of those still unemployed could be described as so-called "inevitable labor market residue" (those with lack of qualification, unwilling to work, socially degraded, etc.). Alarming signals about labor shortage are being raised not only by experts but also by officials in country's regions and quite often by separate companies which recently did not pay any attention to its own staff being pretty certain that Lithuania had limitless labor force reserves.

Thus, industrialists in Klaipeda have released a nationwide warning that in three years' time Lithuania will be facing an economic crisis due to labor force shortages. Klaipeda population has shrunk by 10% during last decade to present 188,000 while the level of production is growing.

They also offered three possible solutions: to modernize production, to raise wages, and let in specialists from third countries. It has to be noted, they didn't invent the wheel; the government is already using those tools. Concerned businessmen also talk about lack of work force reserves: an example — workers from entire western Lithuania have moved to Klaipeda during recent years. At the same time the industrialists raised (almost for the first time) a question of moving production to smaller towns. Barely two years ago had they fought desperately for the right to accommodate in Klaipeda any decent foreign business, now their position has changed dramatically. It is time to decide, they say, whether the city needs companies like *Yazak*

with 3,000 jobs or hi-tech plants like *Neo Group* which employs just 250 people.

At the end of 2005 Klaipeda had one of the lowest unemployment rates in Lithuania at 3.9%, and, the local business people claimed that there were no unemployed males left in this sea-port city at all. Statistics show, however, that the lowest Lithuanian unemployment rate is in the Marijampole county at the level of 3.3%.

It has to be acknowledged that the extent of labour migration has never been studied properly in Lithuania. Existing forecasts that unemployment is likely to be reduced by one percentage point every year can't be fully convincing. Still, the growing demand for work force on domestic market will probably bring some correlations to those forecasts.

Industrialists in Klaipeda have released a nationwide warning that in three years' time Lithuania will be facing an economic crisis due to labor force shortages. Klaipeda population has shrunk by 10% during last decade to present 188,000 while the level of production is growing.

Lithuanian Statistics Department acknowledged that in the 2005 second quarter the level of unemployment was 8.5%, down by 2.8% from 11.3% the year before. Unemployment rate among women has reduced to the same level as that of men, i.e. to 8.5%. In the second quarter of last year there were 1,473 thousand working people in Lithuania, more than 31,000 people as to the same period in 2004.

Employers — employees' relationships could be perceived as an indirect indicator of the real work force shortage in labor market, and everything suggests that it is time for the administration, management and company owners to demonstrate their interest and care about the staff. But last 15 years' inertia, i.e. lack of interest in the staff, still persists.

Vilniaus Vingis, one of the largest electronic components' producers in the EU is among Lithuanian companies that constantly feels the lack of qualified personnel. Last year *Vilniaus Vingis* was forced to fire about 700 workers due to reduced demands for its products. Now the demand has grown again but the previously laid off staff has turned its back to the company, i.e. people do not want any more to work for *Vilniaus Vingis* preferring to look for more stable employment while receiving unemployment benefits.

Raising wages is an absolute, tried in various circumstances, and obvious tool for

regulating labor market, as well as preventing workers' outflow in drive for better remuneration abroad. It should be mentioned that wage increase in Lithuania has been quite noticeable recently, growing by about 10 per cent from third quarter in 2004 to third quarter in 2005, mostly as a result of governmental actions. Average monthly wage in Lithuanian economy (except that among private business) was 1,379 litas (about EUR 400) in the third quarter of 2005. The Statistics Department said that the wage growth had been due to a corresponding minimum wage increase in health care system and other groups of civil servants. Average gross monthly wage for men is currently 1,460.8 litas; women get 1,191 litas a month, before taxes.

Second powerful economic tool that Lithuanian government has chosen to apply was opening the labor market to immigrant workers. All of a sudden, everybody spoke about the problem in full voice, first with certain excitement (how come, Belarus workers are allowed to work at construction sites in Lithuania!). But many company managers, who would have found such attitude quite shocking a couple of years ago, all at once found the approach rather appropriate. As a result, quotas on labor force immigration to Lithuania have been lifted. But so far, there is not mass influx of people from the CIS countries. Somehow, it is not that easy to get a work permit in Lithuania: it's necessary first of all to show that the company made efforts to train the required personnel, in particular local unemployed people. The whole procedure for obtaining such permits can take up to two months. The work permits are issued for various periods of time but no longer than two years.

Recently such permits have been issued to about 400 people from Belarus, Ukraine, and Moldova. But it seems unlikely that foreign labor will become a mass phenomenon in Lithuania.

Lithuanian government and its Prime Minister **Algirdas Brazauskas** are staking their hopes on present generation of Lithuanian emigrants returning to their native land. The government is even considering providing tax exemption for earnings abroad. It is true, although, that the suggestion is being already under consideration for a long time and without much progress. It is officially recognized that about 300,000 people left Lithuania during last 15 years for work or studies abroad (the unofficial figure is half a million) of which some 72,000 have returned. These figures are difficult to verify, however. For example, Irish authorities have reported about 140,000 Lithuanian

guest-workers, although Lithuanians were mostly working in the United Kingdom, Spain, Germany and all Scandinavian countries. According to several sources the number of “contemporary” Lithuanian immigration in the United Kingdom is about 200,000 people.

Lithuanian Prime Minister is confident that as soon as personal income tax in the country is being reduced the problem of restitution payments between the income tax already paid abroad and the amount subject to payment in Lithuania as one returns from work abroad will simply disappear with time.

In fact, labor resources’ situation in the country may not be that bad after all. Thus, having opened its branch in Vilnius an Irish company *Executive Search Ireland* is quite hopeful to find in Lithuania highly qualified high-tech specialists, civil and software engineers, pharmacologist, developers, project managers, architects. Regardless of the fact that there are already about 140,000 Lithuanian citizens working in Ireland or, maybe exactly because of that! Irish employment experts say that Lithuanian workers are being valued in Ireland for their hard work, diligence and willingness to work overtime.

ESTONIA EXPERIENCES LABOR FORCE DEFICIT

Estonian business and economy is willing to hire about 400 foreigners each year, although business majority think that they can do well without. But a poll conducted by the Ministry of Social Affairs had shown that there is great demand for foreign work force and that 14% of the respondents are ready to pay for foreign specialists. About 6% of Estonian companies would start looking for foreign staff already in the near future. Though again, overwhelming majority (86%) thinks that it is possible to manage without foreign staff, and relying just on local work force. Out of a thousand companies with a staff over 20 people, only 140 showed interest in employing foreign workers.

There is a deficit of various professionals in Estonia but local labor market is unable to supply them. Estonian Employers Confederation (ETTK) president **Enn Veskimagi**, the head of the private *Standart* company, thinks that main reason for such a situation lies in the outdated system of vocational education and training and it has depreciated during last years but state authorities missed the time when financial investments and other contributions were required for improvement. “We in ETTK have estimated that the country experiences a shortage of 500-1,000 specialists in different economy fields annually”, said Veskimagi. In principle, there is little difference

between ETTK figures and results of the public research; but more accurate analysis suggests that annual labour deficit is at the level of half a thousand workers per year.

Some researchers have showed that such activities as education, manufacturing industry and hotel business have the biggest problems. As to the staff needed with specific qualifications and professions, the picture is the following: shortage of specialists in metalworking and wood-processing (milling machine operators, welders, etc.), in textile industry (lack of spinners), and universities are interested in foreign lecturers. Companies would welcome foreign managers having such qualifications.

As to labour geography, businessmen are more inclined to use work force from

There is a shortage of specialists in metalworking and wood-processing (milling machine operators, welders, etc.), in textile industry (lack of spinners), universities in Estonia are interested in foreign lecturers. Companies would welcome foreign managers having such qualifications.

neighboring countries as well as guest workers from Eastern European countries and former Soviet republics. It is understandable because their wages are considerably lower but qualifications are higher. Estonians would be willing to invite managers from neighboring Finland and pay them competitive salaries according to European standards for the reason of better education and greater commitments.

Vice-chancellor **Janno Jarve** from Estonian Ministry of Social Affairs informed that present shortage of labor force in the country has reached 4,000 people. The number of Estonians able to work but still unemployed is much higher than that figure. But all that is according to statistical figures; in reality the picture is different as not all of them meet employment’ quality requirements and therefore guest workers will have to be invited. It is difficult to say how the state will solve this problem: “the decision should be taken on the political level”, said Mr. J. Jarve.

