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AVE TRANS GROUP

Logistic operator rendering a unique complex of services



AVE TRANS GROUP

Our main aims are

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

Our policy and purpose

- Complex service is more efficient and less expensive

Our group structure

Transport-logistics division

- International goods transport including all types sea and railway goods delivery, as well as export-import logistics within the EU territory, as well as that of the Baltic States, CIS and so on.

Customs terminal service:

- **Custom clearinghouses and custom brokers** licensed to processing necessary documents and holding all kind of goods including food-stuff and excise goods; provision of all kind of brokers' services and guarantees
- All sorts of custom documents for internal and transit goods with respect to goods' "individual specifics"
- Provision of all sorts and sizes of heated and non-heated clearing-houses, as well as open parking lots
- Provision of all kinds of loading and un-loading operations, including sorting-out performances
- Containers' storage facilities
- **There is a division of national Latvian Custom Service on our custom terminal territory**

Consulting companies — already 10 years in the market — providing:

- **Information and legal support**; representation in Latvia, support and advice in finding business partners.
- **Legal, accountancy and financial services**
- Assistance in **visa-support** activity
- **Insurance broker** — all kind of insurance on the EU territory, compulsory insurance in RU, disputes resolution, independent expert assessment, technical expert reviews, etc.

AVE TRANS GROUP

Industrial Park

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

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

Transport Section

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

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

Auto-repair works' Section

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

Contacts:

3 Uriekstes str., Riga,
LV-1005, Latvia
Fax: +371 67097970
E-mail: ave@ave.lv

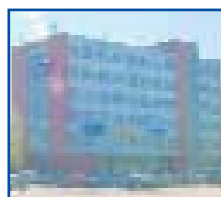
Phone: +371 67097911

+371 67097912

+371 67097901

+371 67097902

+371 67097900



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INTERNATIONAL MAGAZINE
FOR DECISION MAKERS

**The
BAL TIC
COURSE**

Published quarterly since 1996
Summer 2007 (No. 26)

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: eugene@baltkurs.com

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

Editorial Board:

Stanislav Buka – *Baltic International Academy (BIA),
Chairman of the Senate, Dr. Oec., Latvia*

Raivo Vare – *transport expert, Estonia*

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Dr. Oec., Ukraine*

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

Eugene Eteris – *BC's International Editor, Doctor of Laws, Denmark*

Publisher: Cordex Media

9 Vesetas str.

Riga, LV-1013, Latvia

Phone: +371 67389694

Phone/fax: +371 67389696

Distribution and Subscription: Inna Zel

E-mail: inna@baltkurs.com

Phone: +371 67389694

Fax: +371 67389695

Advertising Department: Ludmila Fomkina

E-mail: ludmila@baltkurs.com

Phone: +371 26183630

Phone/fax: +371 67389695

Scandinavian Office:

E-mail: eugene@baltkurs.com

Chief Designer: Peter Vladimirov

Painter: Sergej Tjulenev

Photo: A. Jermolinskij, T. Strahova, press-photo, BC's archive

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.

As a rule, the readers can find in the magazine several reviews on various economic development issues in the Baltic states. This time it is energy cooperation, elite-real estate situation, financial aspects in investment, specific M&A forms in the Baltics ("raiders"), efforts in combating corruption, etc.



The *BC* has long recognised the importance of the Baltics' cooperation in various economic spheres. Recent Baltic Regional Energy Forum in Riga last June provided a clear indication to this notion. It is not often that the heads of three Baltic States' governments together with the EU and USA representatives meet to discuss economic development. There is a lot to be done in the Baltics in energy diversification (for both energy resources and supplies), energy efficiency and in active policy along international energy networks. But forum provided a good impetus in the right direction.

The new *BC*-Baltic International Academy round table was devoted to contemporary available financial forms and means for business activity. Around the round table several top figures from various financial sectors have been present, including such financial institutions as Riga Stock exchange, *Parex banka*, Latvian Guarantee Agency, etc. as well as academics from Latvian universities and practitioners.

We have been following main EU issues, as well. In contrast to a week dollar, the European economic development is accelerating, both quantitatively and qualitatively. These aspects were, actually, behind the proposed changes to the new EU "reform treaty" with new political figures' visions for the region. During the last quarter some new head of states/governments appeared on the EU's map, e.g. new presidents in France and Latvia, new prime minister in the UK, to name a few. The discussions around the new EU treaty at the Council's June summit have turned into the discussions on European future. In this regard, we publish some revised treaty assessments and perspectives for its adoption.

As to the EU close neighbors, i.e. the CIS-group the *BC*'s readers will find information on Moldova Republic, Sochi transportation meeting and St. Petersburg economic forum.

As a rule, extensive statistics on the Baltic States' development is published in the *BC*'s supplement.

Eugene Eteris

BC's International Editor,

Head of the BC's Scandinavian Office

NEW LATVIAN PRESIDENT



On 21 May the Latvian parliament elected the ruling coalition candidate, **Valdis Zatlers**, 52, physician and the Head of the Traumatology and Orthopedic Hospital, the new Latvian president. Mr. Zatlers received 58 out of 100 votes while the other candidate, lawyer **Aivars Endzins** nominated by the opposition party, the Harmony Center was supported with 39 votes. Mr. Zatlers has become the third Latvian president since the country restored its independence in 1991 and the seventh president in the whole Latvian history.

Zatlers took the presidential post over from Mrs. **Vaira Vīķe-Freiberga**, whose second four-year term as the Latvian president expired on 7 July.

Mr. Zatlers' opponents have criticized him over a criminal case in abusing public duties by the National Corruption Prevention and Combating Bureau (KNAB) initiated against him in 2003 by the then Health Minister, **Aris Auders**. However, after several inspections the case was closed in 2006.

The other presidential candidate, Mr. Endzins, received criticism for his Communist Party membership during the Soviet era.

MANAGEMENT CHANGES AT MAZEIKIU NAFTA

Paul Nelson English, Lithuanian oil refinery complex *Mazeikiu nafta's* American general director who had been in charge of the company since December 2002, will resign on 1 July, **Piotr Kownacki**, Board Chairman of *PKN Orlen*, the new *Mazeikiu nafta's* Polish owner announced at a news conference in Warsaw. One of the likely candidates to the post was **Marek Mroczkowski**, former acting Board Chairman of *Unipetrol*, which is controlled by *PKN Orlen*.

LATVIAN ELECTRICITY UTILITY ENTERS ESTONIA

The Latvia electricity utility, *Latvenergo* has established a subsidiary in Estonia, *Latvenergo Kaubandus* which will be working on the Baltic regional electric power market development. Specialists expect systematic exchange between electricity suppliers in the Baltic states in the next two years and *Latvenergo* has started making adequate preparations.

Latvenergo PR Manager, **Andris Siksnis** told the Internet portal *Delfi* that the new company planned to begin operations at the end of summer after obtaining a license for providing services in Estonia. The main purpose of *Latvenergo* for organizing the subsidiary is to diversify the electricity reserves and to enter new markets.



Initially *Latvenergo Kaubandus* will specialize in purchasing electric power from small Estonian operators. Later, when the electricity market of the neighboring country becomes more open, the company will also sell electricity.

Organization of the Estonian subsidiary will enable *Latvenergo* to optimize electricity purchases, which will help to develop competition between the market players.

INVESTORS CONSIDER LEAVING ESTONIA

At the International Forum of Industrialists about 20 foreign investors registered in Estonia admitted that shortage of adequate labor force makes them consider leaving the local market.