Both vice-chancellor and the head of the employers’ confederation think that hiring foreigners doesn’t imply any dangerous consequences for the Estonian labor market.

A special advisory body EURES was created in the EU to assist those interested in foreign employment. EURES provides consultations and helps companies to find the necessary personnel. For this purpose a special database has been created and can be consulted through Internet at <http://europa.eu.int/eures>.

According to experts preparing Estonian draft regulation aimed at reducing unemployment, main idea is to “activate” and encourage people that are currently out of work. As the Ministry of Social Affairs’ representatives mentioned, if the bill is adopted, unemployed people will be more motivated to show initiative in looking for a job. The state is going to use mainly “carrot sticks” offering such incentives as transport costs’ compensations of up to 1,200 kroons instead of current 200 kroons, accommodation costs (for those coming from other towns) as well as scholarship payments during training period (the duration of which increased to 1 year). The last amendment was suggested because previously allowed 6 months’ training has not been enough for getting required qualification.

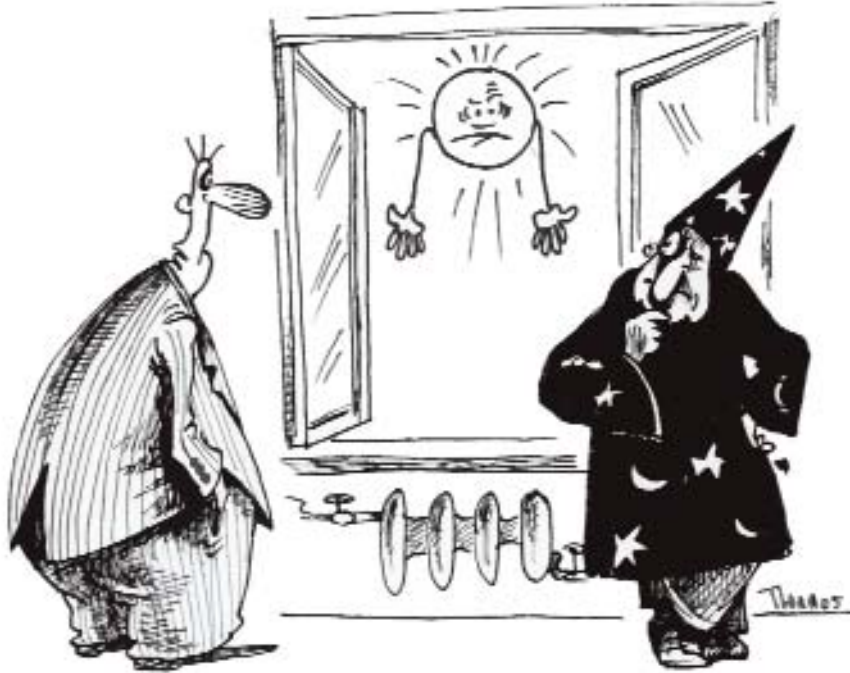
Under proposed draft for Estonian labor market reform and unemployment support system everyone will have an individual scheme for finding a job. For this purpose a person without a permanent source of income will have to contact Labor Market Department’s councilor who would assist a person to compile his/her personal file containing information about person’s education, skills and other important for employment facts.

Harri Taliga, chairman of the Confederation of Estonian Trade Unions (EAKL) said that the new draft program has had some deficiencies, too. “Why should a person, who used to receive an average salary, and will be getting 40% of it for 26 weeks after losing the job, go and look for a job with a minimum wage”, he argues. Unemployment benefits at a minimum amount of 400 kroons do not stand any criticism! Still, Mr. H. Taliga was pleasantly surprised that trade union representatives were invited to participate in drafting the project.

Estonian Employers Confederation chairman **Tarmo Kriis** is certain that the new draft is much better than the previous one, although to his mind some other methods shall be used in order to improve employment in the country. “People may be looking for jobs actively but if no jobs are created they will simply have no place to work in”, he said. Medium and small-sized enterprises should be developed and favorable conditions created for that, suggested Mr. T. Kriis.

The new draft pays, somehow, much more attention to such categories as disabled people, citizens of non-Estonian origin, former prisoners, i.e. to all those for whom it is especially difficult to find jobs. Government authorities hope that adopting new draft they will achieve 70% employment in the country, the level required by the EU directives. According to national statistics, the level of employment in Estonia was 62.5% at the end of 2003. •

Astro-Genetics's Role in Marketing



By Lyudmila Selivanova
 Doctor in Economics, Latvia

An idea to acquire additional information on the basis of analyzing natural phenomena is common to such exciting scientific notions as bio-economics, cosmic-biology and astro-genetics. Experts suggest using these specific approaches to increase efficiency of research within a company's marketing environment.

In modern marketing theories the position of the firm is being analyzed through quickly changing marketing environment conditions containing both opportunities and threats for its development. Increasing number of firms consider marketing environment as conditions to which it is necessary to adapt. Some perceive marketing environment as a passive substance not even trying to change it; they analyze the range of forces operating in this environment and develop the strategy helping to avoid threats and to take advantage of its favorable opportunities.

Other companies are trying to manage marketing environment, undertaking actions to influence both society and marketing environment factors. Such companies employ influential people for lobbying their interests during adoption of laws; arrange special actions for mass media to get their support. They pay editors of newspapers and magazines in order to publish favorable editorial materials giving positive attitude to their products or company activity as a whole, thus forming public opinion. They conclude contracts and agreements too, in order better supervise distribution channels.

FOLLIES AND MEGA TENDENCIES

Some special agencies, while being engaged in search of the first trends' appearances, address largest newspapers calculating how many times this or that theme was mentioned on their pages. Other agencies try to reveal trends and tendencies on the basis of people's psychology and moods. These abovementioned research methods can hardly be mentioned as precise methods reflecting real essence of future changes. Probably some non-conventional for marketing and market research can reveal tendencies, follies and mega-trends more precisely. Together with quite familiar Hamburg school of astrology methods and astro-genetics' methods discovered by Latvian scientist **Svetlana Budjashkina**, which draw planetary pictures of various events.

While developing strategies and plans for a company it is necessary to take into consideration interests of its main constituent parts, such as top management, financial department and department of researches and development, that of service and logistics, manufacturing, trade and accounting departments. All these interconnected

groups form a company's internal micro-environment.

The firm and its micro-environment are affected by the macro-environment factors or conditions, which at the same time can open new opportunities or present sources of threat. Major factors of the macro-environment concern are ecological, scientific and technical, economic, political, demographic and cultural.

Astrogenetics' methods can be useful, first of all, for small and average enterprises as methods being more accessible and authentic. Positive effect can be reached due to opportunities of carrying information received in one sphere into another as well as due to general time reduction for research. The depth of research can be different, e.g. 1 year, 10 or 100 years.

THE HAMBURG SCHOOL OF ASTROLOGY (URANIAN ASTROLOGY)

The Hamburg school of astrology is based on the development of the first half of the XX century German astrology scientist Alfred Vitte and his colleague and adherent friend Fredrik Zigrjun. Active supporters of the Hamburg school of astrology, who played important role in distribution and popularization of its concepts, were Ludwig Rudolf and Wilhelm Beckmann, later Herman Lefeldt in Germany, Richard Sveta in Cleveland and Hans Niggeman in New York.

The following aspects are considered in Hamburg school of astrology (Uranian Astrology):

- Ten planets traditionally used in other schools of astrology: **Sun, Moon, Mercury, Venus, Mars, Jupiter, Saturn, Uranus, Neptune, and Pluto.**
- Eight uranian or trans-neptunian planets: **Cupid, Hades, Zeus, Kronos, Apollon, Admetos, Vulcanus, Poseidon**, — being, probably, only calculated mathematical points, but allowing more precise description of analyzed phenomena,
- and also personal points: **Aries Point, Meridian, Sun, Moon, Ascendant, Lunar Node.**

In planetary pictures mentioned planets can mean, for example, the following:

- **Sun: SU** — year, day, body, father, husband, man, person, chief, a member of the government, leader of the religious and industrial organizations, center.

• **Moon: MO** — mother, wife, woman, feeling, character, public, system of distribution of products, system of service, house atmosphere, place of residence.

• **Mercury: ME** — brother, sister, neighbors, hearings, business, correspondence, messages, report, notice, movement of thoughts, means of the communications, information, opinion, letter, dialogue, word, publishing houses, book-publishing, trade, radio communication, transport.

• **Venus: VE** — woman of young age, desire, sympathy, harmony, love, beauty, preference, art, luxury goods, jewelry, flowers, paintings.

• **Mars: MA** — metals, weapon, fire, athlete, sportsman, work, activity, actions, manufacture, energy, will.

• **Jupiter: JU** — expansion, growth, development, success, finance, money, advantage, satisfaction; people connected to religion, law and higher education.

• **Saturn: SA** — difficulties, handicaps, infringements, division, losses, restrictions, poverty, illnesses, administrative work, old men.

• **Uranus: UR** — people who have risen above ordinary people, members of parliament, inventors; path breakers, trailblazers; antique dealers, electronic devices, high-altitude houses, radioactive substances, excitement, dynamics, breaking news, reforms.

• **Neptune: NE** — democratic movements, ordinary people, crowd, mysticism, chemical ingredients, other's property, liquid, gas, uncertainty, intuition, unknown, future.

• **Pluto: PL** — expansion, development, evolution, transformation, change, growth, law enforcement bodies, advancing time ideas.

• **Cupido: CU** — community and communication, family, marriage, all kind of groups and communities, social sphere, trading firm, organization, union, synthesis, summarizing.

• **Hades: HA** — clarification, disintegration, downward forces, shadow, past tense, accumulation from the past; danger, decrease, delay, loss, analysis, ancient sciences, general services.

• **Zeus: ZE** — purpose, leadership, beginning, energy connected to authority and dominance, fire, strategy, command, stimulus, plan, creativity.

• **Kronos: KR** — oligarch, leader at any level, eminence, management, independence, authority, height.

• **Apollo: AP** — multiplication, expansion, knowledge and thirst of knowledge; information, science and education, experience, crafts, trade, commodity market.

• **Admetos: AD** — stability, ground, resources, durability, validity, endurance, consistency, concentration, condensation.

• **Vulcanus: VU** — power over nature, huge energy, power, control, influence, productivity, superiority.

• **Poseidon: PO** — knowledge, education, idealism, nobleness, unexpected inspirations, memory, truth, culture.

In *Uranian Astrology* personal points are interpreted in a little different way than in other systems of astrology. In a general overview, three personal points, which symbolize: one is "*Me*" — *the Meridian, the Sun, the Moon*, and other three are "*Not Me*": *the Ascendant, Aries Point, Lunar Unit*.

• **Meridian: MC** — Me, a minute, is the most important point of a horoscope.

• **Sun: SU** — a year, day, body, man, personality, center.

• **Moon: MO** — hour, woman, mother, people, feeling, emotions, mood, instincts.

• **Ascendant: As** — others, you, close environment, partner.

• **Aries Point: AR** — public life, world.

• **Lunar Node: NO** — casual meetings, attitudes, contacts, communications, intermediary.

It is necessary to notice, that Hamburg school of astrology methods in the analysis of the firm's marketing environment provide a unique additional source of the primary information. This important information appears as a result of astrological supervision. We have carried out some practical research of the marketing environment using means and methods of the Hamburg school of astrology. As an example we have taken a really existing firm with a conditional name *B-Sun*. The results of our research have been presented as a concrete technique of revealing synergy factors in the company's work. These research was accompanied by the computer program "Astrologic PC" — Michael Feist.

ASTROGENETICS IS ASTRO-LINGUISTICS PLUS VERBAL SYMMETRY

As a natural development of the Hamburg school of astrology's achievements is the system of methods and means to process information and carry out strategic marketing researches within macro environment, which received the name astrogenetics. The latter is an interdisciplinary knowledge and alongside astrology based on principles of the Hamburg school, includes astrolinguistics and verbal symmetry.

The content of astro-linguistics is a symbolic modeling of information formulated in human language or cognitive

instruments of any science. Verbal symmetry is engaged in recognition of notions, which carry symbols and signs, including astrological, and their combinations. In the concept of astrogenetics the language of astrological symbols is considered both as the tool of scientific knowledge, integration of knowledge of various disciplines and producing new concepts on this basis.

Main issue that astro-genetics deals with is an issue of integration of cumulative knowledge, understanding of ways of people's thinking, mechanisms and laws of compression and expansion of information, organization and management of its main streams. Great Russian scientist A.L.Chizhevsky specified huge importance of "application of methods of one science to another and synthetic unification of various scientific disciplines". The system of astro-genetics' methods and means allows uniting life sciences with the theory of economics and business, linguistics and mathematics, to develop new effective technologies to generate ideas.

In addition to symmetry principle introduced by Hamburg school of astrology for revealing changes in planets' mutual configuration, astro-genetics uses Universe unity principle. According to this principle, all processes in the Universe, both on Sun and on Earth occur under "common program" and under common cycles. A.L.Chizhevsky has proved in numerous researches that 11-years cycles of solar activity coincide with social and economic cycles on Earth. Moreover, basic conditions of geographical territories also subdue to 11-year cycles. Based on 11-year cycles in geographical situation of various countries business-activity in Sweden, Denmark, Germany, and Latvia is substantiated. Importance of these countries' cooperation is underlined, especially that of Sweden, with so-called "greater countries" — Russia, America, China.

Astro-genetics' methods interconnection with discoveries made by A.L.Chizhevsky can provide serious methodological help in revealing territorial clusters, united by the general tendencies in their development, and also clusters exposed to identical threats. Thus, for example, problems formulated in the EU Sixth Framework Program for scientific researches can be more efficiently resolved, e.g. revealing development of new trans-boundary areas in science and their geographic distribution, disappearance of some kind of scientific activities and professions and appearance of some completely new. •



Hotel Business in Ukraine

Investments. Construction. Management

- I. Hotel Business: Development Prospects and Investments
- II. Strategic Management of Hotel Complex
- III. Legal aspects

Invited speakers: Ministry of Culture & Tourism • Kiev City Council • Administration of Urban Development
• Double W Company • Radisson SAS Hotel • Dondass-Palace Hotel • Jones Lang LaSalle Hotels
• Opera Hotel • InterContinental Hotels Group • Landmark Hotels & Properties • Great Hotels Organisation

Host
Hotel

General
Partner

Exclusive
Law Partner

Under
support of

Information
support



Organizer



To register please visit www.rms.kiev.ua
or call + 380 44 537 37 27



Time and Resources We Saved — Our Valuable Acquisition

Mortgage credits have become a constant necessity for Latvians, i.e. most of them need liquidity in order to implement their life-plans — renovating, buying or building houses and apartments. Banks are taking into consideration citizens' needs while providing them with favorable credit terms and interest rates. In this situation a question arises: which factors are to be taken into consideration while choosing, out of several options, only the perfect one that fits into all the clients' requirements?

In order to provide adequate answers, the *BC* interviewed Mr. **Ilmars Vamzis**, Head of *NORD/LB Latvija* Bank's Sales Department.

BC: Mr. Vamzis, how do you assess present mortgage situation in Latvia?

IV: Mortgage credit has become one of the most popular bank services among citizens as people often apply for a long-term bank credit that is used for making their lives better while at the same time providing them with an adequate loan security.

This service is a sort of banks' response to the market demand; at the same time, quite often, it is mortgage interest rates that becomes a decisive competing factor in banks' offers. Therefore we can often witness a situation when our clients do not completely comprehend the changes in the interest rates (of the size of tens' per cent points) which actually in the long run is the most important and decisive factor.

BC: Mortgage credit owners in *NORD/LB Latvija* Bank are quite aware of elastic and favorable rates; what else is specific in Bank's mortgage offer?

IV: It is true that mortgage credit portfolio in *NORD/LB Latvija* is growing faster than average figures in Latvian bank sector. It's a solid proof that bank's clients adequately assess bank's credit interest rates.

Thus, for most of our credits offer mortgage credit is a long-term financial obligation, i.e. such credits are taken for 15-20 or even 25 years' time. Our bank's success story lies in the fact that a rationally thinking client while choosing "his bank" takes into consideration several other not less important factors. Such as our employees' care for the clients' wishes and interests, individual approach and assistance, favorable and elastic interest rates, accessibility of our

banks' filial in the country — these are just a sketch of factors that clients take into considerations while choosing the bank and mortgage credit.