"We have to consider the possibility of leaving, even if we would not want to," said **Stuart Kennedy Woore**, Board Chairman of the tool-making company *Eurotool OU*, at the forum held in April, reported the *Aripaev* newspaper. "We ourselves do not have much problem with work force but we cooperate with many other foreign investors in Estonia, who do have such problem. If they leave, we also will have to cut production of leave, said Mr. Woore.

LITHUANIA MAKES DECISION ON A NEW NUCLEAR PLANT



On June 28 the Lithuanian parliament passed a law on construction of a new nuclear power plant in Ignalina. According to the law, Lithuania will hold a 34% stake in the project while Latvia, Estonia and Poland would hold 22% each.

A national investment consortium headed by *Lietuvos energija* will be responsible for construction of the nuclear plant. Other participants include the state-owned *Rytu skirstomieji tinklai* and the privately-owned *VST*.

Lithuanian Prime Minister, **Gediminas Kirkilas** said during the debate preceding the adoption of the law that he would assume full responsibility for possible complications in relations with other parties to the nuclear plant project, i.e. Latvia, Estonia and Poland.

Earlier the heads of government in Latvia, Estonian and Poland called on Lithuania not to rush with adoption of the law, insisting that the prime ministers of all four countries involved should meet first. The planned signing of the declaration about construction of the nuclear power plant did not take place at the meeting on July 6 because of Polish Prime Minister **Jaroslav Kaczynski** was absent.

Ukraine will also be able to participate in the project for construction of a nuclear power plant, the Lithuanian prime minister announced at the Ukrainian-Lithuanian business forum in Kiev. "It is a very big project for construction of a power plant with two reactors and a 3,200 megawatt capacity. I think there will be a place in this project also for the Ukrainian business," said Lithuanian premier. He said that positive development of bilateral relations was noted at the talks with Ukrainian Prime Minister, **Viktor Yanukovych**. Mr. Kirkilas thinks that this is mostly due to the fact that "we have very good historical relations." The Lithuanian premier said that Vilnius was interested in a wider representation of Ukrainian business in Lithuania, *UNIAN* agency reported.

The preliminary project cost is estimated at 6.47 bln EUR. It is planned that the construction will last over nine years and the new nuclear plant would start generating electricity already in 2015.

BELARUS-LITHUANIAN COOPERATION



Prospects of Belarus-Lithuanian cooperation in energy, transportation, transit and logistics were discussed at the III bilateral economic forum, which took place in Druskininkai at the beginning of June. The main organizer of the forum was the Lithuanian Confederation of Industrialists.

First Secretary of the Lithuanian embassy in Belarus, **Vidmantas Verbickas** expressed hope that through negotiations both parties would finally be able to agree on amounts of Belarus potassium fertilizers to be reloaded at Lithuania's Klaipeda port and sign a long-term agreement on the transportation issue.

HANNER BUILDS LOGISTICS CENTER IN RUSSIA

The Lithuanian company *Hanner* intends to invest 100 mln USD in constructions of a logistics complex in Shushary, near St. Petersburg. It will be the first project that the Baltic developers will carry out in Russia. It is planned to complete construction of the logistics complex with the area of 106,000 sq. m at the end of 2008, reported *Delovoy Peterburg* daily.

The company has acquired 20 hectares of land for this project. At the moment, designs are being developed for the facility and the company is looking for a general contractor. *Hanner's* Board Chairman, **Arvidas Avulis** said that the project was conceived in cooperation with the Lithuanian logistics company *Girteka*, which will become the lessee of the first stage of the new logistics complex (23,000 sq. m).

At present the transportation and logistics terminal construction for *Evrosib-Terminal* is under way in Shushary, on the site covering about 18 hectares (2 warehouses with total area of 30,000 sq. m, with required investment of 18-25 mln USD).

The second stage in construction of *PNK Logistics* complex with the area of 40,000 sq. m is expected to be put into commission in 2007. In addition, the company *Avalon Logistics* together with the *Raven Russia Limited fund* is building another complex on the area of 128,000 sq. m.

BUSINESS CENTER AT THE AIRPORT

Construction of a logistics and business center, *Eclipse BLC* is underway at the Riga airport in the Latvian capital. The initiator of the 100 mln EUR worth project, *Plus punkts*, plans to complete the construction in 2008. The company has announced its intention to develop 6 hectares of land that it leases in the airport territory.

Project manager, **Sanda Smalina** said that *Plus punkts* has signed a land lease agreement with the airport for a term of 49 years. The construction company *B52* has already begun the site preparation.

Eclipse BLC will be built in two stages. A logistics and distribution center will be built first, and *Plus punkts* has already booked one of the future warehouses for needs of its retail chain. Mrs. Smalina said that the construction of the first stage will cost about 14 mln LVL.

"During the second stage we want to build a 15-storey administrative building with a conference center," she said. There will be 28,000 sq. m of office space and the



conference center will take another 2,500 sq. m. The remaining 1,500 sq. m will be accommodated for catering establishments, retailers and service outlets. Designs are being developed at the moment, and the construction is likely to begin in autumn," said the project manager.

Plus punkts was registered in 1996. The sole owner of the company is Liechtenstein investment group, *Ibofa Establishment* which bought *Plus punkts* from *Greis* at the end of 2003.

SHELL WITHDRAWS FROM BALTIC MARKET

One of the world oil industry leaders, *Shell* will withdraw from the Baltic market. Five years ago *Shell* sold its fuel filling stations to *Statoil*, focusing only on deliveries of crude oil to the Baltic market.

The press service of *Shell International B.V.* announced that the company presently plans to head for some bigger markets, such as China and Turkey.

CLOSING SEWING FACTORY IN LATVIA



The sewing factory *KLLT* in Jelgava, central Latvia, will be closed down this summer and about 100 seamstresses will be redundant. The reason for closing of the factory is the shortage of qualified labor force in the city. *KLLT* director, **Aina Utena** said that the decision about stopping production was made by the company's owners in Hong Kong. The factory needs 300 workers to carry on business as usual, but due to shortage of human resources it is unable to fulfill the orders and, consequently, has ceased to make necessary profits.

Mrs. Utena told LETA-news that young women did not want to work as seamstresses because inadequate monthly wages: at *KLLT* it was 270 LVL (385 EUR). The vocational school also is unable to supply the market with additional labor force; in places where there used to be 20 trainees, now only five girls are training to become seamstress. There are similar negative trends in other Latvian towns. Production costs are rising due to increased prices for electricity, natural gas and fuel and will grow even more after January 2008 when the minimum wage rise is expected, said Mrs. Utena. *KLLT* was exporting all its production's output.

ONLY LEGAL INCOME WILL COUNT

In order to control lending credit growth in Latvia, the parliament has adopted amendments to the law on consumer protection under which commercial banks and leasing companies in future will be able to issue loans to clients only based on their legally calculated income. The legality of one's income will have to be confirmed by a corresponding statement from the State Revenue Service or other tax authorities. At present, many people state their actual income to get a loan, yet no taxes have been paid on that income as the latter had been acquired through unofficial-type salaries (in envelopes). The said legislative amendments are part of the plan for curbing inflation and slowing down economic growth.

Money under the table

How the paths of a public servant and individual intersect

By Olga Pavuk, Latvia

Sigitas Pasilaitis, Lithuania

A recent survey among 500 German businessmen working in the Baltic states has shown that out of 25 factors describing investment environment in Latvia, Lithuania and Estonia the most negative respondents' attitude was towards corruption, red tape and lack of transparency in public and municipal authorities, seriously damaging investors' work. Alongside a lot of discussions in the Baltics about combating corruption, a number of agencies are tackling the issue.