NORD/LB Latvija Bank is fully aware that quite often negotiations on mortgage credit and complicated paper work have aroused stressed among the clients and negative emotions requiring both necessary time and strict in-time payments. We've taken these factors into consideration.

BC: We know that *NORD/LB Latvija* Bank has prepared a special mortgage service offer called "Mortgage credit Plus"; what are the advantages for bank's potential clients in this regard?

IV: It has to be said that our bank presently provides credits covering of up to 90% of the real estate market value, as for the new construction projects — up to 95% of the completed housing value. Bank's clients do know perfectly well that they can get a mortgage credit with a favorable constant interest rate. Already to-day we offer clients mortgage credits with + 1.1 per cent durable inflation rate. We are quite glad that our clients can get already now our most favorable credit offers.

We respect our clients' time and therefore are trying to assist them in solving various formalities involved in concluding the deal, e.g. real estate valuations, making purchase deal, insurance issues, various notary, certification and security papers and other documents required for making a mortgage deal completed. I think it can save the client a lot of time and energy!

Besides, *NORD/LB Latvija* Bank can assist our clients in covering expenses incurred into the future mortgage deal, such as brokerage fees and opening of a special bank account, including these expenses afterwards into the total credit amount.



ILMARS VAMZIS.

In this way "Mortgage credit Plus" can significantly facilitate client's involvement into concluding the mortgage deal and acquiring real estate.

Important addition to the "Mortgage credit Plus" should be mentioned, i.e. this new credit arrangements can facilitate credit processing even during weekends and holiday's time, as well as to postpone basic return payments of up to 2 years!

BC: What other additional services you can provide to your clients?

IV: As I already mentioned, the most important factors for clients are the set of services a bank can provide. *NORD/LB Latvija* Bank is a universal bank which offers the clients, along side with mortgage service, a number of financial services, such as issuing credit cards, facilities for distant payments, favorable deposits, various kinds of credit offers and several other services. On top of this, our clients have already highly appreciated our employees' involvement into clients' needs assisting them in solving all the financial problems connected with the mortgage deal and reducing the burden of expenses.

I can assure you that we can always strike a deal with a client, and to agree on interest rates is never a problem! •

EU Integration in Equity and Securities: Towards a Single Capital Market

This is the 3rd article in our series of articles on EU financial and banking integration processes

By Eugene Eteris

European Integration Institute, Denmark

Long-term financial instruments are subject to integration at different speed and at different markets' sectors. Creation of euro, for example, quickly influenced stocks' indices in 12 eurozone states and at the same time left it almost unchanged in another 13 EU member states. Various integration steps are deemed to overcome national barriers in financial regulations and taxation. For example, there are still 25 stock exchanges in the Union, as there are EU member states, regardless of persistent and often quite successful merger efforts.

INTEGRATION EFFORTS IN SECURITIES MARKET

Securities and equity markets usually include the followings items:

- money and bonds,
- stocks,
- various derivatives and
- several funds, e.g. mutual and hedge funds.

The total value of money market instruments in the euro area (in which more than half are treasury bills) amounts to about 850-900 billion euro, which is about a tenth of the total bond market in this area. The largest amount of securities has been issued in France — about 350 billion, Italy — about 150 billion and Germany — 120 billion euro. Integration in secured money market, often called repo market, proceeds very slowly, mainly due to the lack of euro area-wide collateral markets. So far, until the EU directive on financial collateral arrangements is adopted, different securities are used as collateral in repo markets. But the use of repos has increased greatly since euro introduction, although repos operate mainly as national markets. It has to be mentioned that tax treatment of securities eligible as collateral has not been harmonized.

Bond market is dominated by government issues and mortgage-based bonds. Since the launch of euro, the European bond issues increased by ten times, i.e. from about 100 in 1980 to about one thousand 25 years after. On international bond scene nearly half of the market is denominated in the US dollars and about 35 — 40% in euro. The EU corporate bond market is fragmented and small — about 6% of the total — in comparison to about 20% in the US.

There are two main traditional eurobond centers in the EU, i.e. London and Luxembourg; recently such trading began also in Zurich. The first two are trying to prevent the EU regulations from undermining their own eurobond markets.

Eurobond market at present has reached 3,000 billion euro of which the UK accounts for about two-thirds (the sector supports thousands of London-based jobs). About ten eurobond issues a day is taking place in London. Zurich exchange altered its rules in February 2005 to permit eurobond listings by non-Swiss companies. This provides a message for non-EU issuers which do not want to submit to the new EU regime and would look elsewhere for alternatives.

The London Stock Exchange (LSE) plans to launch an alternative, self-regulated eurobond market which will be free from EU control. Luxembourg stock exchange plans to create a similar "professional" alternative market for bonds in the near future too.

The EU is expected to introduce a directive which would require bond issuers to follow the new International Financial Reporting Standards. Good news too is that in 2007 a second transparency directive will come into effect.

The EU stock markets are still much smaller than those in the USA, although the rate of growth is becoming much higher. The growth of the market has been influenced by the following close cooperation and mergers in the EU, since euro introduction:

- Stock exchange merger in 2000 of Belgium, the Netherlands and France into *Euronext Stock Exchange*; later *Lisbon Stock Exchange* joined *Euronext*;
- *Deutsche Bourse* expansion and recent attempts to merge with LSE;
- Broad merger of Scandinavian exchanges, starting with that of Helsinki and Stockholm in 2003, and later involving the Baltic States, i.e. *OMNEX*.

Stock market integration in the EU has been forced by technological progress in securities brokerage, remote brokers' increased role and cross-border investment services provision. Thus, in 2004, more than half (28 out of 44) brokers operating on HEX were remote brokers. The trend was followed by increased importance of non-resident investors at the expense of resident ones in most EU countries.

Euro introduction has changed derivatives market significantly, e.g. trading in the euro-zone was concentrated in the largest derivatives exchanges in Euronext, Eurex, etc., and consequently contracted considerably. At the same time new derivative products, for example, credit derivatives have appeared in the euro market and internationally. The latter is a contract the value of which is connected to the credit risk of the company in question or financial institute (e.g. swaps, futures or options).

Both short- and long-term interest rate derivatives in the European Union have been concentrated in Euribor and Eonia.

Mutual funds have not been traditionally widespread in Europe (except the UK, France and Sweden) as European households' assets were channeled into bank deposits and bond/stocks markets. In comparison to the US, the mutual funds capital was twice less in Europe: 3,500 billion euro in Europe and 7,500 billion in the US in 2003. In the latter the mutual funds have had several decades' history. As for the EU, only in France mutual funds have long played significant role in investments: here the ration of funds' assets to GDP was on the US level.

It has to be noted that savings behaviors are changing in Europe which is reflected in a higher rate of growth in mutual and pension funds (partly due to growing popularity and partly due to another important reason connected with the ageing of European population). In the beginning of 2004 the size of mutual funds in euro zone was about half of the areas' GDP. About two thirds of the mutual funds' assets are concentrated in three countries, i.e. Ireland, Luxembourg and France. Non-residents mostly invest in Irish and Luxembourg funds.

EXCHANGE OPERATIONS

Exchange operations, clearing and settlement system integration play a major role in stock exchanges' activity. In financial operations by a settlement is meant an operation when as soon as a deal is agreed upon and the buyer gets the object of the deal (regardless of the essence of the mat-

ter, e.g. goods, stocks, etc.) whereas the seller receives the money. The clearing process is initiated after an agreement is reached between the trading parties. These two notions are extremely important in the securities field because they form the background of the whole financial system and provide reliability to the financial market. Any draw-backs in clearing and settlements can greatly reduce financial market efficiency.

The EU financial activities in securities market are quite fragmented in settlements and clearings mainly because of national specific practices and actual adoption of euro by less than half of the Union, i.e. 12 EU member states. Although London, Frankfurt and Paris have been traditionally three major financial centers in Europe, on the other hand, there are about 20 stock exchanges in the Union with different rules and technical operating systems. Some operates in several countries, like *Euronext Group* which operates in Belgium, France, the Netherlands, Portugal and the UK, others in just a few, e.g. *Deutsche Bourse Group* which operates in Austria, Luxembourg and Germany. The *OMHEX Group* represents the merger of Swedish OM and Finnish HEX which entered into force on 4 September 2003. Hence, improvement in cross-border operations is regarded as the most important step in the EU financial services' integration.

Such improvement presently occurs mainly through mergers. Thus, in Scandinavian region the former HEX became part of the Swedish *OMHEX Group* with shares traded publicly on both Helsinki and Stockholm stock exchanges. All Scandinavian countries have united their stock exchange business units into Norex system.

The *OMHEX Groups'* aim is to create fully integrated and single securities markets and exchange in the Nordic countries and the Baltic region. In the beginning of 2004 its market capitalization reached 420 billion euro with about 70,000 trades made on a daily basis. Since the end of 2004 a common trading system was installed operational in all Nordic and Baltic securities exchanges.

As soon as integration in the internal market requires harmonization in trading, clearing and settlement systems, so does the corresponding regulatory framework.

EU REGULATORY MEASURES

There are quite a few EU measures (9, in total) concerning exchange operations, clearing and settlement activities. More than 40 years since the Com-

munities' creation, it is still lacking adequate and final regulations on securities clearing and settlements.

Although coordinating efforts on transferable securities offered to the public were, in fact, the initial steps in the exchange operations, the first EU measures in securities trade liberalization have been taken just a decade ago. In 1996 two EU directives adopted in 1993 entered into force, the first one (COM 93/22/EC) gave authorized investment firms the right to operate in all EU member states once it had a valid member states authorization/license, commonly called "European passport". The second directive (COM 93/6/EC) established minimum initial capital for establishing an investment firm, and laid down conditions for acquiring such European passport.

Next step in regulatory path was the famous Financial Services Action Plan adopted by the European Commission in 1999. The plan's main objectives were to establish common legal framework for integrated securities and derivatives markets, to create single market for investments and to eliminate risks in clearing and settlements.

TOWARDS A SINGLE CAPITAL MARKET

Recent *Deutsche Bourse (DB)* bid for London Stock Exchange has aroused a lot of speculations on the future of exchanges playing field. One thing has to be really clear, i.e. this bid is not simply a commercial deal or move. As to clearing and settlement business, the *DB* is the largest in Europe. The debate between the two goes beyond the competition in the EU in trading shares; it's about the future of the European capital market with a single and unified securities market which enables capital to move cheaply and efficiently in the region. Probably, the greatest disadvantage for the ideal Pan-European capital market is the existence of a series of national bourses, many of which have their own clearing and settlement providers. As soon as existing system looks efficient for securities traded between investors in the EU, cross-border trading between them would remain expensive. The European Commission has already estimated that cross-border trading is about five-six times more expensive than domestic trades. The EU Ecofin ministers promised to discuss all legal and practical obstacles on the way to consolidated capital market creation in Europe and publish a final report. The only thing left is to wait for more adequate market assessment and control. But that is the theme of our fourth and last article. •

Latvia and Belarus: Cooperation Prospects

By Anzhela Rzhishcheva

By Mikhail Tuzhikov

The Belarus-Latvian investment forum that took place in the Latvian sea-side resort Jurmala in late November last year identified main spheres for cooperation between the two countries — transit, trade, wood-processing, innovation and high technologies as well as joint implementation of investment projects.



The event was organized by the Belarus embassy in Latvia together with *PROSPERO Public Relations* and support from Latvian Economics Ministry and Latvian Association of Commercial Banks. Among supporters of the forum has been *Parex Bank*, one of the largest banks in the Baltics. The forum gathered over 120 representatives from state institutions and business circles. For two days participants discussed expanding cooperation opportunities; business companies' presentations and constructive dialogues among businessmen people have been held.

CONSIDERING GEOPOLITICAL REALITIES

Both parties agreed that relations between Latvia and Belarus have been developing quite well and dynamically.

"Contrary to certain predictions, the EU membership has not made Latvia less attractive as to perspectives of developing economic cooperation with Belarus", said **Valerij Dovgan**, Belarus Charge d'Affairs ad interim in Latvia. "On the contrary, the new geopolitical reality in the region facilitates more active bilateral trade and economic cooperation, encourages the process of finding new niches with unused potentials, raising to a qualitatively new level

the priority and strategic importance of a constructive dialogue between the two countries", he added.

"Latvian export to Belarus increased 2.5 times since Latvia joined the EU", said Latvian Economics Ministry's state secretary **Kaspars Gerhards**. "During the same period Belarus import has grown nearly six times. And the dynamics of economic relations between our countries remains positive. The turnover of goods rose 60% in the first half of 2005 and reached 200 million US dollars."

GATE TO EUROPE

Belarus Economics Minister **Nikolai Zaichenko** in interview to *BC* underlined that for Belarus Latvia "is not just a trade partner, it is an important transport corridor."

At present 88% of Belarus cargos (mostly oil products and mineral fertilizers) are being sent to the West through Latvian ports. All in all, Belarus foreign trade shipments make up for 25-27% of total cargo turnover at Latvian ports and 36.6 percent of cargo turnover in Latvian state-owned railway company *Latvijas dzelzceļi*.

Belneftekhim concern's representative in the Baltic States, **Vitaly Kalugin**, told *BC* that "the main factor making Latvia attractive to Belarus is based on its natural

geographical advantages, i.e. one of the shortest transit routes to the Baltic Sea used by most national exporters runs through Latvia". He noted growing cooperation between Latvia's Ventspils and Riga ports and Belarus exporters "for whom Latvia has been and remains the main gate to Europe": "I hope that economic ties between our countries will only grow stronger with each year", Kalugin said.

Joint projects are being carried out in transit transport, too. In particular, Zaichenko gave green light to a new six-car passenger diesel train, DR1B-type. The train was built at the *Rigas Vagonbuves Rupnica (RVR)* rail car plant in Riga, Latvian capital by the contract from Belarus Railway Company and meets all the EU, Russian and Belarus quality and safety standards. It is the first train of this kind made by *RVR* in last four years. It took just ten months to design and produce the new DR1B-type diesel train. *RVR* factory has the capacity to build up to 20 such trains a year. "According to the cooperation program, it is planned to build for the Belarus railway in 2005-2009 various diesel trains, including fast trains that can develop speed of up to 140 km/h", Zaichenko said.

But economic relations between the two countries may change dramatically in future as *Latvijas dzelzceļi* intends to raise freight rates by 20-26% from January 1, 2006. In this case Belarus businessmen will calculate whether it is better for them to



VALERIJ DOVGAN: New geopolitical reality in the region helps to facilitate bilateral trade and economic cooperation.



NIKOLAI ZAICHENKO: Latvia is not just a trade partner for Belarus, it is an important transport corridor.

use transport route through Lithuania. Belarus Transport Ministry is involved in complicated negotiations with Latvian Railway Company but does not lose hope to achieve a compromise on prices.

BUSINESS PROJECTS

Latvia is an interesting partner to Belarus not only as a transit route and outlet to the European markets. In particular, there is a particular interest in Latvia from Belarus banks.

“We already cooperate with Latvian companies engaged in manufacturing and trade”, said *Belinvestbank’s* lending and investment department director **Galina Sadovskaya**. “We are ready to help with any project implementation regardless of the participants’ form of ownership”, she said.

Priorbank executive director **Vladimir Kravchenko** said: “The main objective of our bank is to assist foreign investors, who want to conduct business in Belarus. We have close cooperation with investors from Western Europe, Russia and Lithuania. Foreign partners’ primary interests in Belarus include food industry, wood-processing, fuel and energy industry, production of construction materials, real estate and construction of shopping malls. I hope that this forum will help us to draw Latvian businessmen interests, too. It is important for us that businessmen are aware of a bank in Belarus that works by Western standards and is ready to carry out business projects”.

As to Belarus participation in Latvian commercial banks, **Ludmila Vojevoda**, Regulation and Statistics Department director at Latvian Finance and Capital Market Commission, said: “Belarus bank assets have good potentials for growth.



GALINA SADOVSKAYA: We are ready to help with any project implementation regardless of the participants’ form of ownership.

Non-resident’s share in Belarus bank credit and loan portfolio is just 0.4%, and 0.8% for deposits”.