The *BC* interviewed the heads of Latvian, Lithuanian and Estonian anti-corruption offices in order to find answers to questions related to combating corruption in the respective countries. The following principal authorities took part in the questionnaire: in Latvia — **Aleksei Loskutov**, Director of the Corruption Prevention and Combating Bureau (KNAB); in Lithuania — **Povilas**

Malakauskas, Director of Special Investigation Service (STT), and in Estonia — **Mari-Liis Liiv**, Counselor in the Justice Ministry's Criminal Police Department.



ALEKSEI LOSKUTOV.



POVILAS MALAKAUSKAS.

Malakauskas, Director of Special Investigation Service (STT), and in Estonia — **Mari-Liis Liiv**, Counselor in the Justice Ministry's Criminal Police Department.

BC: How would you define corruption?

Aleksei Loskutov (A. L.): I think that it is best to use simple words when talking to general public about corruption; therefore I'd describe corruption as a situation in which a government or municipal officials abuse their position to reach personal gains. Corruption might take many different forms, e.g. bribery and abuse of official powers being the most widely known varieties.

Povilas Malakauskas (P. M.): Should one try to define corruption, it would be very easy on one hand and very difficult, on another. Corruption happens when the authorities and public offi-

ment, as well as in business; in all those instances corruption implies different notions.

In Lithuanian legislation a simple definition is used: "Corruption is when one uses his/her authority and powers to achieve personal goals." Thus, it was decided that anti-corruption efforts should, first, be targeted at situations where the state confronts an individual, a business person, or a non-governmental organization. The Lithuanian STT was created specifically for controlling those spheres where the civil servants, general public, as well as businessmen's interest intersect.

It, of course, can happen that illegal actions took place during business transactions and deals. But this is beyond the authority of our department and such cases will be dealt with by other law enforcement

agencies. There were, by the way, some debates about extending the STT's authority to include combating corruption in business environment; for example, when a company's director through corrupt connections causes damages to his employer. I have discussed the subject with many businessmen and they think that they have enough sufficient means at their disposal to be able to monitor and prevent corruption.

Therefore, I will repeat again, our department's responsibility covers those spheres where the contacts between the state's representatives and the individuals take place.

Mari-Liis Liiv (M. L.): Corruption is an abuse of one's official position for personal gains. In my opinion, the term "official position" carries a far wider meaning which has not been defined in law and implies any position in the public, private or a third sector.

BC: How would you assess shadow economy's dimension in your country and corruption affect thereof?

A. L.: I have not looked into shadow economy specifically, but judging from publications, its share might be within 10-25% of GDP. These figures were mentioned by Aigars Stokenbergs, the Minister for Regional and Municipal Development. Regrettably, shadow economy is widely spread in Latvia and I think that actually the share of "shadow economy" is much larger. There are several



MARI-LIIS LIIV.

economy sectors dealing with huge profits. Without exaggeration, for example, it can be said that a major part of the real estate market is "shadow"; e.g. there are dozens, hundreds, if not thousands of real estate brokers who did not register their business and do not pay taxes. To my mind, dealers in second-hand cars and oil products also contribute to the "grey economy sector".

When our agency developed the concept of improving control over personal incomes, we invited a couple of economists, i.e. **Janis Grasis**, associate professor at the Banking High School, and **Raita Karnite**, Director of the Institute of Economics in the Latvian Academy of Sciences to estimate the expenses and benefits for the state budget of introducing such control. Ms. Karnite's assessment, based exclusively on the official statistics, revealed that Latvian

population's spending was, on average, by one-third higher than their income and loans. That difference could amount to about a billion or even 1.5 bln lats a year. The equity assets representing this difference, or at least a part of it, are within the shadow economy. A share of it can have criminal origin but most of it is within the so-called grey economy (i.e. money earned by a rather legal business, but no taxes have been paid). I think this is a very serious problem for the country. If we manage to impose taxes on this equity, the extra revenues to the budget would be at the level of several hundreds of millions of lats.

The connection with corruption is twofold: on one hand, corruption among law enforcement officials and public administration helps to sustain shadow economy. On the other hand, the money they received in bribes flows into the economy as another source of "grey" equity.

P. M.: Speaking about shadow economy, one has to take into account that even the experts in this field agree that there is no single sufficiently reliable methodology for determining the scope of shadow economy. Therefore some relativity is always present. However, it does not preclude use of any figures produced in this respect for drawing certain conclusions. Thus, results of a survey carried out in 2002, and published in 2005, allowed the Lithuanian Department of Statistics director to say that country's shadow economy accounts for about 19% of the GDP.

How big is it? In the same survey it was stated that the share of shadow economy in Latvia during that time was 17%, in Slovakia – 22% and in Czech Republic – 9%.

Another aspect has to be mentioned as well: these rather high figures can tell not so much about the widespread shadow economy but rather about great efforts the country exerts in combating corruption in all spheres. Meanwhile low corruption rates do not necessarily mean that corruption is eradicated in the country; people, instead, might have closed eyes on it.

As to the shadow economy's rates in Lithuania and other post-Communist countries, they could be described as normal, considering their transitional processes. However, when we compare these figures with countries having solid experience combating shadow economy, it becomes apparent that there is much to be done in this respect. But it is not a problem that can be solved in one day; it would take a lot of time. The state needs simply to get over it, and of course, we can not let these things drift.

The results of a similar survey carried out by the Department of Statistics in 2004 are expected to be published somewhere in autumn this year. As far as I know, from the preliminary data, the share of shadow economy has been estimated at 16%.

After all, the transitional period provides a very good ground for the shadow economy to grow. In such nations the fledgling organism of the state power usually lacks maturity to run the country efficiently, without any glitches. But the people already want to lead a new and better life: they cannot wait for the public administration to get the things running smoothly. People have already experienced freedom and opportunities, though the government system does not yet function properly.

According to Friedrich Schneider estimates, a recognized expert in shadow economy research, the shadow economy in the Baltic states in 2002-2003 was between 32% and 41% to 41.3% in Latvia, 32.6% in Lithuania, 40.1% in Estonia. As it is seen, these rates are substantially different from the official statistics of the three countries. Latvia's rate is the highest in the EU. Mr. Schneider believes that corruption is fundamental to the shadow economy development.

As a result, a shadow public administration system emerges alongside with its permanent companion — corruption. People are ready to pay to have their problems solved quickly and effectively. And if the official system is slow to handle the situation, the case outcomes are far from being certain and you are often treated like nobody, people would sooner and willingly turn to more efficient, although unofficial, bodies, i.e., they actually would go to the same office but not empty-handed. Thus your case is processed through a parallel management system where you will be treated well (after all, you are a paying customer), where all your problems will be solved promptly.

This, I believe, is in the nutshell the system when we talk about corruption and the combating efforts. It is not enough having effective tools for criminal prosecution of corruption, which is a must in every country. It has to be realized that such tools alone will not solve the problem. The most effective means, as well as the ultimate fundamentals in combating corruption, would be to improve the public administration efficiency. Under any conditions, it has to be more efficient than the shadow administration system.

The public administration mechanisms need constant improvement and simplification; the rules of the game have to be made more rational, some outdated procedures should be discarded in good time. As a result, the situation, including the business environment, will improve and so will the opinion of the people about the state's efficiency.

There is another aspect: during the transitional period people and the society in general received more freedom, more information about their rights, which sharpened the perception of corruption actually infringing our rights and things guaranteed by the state. Public perception of corruption might even be inconsistent with the actual situation; occasionally the difference can be very big.