Latvian businessmen are also taking an increasingly active part in the economic activity of the neighboring country. Deputy administration head in Free Economic Zone (FEZ) “Minsk”, **Vyacheslav Chernobrovkin** said that Latvian companies occupied fourth place by the rate of investments in 2004. “The FEZ project is an example of real target-oriented state support for private business”, he said. “Businessmen are offered a special tax regime that provides for a double reduction in total taxation amount for a company-resident in the FEZ. Corporate profit is exempt from taxation for five years since first declaration, including the



VLADIMIR KRAVCHENKO: Our bank’s main objective of is to assist foreign investors wanting to do business in Belarus.

first profitable year. There is also a special customs regime. Thus at present FEZ “Minsk” offers Latvian businessmen an opportunity to take part in several new investment projects, e.g. “Minsk” national airport development, organization of transport and service center “Prilesye”, environmental project for organizing a plant for utilization of car tires and other rubber polymer-technology waste”.

Free Economic Zone (FEZ) “Vitebsk” also has good potentials for growth. **Iлона Terletsckaya**, deputy head in the investments and external relations department at the FEZ “Vitebsk”, said that Latvian businessmen so far had not been sufficiently active there. “At the same time, working in the FEZ is a chance to try your



hand while making use of tax and customs reliefs. It is a great opportunity for business people," she added.

TOURISM INDUSTRY

According to Belarus Confederation of Industrialists and Entrepreneurs' chairman, **Nikolai Streltsov** exchange of tourists, regular human communication and business trips between the two countries has increased recently.

"Latvia has built a good infrastructure for recreation industry on the Baltic Sea coast," he said. "I think that with the help of appropriate advertising Belarus tourists who prefer holidays on a sea beach, will reorient their long-standing priorities into vacations on the Baltic Sea. In its turn, Belarus has adopted a national tourism development program, and we have something to offer Latvian people, as well. It should also be said that Latvian tourists, including young people, which is particularly important, can be seen more and more frequently at camping sites and vacation houses in Belarus, in particular in Vitebsk region (next to Russian border). Undoubtedly human contacts have to develop further on alongside trade and economic relations"; Streltsov said.

"BRIDGES" FOR BUSINESS

On the eve of Belarus-Latvian investment forum, Latvian businessmen, politicians and public figures founded the Latvian-Belarus Economic Cooperation Society.

Among the Society's founders were e.g. **Oleg Stepanov** (*LSF Holdings*), **Alfreds Cepanis** (*Eirokosultants*), **Alexander Golubov** (Latvian parliament), **Vadim Yeroshenko** (*LAIKA STARS*, corporate finances), **Valery Kanayev** (*Rietumu Banka*), **Andris Gutmanis** (Latvian Transport Development and Education Association), **Nikolai Bashtovoi** (*Kalija Parks*), **Valery Pashuta** (*Ventspils Tirdzniecibas osta — Ventspils Cargo Harbor*), **Edgars Jansons** (*LSF Holdings*), **Aleksei Vinichenko** (*Nitraco*), **Ingrida Loza** (Stockholm School of Economics in Riga), **Valery Godunov** (*LSF Trans*), **Romans Grigs** (*Baltic Service*), **Vitaly Kalugin** (*Belneftekhim*).

Society's chairman Alfreds Cepanis said that bilateral cooperation ideas had been supported by a number of ministries and agencies, city and district councils in Latvia. Latvian-Belarus Economic Cooperation Society's main purpose was to initiate and carry out joint bilateral economic projects, develop investment cooperation, provide organizational assistance to businessmen and strengthen both countries' position as important transit business partners. •



VERA SKVORTSOVA: Latvia is among seven major foreign investors in Belarus.

AMONG TOP SEVEN

"Latvia is an important trade and business partner for Belarus," said **Vera Skvortsova**, Counselor at Belarus Embassy in Latvia. "As of January 1, 2005, Latvia was among seven major foreign investors in Belarus. There are 176 companies working in Belarus with participation of Latvian capital. There were registered 52 companies in 2003 and 69 companies in 2004, including 27 joint ventures and 42 investment funds. That means that Latvian investors' activity in Belarus increased at the time of Latvia's accession to the EU".

Total Latvian businessmen capital share in registered organizations with foreign investments in Belarus amounts to 21,25 million US dollars, including 10,8 million US dollars of joint investment and 10,5 million US dollars of foreign investment.

According to Latvian Business Register made in September 2005 there were 280 companies with Belarus capital totaling about 2 million lats working in Latvia.

A success story of a Belarus company working in Latvia would be *Belpishcheprom* concern. It was founded in late 2004 and began actual trade in April 2005. The company has taken a strong foothold in the Latvian market, offering high-quality food and beverages which meet the EU standards, including iodinated salt.

In general, main Belarus export items to Latvia are oil products, timber, ferrous metals, tractors, fertilizers. In 2004 Belarus imported from Latvia mostly fish, grain, cyclical carbohydrates, pharmaceuticals and rail cars" •



ALEXANDER GAPONENKO: In Belarus we have had fruitful discussions with local businessmen and secured Belarus government support.

POLITICAL LOYALTY IS NEEDED

"I think that dynamic economic relations' development between Latvia and Belarus is often obstructed by Latvian politicians' political ambitions," said **Alexander Gaponenko**, Dr. econ, Russian Businessmen Union in Latvia (RBUL), president. "Potassium fertilizers exported by Belarus would be a good example: previously the stuff was reloaded at Latvia's Ventspils port. Now Belarus prefers to work through Kaliningrad port and avoiding transit. The same is also true about significant reduction of Belarus timber deliveries.

Mr. A. Gaponenko continues: "As Latvian SMEs have no direct influence on the position of the Latvian government, we went to Belarus where we met with local businessmen and managed to secure Belarus government's support. Our visit was generally of great success. Latvian businessmen and RBUL-members obtained quite definite development proposals e.g. concerning construction and investment projects, polyethylene supplies, public catering services, etc. A cooperation agreement was signed with the Belarus Council of Ministers which would significantly facilitate our trade cooperation.

Regretfully, there are a number of issues that require for their implementation political will of Latvian government. In particular, this refers to gasoline deliveries on favorable terms which definitely can contribute to recovery of the Latvian economy in general.

And it's true as well that without "political loyalty" from Latvian politicians the idea of Latvia serving as an economic bridge between Europe, Russia and Asia will never come true. Such an "economic bridge" would be a serious breakthrough for Latvian economy. Now it's time for Latvian lawmakers to respond," concluded Mr. A. Gaponenko.



FEZ "Vitebsk" Favorable Conditions: Guarantee for Success

Free Economic Zone (FEZ) "Vitebsk" is situated in one of the highly developed industrial and cultural centers of the north eastern part in Belarus. FEZ "Vitebsk" legal background was the President of the Republic of Belarus decree No. 458 signed September 4, 1999 for a period of 30 years. Leonid Ivanovich Shevchenko has been in charge of FEZ "Vitebsk" administration from the day one.

During six years since its inauguration, FEZ "Vitebsk" has registered 36 "residential" investment projects. Even to-day 29 investment projects with capital from 11 countries are being carried out at the FEZ "Vitebsk" with the total amount of about 40 mln US dollars of expected investments. The amount of actual investments as of January 1, 2006 was more than 39 mln US dollars, including 2 mln US dollars allocated and spent on the FEZ territory's modernization (construction of a power transforming station and power supply lines, a motor road, water supply and sewer infrastructures). Residents in FEZ "Vitebsk" represent different production and manufacturing sectors, as well as services. According to the shares in total production output these sectors are divided into the following groups:

- fuel industry — 37%;
- food industry — 25%;
- mechanical engineering — 17%;
- science and research — 10%;
- light industry — 5%;
- production of veterinary ingredients — 5%;
- banking service — 1.2%;
- chemical industry — 0.5%.

Some positive trends have emerged alongside FEZ "Vitebsk" organic growth; thus for example, export to Russia has declined from 70% in 2004 to 43% in 2005; at the same time the share of exports to various non-CIS and Western countries increased accordingly. This export re-orientation

can serve as a simple evidence that goods and products made by FEZ "Vitebsk's" residents adequately meet international quality standards and are in demand on Western foreign markets.

The share of export operations among total FEZ "Vitebsk" residents' activities has reaches 84%. It is the highest rate among all existing free economic zones in Belarus. Total average share of all free economic zones export in the country's export turnover equals presently to 53.2%.

Administration thinks that these positive export facilities have been made possible due to FEZ "Vitebsk" favorable geo-economic position being situated close to major industrial centers both in the Baltic States (Riga, Vilnius, Kaunas) and Russia (Moscow and St. Petersburg).

Well-developed transport infrastructure makes FEZ "Vitebsk" an attractive territory for organizing production aimed for exports to Russian, Baltic and Scandinavian markets. Production and manufacturing located in the free economic zone can reduce corporate tax burden by 30-40% on average; return on investments can be achieved much sooner.

Any corporate entity with a variety of organizational and legal forms can be registered as residents in FEZ "Vitebsk". Both local and/or foreign corporate entities and individuals can be constituent founders in the economic zone. Relief from customs and



LEONID SHEVCHENKO: FEZ "Vitebsk" administration head.

tax duties available in free economic zone can be a rather attractive factor for foreign capital inflow.

By locating production and manufacturing in FEZ "Vitebsk" it is possible for a company:

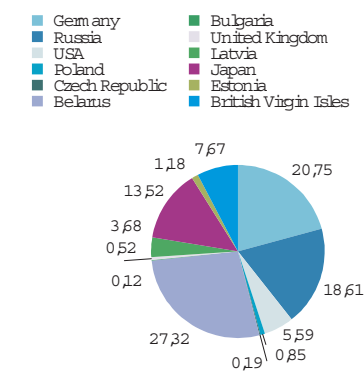
- to cut production costs;
- to increase competitive advantages;
- to reduce return periods for investment projects;
- to reduce the need for working capital due to customs duties' exemption when importing raw materials and resources, technology components and/or equipments into Belarus customs territory;
- to move your production closer to sales markets.

FEZ "Vitebsk" can offer potential investors both advantageous geo-economic position of the region, tax and customs relief, as well as highly qualified personnel, vacant industrial buildings, arable land and ground for construction with access roads and railway tracks.

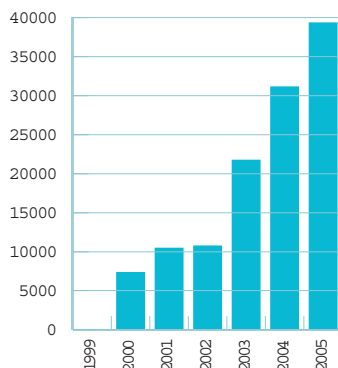
FEZ "Vitebsk" administration invites business people to cooperation towards setting up the most competitive and diverse undertakings. •

FEZ "Vitebsk" Administration,
Department of Investments and Foreign
Economic Relations
50 P. Brovky Street
Vitebsk
Belarus Republic
Phone: +375 212 260166
Fax: +375 212 210927
E-mail: fez@vitebsk.by
www.fez-vitebsk.com

ACTUAL INVESTMENTS' BREAKDOWN BY COUNTRY, IN %



ACTUAL INVESTMENTS, TOTAL, IN TH. USD



CORRUPTION SUSCEPTIBILITY INDEX IN THE EUROPEAN UNION

Rank	Country	Index rank*
2	Finland	9.6
4	Denmark	9.5
6	Sweden	9.2
10	Austria	8.7
11	Netherlands	8.6
12	UK	8.6
13	Luxemburg	8.5
16	Germany	8.2
18	France	7.5
19	Belgium	7.4
20	Ireland	7.4
23	Spain	7.0
25	Malta	6.6
26	Portugal	6.5
27	Estonia	6.4
31	Slovenia	6.1
37	Cyprus	5.7
40	Hungary	5.0
41	Italy	5.0
44	Lithuania	4.8
48	Czechia	4.3
49	Greece	4.3
50	Slovakia	4.3
51	Latvia	4.2
70	Poland	3.4

* Index rank in 2005: reflects corruption susceptibility by businessmen and experts ranking from 10 points (practically non-existent) to 1 point (high corruption index).

Source: Transparency International.

TURNOVER OF GAMBLING AND LOTTERIES' FIRMS IN LATVIA, IN MLN LVL

	9 months 2005	Increase as to 9 m. in 2004, in %
Total	70.53	+38.1
Slot machines	53.10	+45.2
Gambling tables	5.60	+18.0
Bingo	0.92	+20.2
Lotto, bets and other lotteries	0.95	+10.2
Internet and phone gambling	0.09	-39.5

There are registered in Latvia 13 419 slot machines, 647 gambling halls, 29 roulette tables, 112 tables for baccarat and dice, 3 bingo-halls, 16 casinos, 29 lotteries and bets' halls.

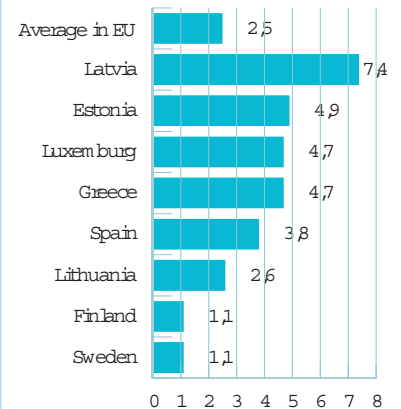
Source: Latvian Lotteries and Gambling Control Board.

THE BIGGEST LATVIAN COMPANIES
Profit after taxes, 2004

	Name	Profit, LVL
SIA	Latvijas Mobilais Telefons	54 656 000
AS	Latvijas kugnieciba	37 796 988
VAS	Latvijas valsts mezi	33 824 444
SIA	Lattelekom	33 460 131
SIA	Tele2	25 816 327
AS	Latvenergo	24 681 084
SIA	Tele2 Holdings	20 965 439
AS	Latvijas Gaze	17 794 757
KS	Ventbunkers logistika k/s	17 439 459
AS	Ventspils nafta	14 778 000
SIA	Itera Latvija	14 115 294
SIA	LSF Holdings	10 997 253
AS	Ventbunkers	8 571 000
AS	VB Holdings	7 888 003
AS	Latvijas Naftas Tranzits	6 850 991

AS — Public Joint Stock Company,
VAS — State Joint Stock Company,
KS — Commandeer Company,
SIA — Joint Stock Limited Company.

Source: LURSOFT.

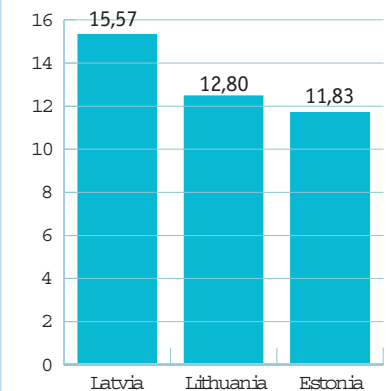
LEVEL OF INFLATION IN SOME EU COUNTRIES, AUGUST 2005, IN %


Source: Eurostat.

LATVIAN COMPANIES: OVERALL TURNOVER AND PROFITS, IN LVL

Financial year	Number of companies	Overall turnover	Profit	
			Before taxes	After taxes
1996	20677	4 982 455 919	167 238 924	-13 949 272
1997	23415	6 443 249 033	276 382 294	135 739 912
1998	26241	7 532 984 985	233 872 101	102 610 581
1999	30273	8 153 999 605	196 055 914	61 065 918
2000	33673	9 296 860 672	227 661 646	111 134 229
2001	38397	10 811 595 614	228 477 863	207 709 684
2002	42879	12 853 405 764	270 807 051	159 542 374
2003	45165	14 397 934 918	233 972 327	195 451 029
2004	41983	16 242 858 064	467 087 384	627 531 075

Source: LURSOFT.

COMMERCIAL BANKS' ASSETS IN THE BALTICS, AS OF 31.12.05, IN BLN EUR


Source: SEB Latvijas Unibanka.

AIR TRANSPORT IN THE BALTICS

	Number of passengers, in mln		Cargo turnover, in th. t	
	9 months 2005	In % to 9 months in 2004	9 months 2005	In % to 9 months in 2004
Riga	1.376	+82.5	13.326	+86.1
Tallinn	1.050	+44.7	7.073	+88.5
Vilnius	0.997	+32.3	3.821	+0.6

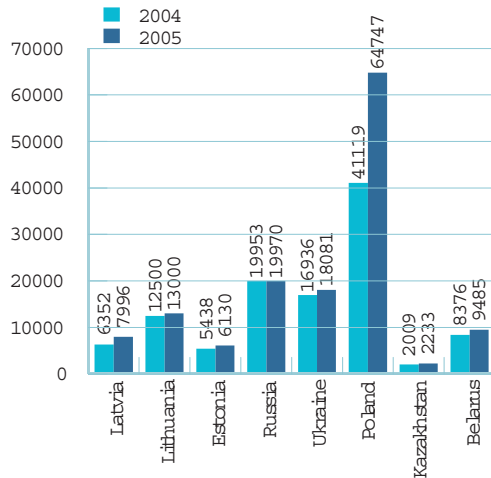
Source: LETA.