If public authorities treat you with due respect, it would certainly influence your opinion about the state, about the level of corruption in the country. For example, public opinion polls in Lithuania show that people see corruption and poor administration as synonyms. If you visit a public agency and do not receive the expected treatment, which might even be polite enough but there is no progress in processing your case, people would say: "Hey, they are all corrupt over there." The civil servant may even be honest but not active enough, i.e. he might realize the shortcomings of the procedure but not taking any actions to change the situation for the better.

M. L.: According to the Estonian Institute of Economic Research 2006 survey, the shadow economy in the country in 2005 accounted for about 8% of all Estonian population expenses, being

mostly active in the eastern part of the country and weak in the northern part. These data showed that the shadow economy correlated with the unemployment rate which in fact was very low (economic growth in Estonia was about 11% in 2006 and the unemployment rate was 5.9%).

Corruption and the shadow economy are probably related; the question is how the former affects the latter. For example, if a company wants to evade taxes and tax inspectors are bribed to "close their eyes" on this, in such a way it would probably influence the spread of shadow economy. There are other examples that I found indicative of a direct link between these two phenomena. It should be noted that bribes sometimes could be part of the shadow economy, i.e. when a corrupt management pays employees a portion of salary officially and the rest through bribes is paid in envelopes.

BC: Can you give examples of the most lenient and the hardest criminal sentences for corruption crimes?

A. L.: The range is quite broad. The legislators gave the courts the authority to determine the degree of offense. In absence of any aggravating circumstances, bribe-taking may fetch a prison terms from six months to eight years. In case of particularly aggravating circumstances, the sentence may be 8-15 years in jail and mandatory property confiscation.

The most typical punishment is a suspended sentence with probation. If the person commits another crime during the probation period, the suspended sentence will turn into imprisonment.

As to the practice, the hardest sentence in the last five years was given to Prosecutor **Stanislav Nazarov** from the Prosecutor General's Office, who got 10 years in jail. After appealation procedures the sentence was reduced to 7 years.

The most lenient sentences practically are fines and community work.

We try to follow the cases involving high-ranking officials. Since 2004 the court of first instance has heard at least 46 criminal cases, which were initially investigated in our Bureau. As many as 109 cases against totally 174 persons have been sent to the Prosecutor General's Office. There are quite many police officers, a security police officer and municipal leaders, among the accused.

For example, on 21 May this year the court heard a criminal case against **Valdis Egle**, the state secretary in the Ministry for Education and Science: a case against him involves receiving bribes of 80,000 LVL; the case had been sent to the prosecutor's office.

As one of the cases that caused great publicity, I would like to mention one recently heard by the court and involving three officials of the Road Safety Department, two employees of private driv-

LATVIA

- In 1998 the World Bank recommended that that Latvia should establish an independent special anti-corruption agency.
- In 2000 Latvian Cabinet of Ministers set up a working group including representatives from the Prosecutor General's Office, the police, the Justice Ministry, the Supreme Court, the non-governmental organization Delna (the Latvian branch of Transparency International) and other institutions in view of organizing the Corruption Prevention and Combating Bureau (KNAB).
- Latvia's accession to the EU and NATO provided another strong impetus in this direction.
- KNAB was organized under a special law,

which was passed by the Latvian parliament in April 2002. KNAB started functioning in February 2003.

- Latvian Crime Prevention Council, founded in 2004, is responsible for coordination and improvement of government agencies' activities in the field of crime prevention, combating and prevention of corruption. The Council consists of the prime minister, the ministers of justice, interior, finances, welfare and education and science, the prosecutor general, the Bank of Latvia president, the director of the Constitution Protection Bureau and the Chief State Auditor.

- The main government agency responsible for prevention and combating corruption is KNAB. Other competent agencies in this field include the National Police, the Security Police, the State Revenue Service and the Financial Police.
- Anti-corruption legislative background includes: the Law on Prevention and Combating Corruption, the Law on Prevention of Interests' Conflict in the Activities of Public Officials, the Law on Financing Political Organizations and Parties, certain articles in the Criminal Law, the Criminal Proceedings Law and the Code of Administrative Offenses.

ing schools and two other persons. Of the seven defendants, one received a jail term while others were given suspended sentences. It should be said that since lately the courts have been handling prison sentences more frequently. I think that previous suspended sentences were due to the failure of the judiciary adequately realizing the importance of anti-corruption measures.

Another high-profile bribery case during the elections of the Jurmala city mayor resulted in one suspended sentence while two defendants (including Jurmala ex-mayor **Juris Hlevickis**) were given prison terms alongside property confiscation.

Our Bureau has worked on several municipal officials' cases. There was much publicity about the case against officials of the Naturalization Board for taking bribes on naturalization exams. Three people were convicted by the court of first instance, and the court of second instance will hear the case in October.

Zigurds Lasovskis, Deputy Director of the Mandatory Health Insurance Agency, took bribes when choosing suppliers of medicines. Former health minister **Aris Auders** was punished with a fine in the amount of 50 minimum monthly wages and confiscation of property for multiple frauds (he was forced to quit medical practice and he entered pharmaceutical business).

The Latvian sea-side resort, Jurmala is notorious for shady real estate deals. Judge **Aina Freimane** in Jurmala Land Register branch has been convicted for knowingly taking illegal decisions. Her punishment was a 6-month suspended jail term with a 6-month probation period and a fine in the amount of 20 minimum monthly wages.

Three officials of the Latvian Customs Criminal Investigation Board, who themselves were supposed to control the customs operations, have been convicted for extorting bribes of 600 lats and receiving bribes of 200 lats.

National Armed Forces procurement officers accepted bribes for making military deliveries from specific companies. Prosecutor **Juris Pelss** in the Prosecutor General's Office has been punished for accepting a bribe of 10,000 USD.

Criminal cases against businessmen offering bribes in two separate cases, total 50,000 LVL, to KNAB officers, should also be mentioned. In one case the accused person has already been punished. At first, he was given a suspended sentence but after the appellate hearing this sentence was changed to a prison term.

Our Bureau's performance indicators have shown a positive growth: every year more cases are sent to the prosecutor's office for bringing charges. There is also indirect evidence of efficiency of our work: for example, it is actually impossible to obtain a driving license without passing the required tests. Offers to buy a driving license for a large amount of money usually come from swindlers.

Our staff responsible for combating corruption (not corruption prevention) claims that their work has become more difficult. Previously officials were extorting and receiving bribes unashamedly, almost in broad daylight. Today they are using much more complicated schemes and conspiracy. It is not so easy to catch them any more. And this also is a result of our work. Few still believe that they can escape punishment. This also is a result of our work.

P. M.: Under the Lithuanian law, the most lenient punishment for corruption is the prohibition to hold certain offices for

a specific period of time. The hardest punishment is imprisonment — from 2 to 8 years. Any statistics on such cases is hard to obtain, i.e. a case may last quite a while, even up to 7 years, if taking into account the European court in Strasbourg. According to quite complete statistics which we have for 2004-2005, during this period 25 people were sentenced and 23 people were deprived of holding certain posts. Fines have been used too, in 13 cases; by the existing legal criminal classification fines are the last to be used, although it may seem strange.

During the abovementioned period, one of the accused was sentenced to seven years in jail. But here I would like to stress the following fact: when courts issue verdicts involving imprisonment, the sentence is often being suspended.

One can look at it this fact from several angles: it can be perceived as court's liberal attitude to corruption crimes because most probably judges think that the accused are not murderers or rapists. The problem could be called "white collar"; because people caught in corruption crimes can easily be good parents and lead active social life.

Here's a typical example: a police officer demanded and received a bribe of 2,000 LTL. The court decision: he was prohibited from working in the law enforcement sector for 1.5-2 years. For comparison, another policeman was caught accepting 200 LTL bribe and got a two-year prison term, followed by a suspended sentence for one year.

M. L.: If we take only criminal offenses and omit cases involving abuse of power, the most lenient punishment is a fine and the hardest punishment is 10 years imprisonment. The amount of fines depends on the case and on the accused annual income. Some examples can be seen on the website: <http://www.korrupsioon.ee/9077>. (Note: such crimes as abuse of official power are no longer regarded as criminal offence; since 2007 this has led to an illegal practice of state monitoring).

The hardest penalty of up to 10 years imprisonment can be applied if the accused received bribes at least twice demanding pay-offs from a group in larger amounts. The most widespread corruption offenses in 2006 were abuse of official position (85 cases), bribe-taking (47) and bribe-giving (42). Under "ordinary corruption circumstances" is meant a case without aggravating conditions, then the punishment can be up to 5 years in jail.

BC: How quickly are such cases processed? How tough is the courts' attitude towards corruption crimes?

A. L.: We do not really understand why the courts give suspended sentences when in our opinion the offenders deserved imprisonment. However, lately judges have become tougher in their evaluation of the offenders in corruption cases, sentencing them to actual imprisonment.

As to the speed of the proceedings, it took a long time when we started practical cases. Although the first criminal cases we investigated in 2003, the first verdicts were made in 2004 for only four criminal cases. The courts processed eight criminal cases in 2005, 24 cases in 2006 and 10 cases since the beginning of 2007.

Currently the courts have enlarged staff and acquired more experience which greatly reduced the processing time.

At present few more criminal cases are being prepared for sending to courts. In autumn 2006 **Irena Polikarpova**, the

LITHUANIA

- The Special Investigation Service (STT) under the Lithuanian Ministry of Interior Affairs was created by the government's decree No. 135 of 18 February 1997; it started

implementing the Government Action Program for 1997-2000 and the Decree "On Measures for Improving Control and Prevention of Corruption-related Crimes".

- Present interview with Mr. Povilas

Malakauskas took place at the time when Lithuanian President, **Valdas Adamkus** suggested him for the Parliament's approval as the future new head in the National Security Department.

judge-president in Riga City's Vidzeme District Court, and **Beatriše Talere**, the judge in the same court, were detained for taking bribes. A Land Registry judge in Daugavpils has been detained for bribe-taking on 31 occasions. The bribes were not too large, but the very fact that a representative of the judicial system was constantly accepting bribes was alarming. Latvian parliament has dismissed the judge from her office; the criminal investigation continues.

On the order from the Prosecutor General's Office, KNAB took part in Ventspils Mayor **Aivars Lembergs'** detention. KNAB worked on two criminal cases linked with Mr. Lembergs: the first case concerns the failure of Ventspils mayor to comply with Latvian government decision to appoint **Ojars Grinbergs** the member of the Ventspils port's board. In the so-called big Ventspils city's case the KNAB has been involved on the order from Prosecutor General's Office. My colleagues took part in performing procedural actions, such as detention of officials and performing searches.

P. M.: It can be one week, as the so-called speed-up procedure is applied and the circumstances of the case are quite clear, for example, a case when a bribe is given to a traffic policeman by a driver stopped for increasing speed limits.

But when talking about the terms, we have to understand that corruption cases are extremely complicated. First, because both parties: the one that gives bribes and the other one that takes them are interested in the "positive outcome" but certainly not in the crime's exposure. And we have only a limited number of tools to reveal the crime. For example, one of the parties makes a report to us; even in that case it is very difficult to prove the criminal fact because the other party may claim that this is a vindication attempt. And we still need the first party to show-up...

Ideally, it would be good if legislative provisions were made in such a way that a person, even if he or she has already committed a crime, would be able to turn to the law enforcement agencies without getting into trouble.

Currently our law states that we must initiate a criminal case "if none of the parties show-up immediately". But what does it mean "immediately"? A legislative amendment has now been prepared specifying that it means "before an investigation has started".

We also have an opportunity to infiltrate into a criminal situation "under cover"; posing as the party imitating a crime. Though several problems might occur here: as a lot of attention is being paid to human rights recently, one has to see a rather slippery line between imitating a crime and guiding into committing it. If that kind of operation is not thoroughly planned and carried out, lawyers will have very serious arguments presented to the courts, going as far as Strasbourg, in favor of the defendant's rights.

Due to this reason, particularly, that this method is no longer used when, for example, our officers broke intentionally speed limit and then offered a bribe to the traffic policeman; in case the latter accepted the bribe they detained him right away. Presently, it can no longer be done because this way a man is being provoked into committing a crime. If you had not created this situation, the traffic policeman probably would not have committed a crime.

Truly, there is another option: infiltrating into a criminal group by using modern technical equipment; but it is very difficult and

very expensive. By telling all this, I wanted to show that investigation of such crimes is quite complicated, expensive and time-consuming; especially, if one imitates a criminal situation. For this reason, a single case may take from one week to 5-7 years.

The stronger the democratic basis in a society, the more attention must be paid to human rights, the more difficult the work of special services will be.

M. L.: I guess we have to ask judges about it, e.g. by writing to helve.sargava@just.ee. However I assume that the courts take such cases seriously. Corruption is detrimental to the public authorities' image; therefore it should be taken seriously. Depending on the judicial system's level, a criminal case might last 1-5 months, but we do not have accurate information about the time spent on corruption cases specifically.

There was a big case involving traffic policemen taking bribes, and the case has now reached the court. Besides, investigation still goes on in the case of a former head of the Estonian Land-ownership Board, who is suspected of having swapped a valuable area of a natural reserve into a state-owned land category for business purposes.

BC: Have you ever happened to feel pressure from the authorities?

A. L.: There has never been open pressure from the authorities. As an example of exerting influence on my decisions, I could mention differences in opinion with the prime-minister over suspension of a KNAB officer, **Ilmars Bode**. At present, criminal charges have been brought against the man for disclosing state secrets.

P. M.: I might be lucky but during the two-and-a-half year in the office no pressure has been made on me personally. At the same time, there have been some occasions when people, while discussing some issues, used as examples the cases handled over in our service and thus making judgments on the way we work. Therefore it would be wrong if I said that the SST has never felt any pressure at all.

But this is normal situation: when there is a crime, the accused party will always defend itself: there would be letters to the parliament and accusations that we had done something wrong. Politicians are not aware of all the details under investigation cases, and we can not reveal them either. All these things create a situation where without direct interfering into a specific case, the important for the entire society problems can be raised, e.g. human rights, as well as that of the special services' authority, thus trying nevertheless exert indirect pressure on us.

I see nothing wrong in this situation; it would be much worse if a citizen was denied the opportunity to defend himself by all legal means, including free press and political means.

M. L.: Probably this question should be addressed to the judicial investigation office or judges, rather than to me.

BC: How important is the public support in investigating corruption cases?

A. L.: About 90% of all the information on corruption, maybe slightly less, we receive from the public. Without the public support our work would be rather difficult. Soon after the Bureau was opened, we realized that a public inquiry office shall

ESTONIA

- Unlike Latvia and Lithuania, Estonia does not have a special anti-corruption agency.
- Coordination of the national anti-corruption policy is the Justice Ministry's responsibility.
- The judicial authorities have granted the

investigating corruption competences to prosecutors in each of the country's regions (Estonia is divided into four regions: northern, southern, western and eastern).

- Estonian government adopted an anti-corruption strategy for 2004-2007

titled "Clean State".