AIRPORTS IN THE BALTICS, 11 MONTHS 2005

	Cargo turnover, in th. t	In % to 11 m. 2004	Number of passengers, in mln	In % to 11 m. 2004	Number of flights, in th.	In % to 11 m. 2004
Riga	15.16	+86.4	1.7	+79.8	31.9	+27.6
Tallinn	9.25	+84.7	1.3	+44.9	31.2	+19.9
Vilnius	4.77	+1.8	1.2	+29.7	27.2	+25.4

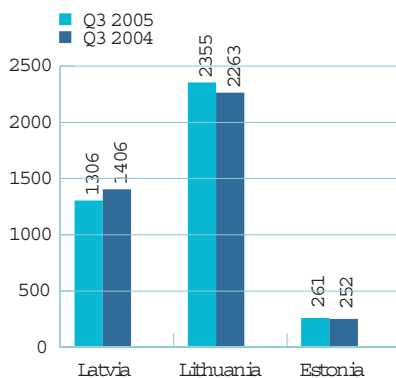
Source: LETA.

NUMBER OF CARS ON INTERNATIONAL HAULAGE ROAD TRANSPORT



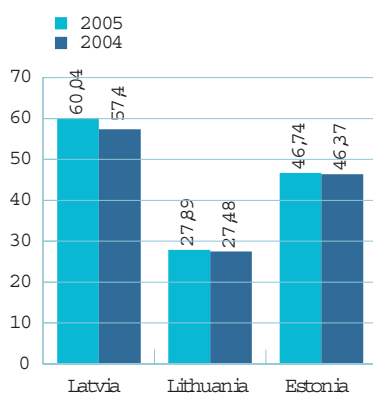
Source: ASMAP.

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



Source: The Central Statistical Bureau of Latvia.

THE BALTIC PORTS' TURNOVER, IN MLN T



Source: LETA.

GROSS DOMESTIC PRODUCT

	Latvia	Lithuania	Estonia
GDP at current prices, mln EUR			
Q3 2005	3312	5523	2761
Q3 2004	2802	4825	2306
GDP at constant prices, %			
to Q3 2005	111.4	107.6	110.6
to Q3 2004	109.1	105.6	108.3
GDP per capita, EUR			
2004	4777	5264	6702
2003	4262	4760	6012

Source: The Central Statistical Bureau of Latvia.

WAGES, EUR

	Latvia	Lithuania	Estonia
Monthly average, Q3 2005			
Gross wage	353.0	399.0	498.0
% to Q3 2004	117.4	109.4	110.9
Min. wage, January 2006	128.0	159.0	192.0
% to January 2005	112.5	110.0	111.5
Old-age pension, monthly average, Q4 2005	123.0	129.0	175.0
% to Q4 2004	111.9	110.9	118.9

Source: The Central Statistical Bureau of Latvia.

FOREIGN TRADE, 2005, MLN EUR

	Latvia	Lithuania	Estonia
Export (FOB):			
total	4086	9502	6213
to EU-25	3114	6215	4831
% of total	76	65	78
Import (CIF):			
total	6879	12446	8192
from EU-25	5160	7359	6229
% of total	75	59	76
Balance of foreign trade	-2794	-2945	-1978

Source: The Central Statistical Bureau of Latvia.

FOREIGN DIRECT INVESTMENTS

At the end of quarter	Latvia	Lithuania	Estonia
FDI, stock, total, mln EUR			
Q3 2005	3884	5278	10415
Q3 2004	3135	4450	6580
Per capita EUR			
Q3 2005	1690	1548	7729
Q3 2004	1357	1297	4870
FDI, flows, mln EUR			
Q3 2005	178	177	236
Q3 2004	119	90	132
% of GDP			
Q3 2005	5.3	3.2	8.5
Q3 2004	4.3	1.9	5.1

Source: The Central Statistical Bureau of Latvia.

NUMBER OF NEW CARS IN THE BALTICS

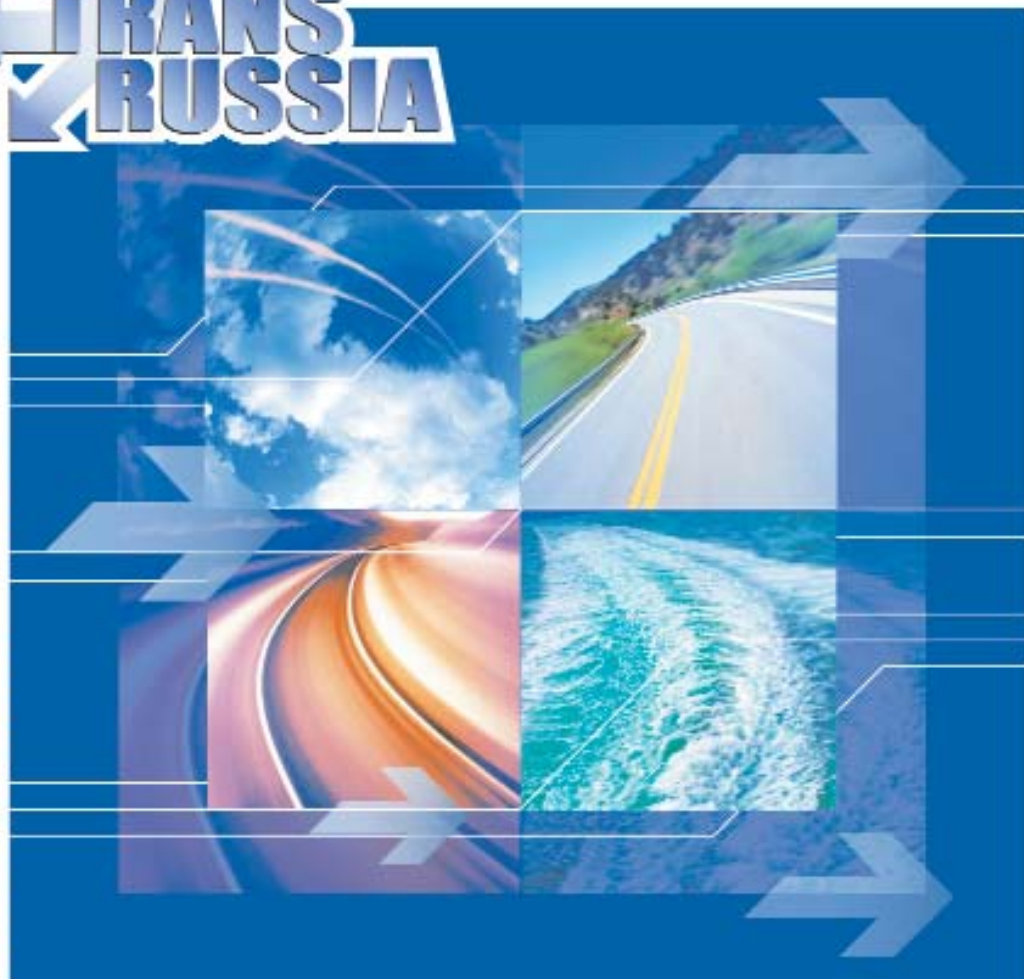
	Latvia	Lithuania	Estonia
2005	69704	140606	60629
2004	57464	134551	47552

Source: LETA.



UNITING
THE TRANSPORT
COMMUNITY

www.transrussia.ru



TRANSRUSSIA

11TH INTERNATIONAL EXHIBITION AND CONFERENCE FOR
TRANSPORT AND LOGISTICS

20-23 MARCH 2006
MOSCOW, SC OLYMPIYSKY

Whether you want to introduce your company to thousands of potential clients or simply reinforce your already strong market position, TransRussia is the exhibition for you! The rapid growth of the industry in Russia has enabled the exhibition to develop into the leading event in the industry, supported by the Russian Ministry of Transport and attended by over 14,000 exhibitors and trade visitors.

SUPPORTED BY:



Ministry
of Transport
of the Russian
Federation



ORGANISED BY:



ITE Group Plc
Tel: +44 (0) 20 7598 5000
Fax: +44 (0) 20 7598 5111
E-mail: transport@ite-exhibitions.com