- There are the following key legislative acts governing anti-corruption activities: Anti-corruption Law, the Criminal Procedure Code, the Public Information Act, the State Property Act, etc.

be necessary to improve and speed up the receiving information process. We receive public information through various means: by regular post (Alberta 13, Riga, LV 1010), by e-mail (*knab@knab.gov.lv*), by fax (371+67331150), by telephone: 371+8002070 (with the answering machine in off-time). In addition, people come to the Bureau personally with information about extortion of bribes, abuse of official powers, conflicts of interest, etc. Businessmen, public and municipal authorities prefer to contact us in writing. Such information is often beyond our competence but we examine all reports anyway. Many criminal cases have been started due to the information received through the information center.

P. M.: Public support is very important to us. By the way, together with the law enforcement agencies we are the two main instances having full support and trust by the public: we receive about 800 reports annually. At the same time, it would be probably naive to expect in a democratic society that a special service would enjoy a nationwide appreciation and support; after all, we have to spy and eavesdrop on people. Naturally, this is not something that people are very glad about in a free society. Nevertheless, they do understand that our work is still a necessary thing.

We think, at the same time, that our service has to go on explaining the public that corruption brings harm to each member of the community rather to an “abstract state” and that this “rotten substance” spreading around would distort our values and make life worse for every law-abiding citizen.

The second direction is probably even more important: people have to be taught to protect their rights by all legal means. By joining our efforts, we can resume efficiency of every public administration procedure in the state apparatus and improving continuously public administration mechanism.

If everybody accommodates to living in a rule-of-law system then the things will become better in the country, in general. It is often happens that the existing laws are good though they are not effectively implemented and not everyone is properly informed about them.

BC: Do you find the corruption issues’ coverage in media sufficient enough?

A. L.: On the one hand, when talking about pure fact-reporting, the corruption issues are covered on a quite broad scale; with usually more attention to “criminality” of the cases and verdicts. I think that mass-media could do much more creating an atmosphere of intolerance towards corruption. A bribe is humiliating both to the one who gives it, as well as the one who takes it. In addition, by giving a bribe a businessman feeds and instigates the corruption system. The equity appeared in grey economy hampers business environment development, contributes to inflation and, consequently, can have an adverse effect on resolution of social problems.

P. M.: To my mind, corruption coverage in Lithuanian media is more than sufficient: mass media releases about 200 reports on the subject annually, which means that people are given information on corruption almost every day. On another side, it makes a certain imprint on the public perception of the scale of corruption in the country: it gives an idea that everything is corrupt here. We have to be aware of the impossible situation when out of 100 people 92 are corrupt. As to the statistics, the polls show that by the corruption perception index Lithuania ranks on the same level with the Czech Republic and Hungary (among the new EU member states) or Greece and Italy (if compared with the old EU-15), which I find generally normal.

But if I am asked whether I am satisfied with the current corruption situation in Lithuania, the answer, of course, would be negative. I would prefer the situation similar to that of Sweden or Finland, for example.

Yet, to sum-up, I would like to mention a key point: we already have a civic society where we do not need to be explained what the corruption is about. I am aware of the fact that corruption – alongside drug addiction, prostitution, alcohol abuse, etc. – is one of the social attendants that have always been and will be around; it is quite unlikely that any society can reduce corruption to zero. Something else is more important in this regard: the question of how active are the public and the state in combating this negative phenomenon, trying to bring it down to the level where it won’t seriously affect the state’s strategic objectives.

M. L.: There are plenty of occasions when our newspapers, while denouncing corruption, have been, at the same time, occasionally passing their “verdicts” to the accused long before a sentence is reached by a court. It should be said that Estonia scored 1.5 points (11th place) among 167 countries in the 2006 global press-freedom rating.

BC: What are the main difficulties and the problems in your work?

A. L.: One of the difficulties is of organizational essence, i.e. the Bureau has offices in three different buildings, which complicates communication security issues and prevents staff consolidation. I hope that the construction of a new administrative building for the Bureau will begin next year. Politically, this question has already been settled.

A lot more problems deal with the Bureau’s legal bill processing; e.g. our bill on state and municipal properties’ leasing have been recently reviewed by the Cabinet of Ministers and it has caused a heated debate. It gives me an impression that municipalities and many public institutions are not very much interested in bringing the system into order.

One of the key problems is that of changing public attitude towards corruption. We are solving this problem step by step, we appeal directly to the officials and the public in general, reminding them of the legislative requirements, of professional ethics and about the results of our work which is strongly connected to the inevitability of punishment.

P. M.: I have already mentioned one of the problems: I think people in Lithuania do not yet pay sufficient attention to the procedural efficiency. If the public administration procedures provoked less ground for criticism then the corruption level would drop down steeply.

In addition, I think that some more opportunities shall be created to verify the consistency balance between public servants’ wages and spending. In case of a discrepancy where spending is in excess, explanations shall be provided by the suspect; in absence of proven explanation, the person in question shall quit the post or a criminal case might be initiated; even a payment of the difference to the state budget can be settled. Then we won’t need surveillance using microphones and videos. It would be enough to ask the individual to clarify the situation when spending exceeds income and it would not be necessary to confront him with any suspicions or charges. It could be a very effective method combating corruption. In Europe this method is used quite actively, e.g. in the United Kingdom.

M. L.: Some problems do exist in certain large municipalities. Therefore the governing Coalition Program for 2007-2011 has planned to return investigation of corruption charges in large towns and rural municipalities within the Security Police Board’s responsibility.



The course towards containerization and consolidation

By Olga Pavuk

Container transportation around the world is growing with every passing year. Most containers are carried from North and South-East Asia to Europe by sea. This kind of transportation is indispensable in case of large shipments or a great distance between the point of departure and the destination. Soon no major importer or exporter will be able to do without container freight. Container transportation was the main subject discussed at the "Trends and Transit Transportation in the Baltics" section during of the international conference "TransRussia 2007", which took place in Moscow this March.

For the first time at the conference the thesis was discussed that it would be reasonable to develop cooperation with Oriental nations through joint efforts by both all the Baltic ports and railways in China, Kazakhstan, Russia and the Baltics.

Organization of container freight from China and other South-East Asian countries to Europe by rail and road was the subject discussed by the section's participants.

Thus, **Viktor Dosenko**, First Vice-President of the International Transport Academy, in his speech underlined that in future the main cargo flow will be from China to Europe. He said: "In foreseeable future, when Russia joins WTO, the ports on the Baltic Sea, including St. Petersburg, will remain the main cargo-freight transport for the European parts in Russian Federation, while the prevailing foreign trade cargo routs would be West-East direction. The amount of those cargos is expected to increase significantly together with the growing sea ports' processing facilities and that of their container terminals?"

At the same time, he added, the Moscow-bound transportation infrastructure has practically used up all the potentials for further increase both by rail and roads. Terminals in Moscow are increasingly reorienting their capacities towards serving the capital city and the surrounding areas, which is in line with the world practice. For example, there are four major logistics centers around Berlin intended to serve the megalopolis while transit is handled by regional logistics centers (Hamburg, Rostock, Luebeck, etc.).

Mr. Dosenko said that the Russian central part's authorities confirmed that people are ready to buy 2 mln passenger cars during next 2-3 years. Carmakers already in 2007 are to supply Audi and Volkswagen from China and there is a shortage of car-haulers. "We are looking at the Baltic ports: Klaipeda, Sillamae, etc. There are goods to deliver and there are buyers," he added.

Cargo Transportation Director in Latvian state-owned railway company *Latvijas dzelzceļs*, **Eriks Smuksts**, was reflecting on

the issue of cargos transported mostly by sea rather than roads: he mentioned three reasons: reliability of deliveries, complex range of services offered in transporting containers by sea, possibility to carry large amounts of cargos.

He said: "In 2006 all Baltic ports handled about 600 th TEU. Each port reloads a comparatively small amount (200 th TEU in Latvia, 231 th TEU in Klaipeda, Lithuania, and 152 th TEU in Estonia). For comparison, each Chinese port reloads at least one million TEU of container cargos annually, and the container turnover at the Shanghai port reached 21 mln TEU in 2006. Forecasts suggest that the growth of container turnover at Chinese ports will double reaching 130 mln TEU in the next five years"

And continued: "It is obvious that it would be reasonable to develop cooperation with Oriental states through the Baltic ports' joint efforts assisted by railways in China, Kazakhstan, Russia and the Baltics. Particular attention will be paid to developing attractive transportation schemes and tariff policies able to compete with offers by Japanese, Chinese and South Korean operators, which currently guiding the structure of international carriers in North East Asia.

In order to compete on China market, cargo flows need to be consolidated and fairly distributed between capacities available in all ports from the Baltics to the Black Sea. A special body must be set up to deal with this. The *Baltica Transit* train collecting cargos in three countries is an exam-

ple (though a small one) of how it can be done. We believe that the Chinese cargo flow has future in the Baltics. Latvia is getting ready for this as logistics centers are being built in Krustpils (on the highway to Moscow) and in the Riga port.”

Mr. Smuksts pointed out that in order to reach Europe from China one will have to travel 11 thousand kilometers by rail and 26 thousand kilometers by sea.

Mr. **Aleksei Rudyk**, Deputy General Director in *TransSiberian Intermodal Service*, mentioned as an example of the positive growth of the *Baltica Transit* container train project, which has one train running on the route every two days since January 2007. In 2003 train’s turnover was 1,213 TEU, in 2004 it was 4,414 TEU, in 2005 it was 7,029 TEU (+59%), in 2006 it was 10,147 TEU (+44%) and in two months of 2007 the turnover was 3,000 TEU (+77%, calculated on a yearly basis). Of all cargos, 93% are 40-foot containers and 7% are 20-foot containers. Cargos from Latvia account for 68% of the total amount, cargos from Estonia make up 26% and cargos from Lithuania – 6%. The destinations of the container cargos are Kazakhstan, Uzbekistan, Kyrgyzstan and Turkmenistan. Future plans include: separate trains to Almaty, improvements in preliminary cargo declaration procedures, coordination with the Baltic ports.

Chairman of the Executive Board, in Tallinn Port, **Ain Kaljurand**, said that import of cargos to Russia and Kazakhstan had become a new line of business for the Estonian port. The share of the Tallinn port in export of Russian oil product is 21%, coal – 8.4% and mineral fertilizers – 8.1%. In 2006 Tallinn port handled a total of 41.3 mln tons of cargos, 152 th TEU of containers and 6.76 mln passengers; at the same time, the risks related to

cargo transportation was reduced. By 2010 the port’s reloading potential is expected to reach 40 mln tons of oil products, 12.5 mln tons of coal and 5.5 mln tons of mineral fertilizers.

Mr. Kaljurand has compared port fees for container ships and tankers (Tables 1

Transit Policy Department Director in Latvian Transportation Ministry, **Andris Maldups**, devoted his speech to possible logistics solutions in the Baltics. He recalled that during the Soviet times Latvian transport infrastructure was

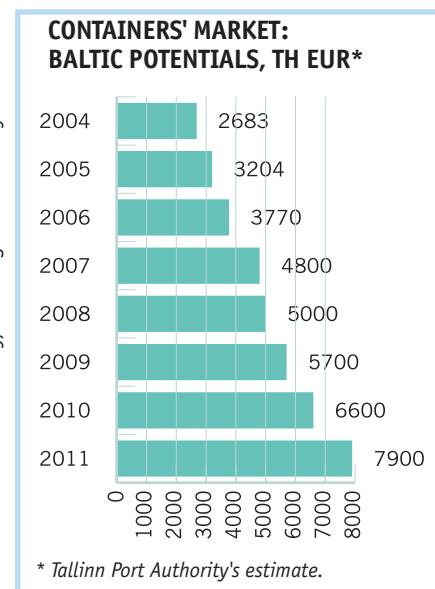
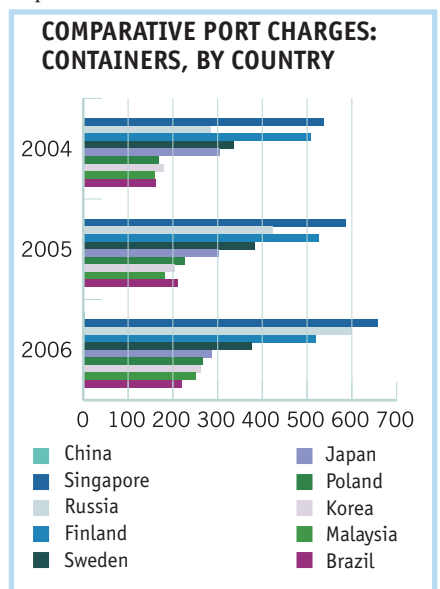
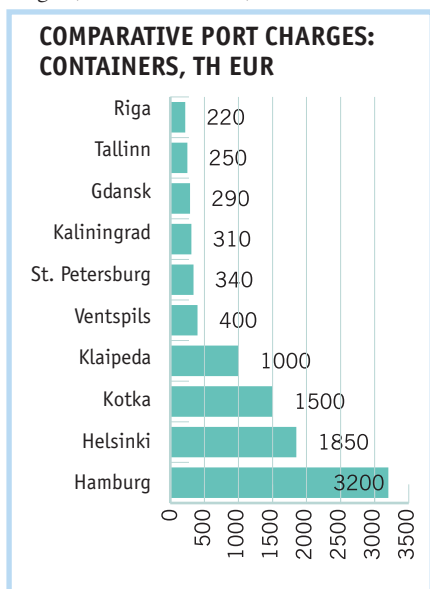


and 2), which demonstrated the advantages of the Baltic states’ and Russian ports over the other ports along the Baltic Sea shores. According to Tallinn port estimates, container market in the Baltic region will grow 1.5 times by 2011 approaching 8 mln TEU.

In his presentation Kaljurand specifically noted the growing Russian trade turnover. Russian exports to China increased 10.5% in 2006, and imports from China rose 19.8%. Retail sales in Russia are expected to double by 2010, reaching 526 bln USD. Cargo exports from Europe to Russia during last three years and towards China were particularly impressive.

planned and developed with the intention of using it as an international transport hub. “After accession to the EU, Latvia (just like other Baltic states) is the first border for Russia and for the Far East exports to the EU, as well as the last border for the EU’s exports to Russia and Far East,” said Maldups.

He continued: “This is why logistics infrastructure and logistics centers are essential elements. At present Latvia has developed a strategy outlining large international logistics centers’ potential locations: it supposed to be a sea port with facilities for international freight consolidation and deconsolidation.





Mr. Maldups told the conference about cooperation with the European Commission in improving Latvian national legislation, bringing it in line with the international transit requirements.

For example, when imported goods from the third countries transported to EU through Latvian territory, VAT is levied as in regular intra-Community transactions (VAT is stated only in the company's accounts). When the goods are released for free circulation in Latvia, customs duties must be paid in full. VAT is paid by the end recipient in any EU member state.

In export from the EU to Russia/CIS through Latvia it is possible to complete the export customs procedure initiated in any EU member state. It is also possible to buy/sell goods (following the export customs procedure) at a bonded warehouse in Latvia or in the free zone without VAT. After the above transactions are completed, the freight can be transported from the EU territory applying transit customs' procedures.

Mr. Maldups provided another example showing how and importing-firmer may save 5-7% of the total goods' value if his logistics center or European distribution warehouse is situated in Latvia.

The head of the Klaipeda Merchant Sea Port Representation Offices in Moscow and Belarus, **Arturas Gaidauskas**, pointed out that the Klaipeda port had been traditional leader among the Baltic ports by the amount of container cargos. In 2006 the port reloaded 214.3 th TEU (up 8% on a year-on-year basis).

In order to increase the port's competitive ability in respect of transport costs the port fees will be revised and new fees will be applied starting from 2008. Stevedore companies have also reduced their services' provision fees.

Following Russian cargos' steep decline in Klaipeda port in 2004, dynamics of Russian cargos have become positive since. The 2006 results have shown that the port processed 1.7 mln tons of Russian foreign trade cargos (+64.4%).

On the Klaipeda port authorities' initiative in 2005, freight and goods information system – KIPIS it being implemented to be completed in 2008. The project is co-financed by the European Regional Development Fund. Its purpose is to make it possible for the companies operating in the port to share electronic data when processing export-import and transit cargos.

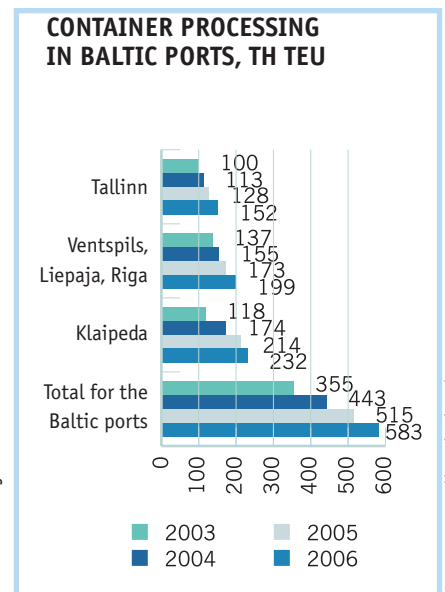
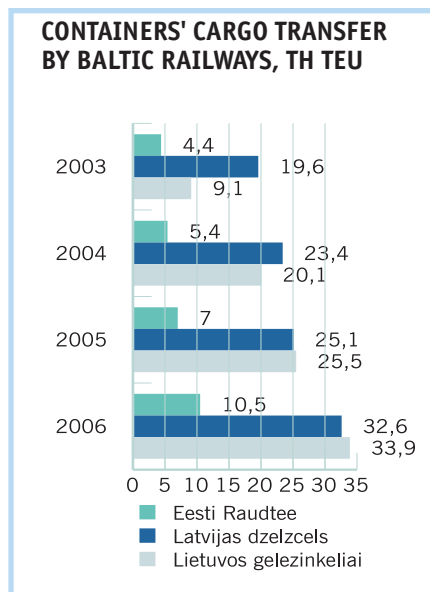
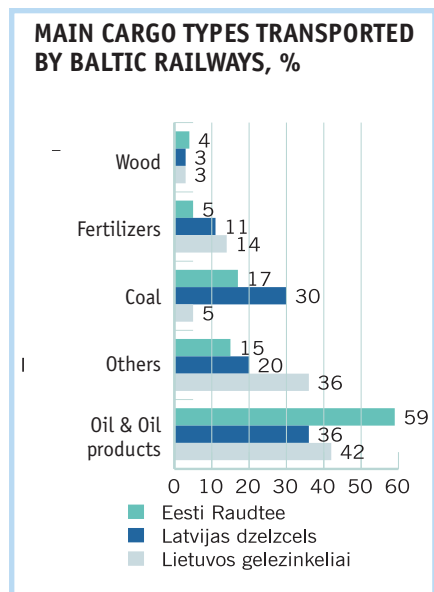
Mr. Gaidauskas also noted the growing amount of cargos carried by the *Viking container train* on the route: Caucasus-the Black Sea-the Baltic Sea-Scandinavian countries-the United Kingdom, using ferry crossings on the Black Sea and

the Baltic Sea. In 2006 the train transported 23.4 th TEU (+1574%). At the same time, the Mercury container train launched in 2005 between Klaipeda, Kaliningrad ports and Moscow stopped functioning. According to Mr. Gaidauskas, the main reasons for this were the railway's inability to compete with road hauling, high tariffs and complicated formalities at the Kuntsevo-2 railway station.

Deputy Director General of the Customs Department of the Lithuanian Finance Ministry, **Jonas Miskinis**, underlined rapid growth of the EU exports to Russia, which caused swift development of logistics centers and warehousing services in Lithuania: 220 permits for construction of warehouses were issued in 2006 (correspondingly, 233 in 2005 and 214 in 2004). The warehousing facilities built in 2004 and 2005 had total area of 369.7 th sq m and 336.3 th sq m, respectively.

Lithuanian customs authorities have declared their partnership intentions with all business structures, which according to Mr. Miskinis was a good sign of more efficient solutions in the customs control problems. International trade should be fast and safe; therefore he sees exchange of documents and information as the bottleneck in the logistics chain, which also includes the delivery of goods and equity movement.

Lithuanian customs together with the Klaipeda port authorities are carrying out a project for organization of electronic document exchange by the principles of single window and one-stop shop. The system is named KIPIS. Incidentally, in Finnish "kipis" means "to your health" •



Russian State Railway's branch enters Latvian market

By Olga Pavuk

Russian company *TransContainer* has opened a representation office in Latvia and plans to strengthen its position on the European container transportation market.



TransContainer, a subsidiary of *Russian Railways (RZD)* company, opened a representation office in Riga on June 20. It is the first representation office that *TransContainer* has opened in the Baltic states. The company plans to use the representation office in Latvia for establishing customer service center providing full-range container freight transportation services.

Petr Baskakov, *TransContainer* Director General, said that the company first announced its decision to open a representation office in Latvia when signing the memorandum of cooperation with the Latvian railway company *Latvijas dzelzceļš* last December. "This move is well-timed and strategically assessed because the amount of container freight between Latvia and Russia has increased significantly in recent years. We are well aware that due to the complex of services offered our company will be able to compete successfully for consignors, who need container freight transportation and use Latvian ports for further delivery of their goods and raw materials to Russia and other CIS countries," said Mr. Baskakov.

"We have built a reliable network, he continued. *TransContainer* has 17 branches in Russia and 100 agencies operating in different regions, other countries included. The company has representation offices in Germany, Latvia, Belarus, Ukraine and Kazakhstan. *TransContainer* also has agents working in China and South Korea. A joint venture, *TransContainer Scandinavia*, has been established in Finland.

Today we are here to solve all problems with container transportation. We are certain that we can significantly increase turnover not only through Latvian ports but also arrange for transit through German ports where we have a subsidiary. We are ready for cooperation with China, which has a huge container fleet and enormous potential."

Latvian Transportation Minister, **Ainars Slesers** said that the ports are ready to participate in container transportation sector, which earned big revenues. "There are several projects related to development of this business. Cooperation with *TransContainer* is very important for us, not less because it is a state-owned company. It is also important for us to arrange container transportation to Europe not only by road but also by rail. To this end, we are working out an agreement with the Lithuanian railway company *Lietuvos Geležinkeliai*.

Viktor Kalyuzhny, Russian Ambassador to Latvia said that the opening of *TransContainer* representation office was a lucky day. "Today we can change future tense in our discussions into a present one. Russia has come to Latvia in the form of a subsidiary of the state-owned *Russian Railways*.

- In 2006 the turnover of cargos carried between Russia and Latvia in large-tonnage rail containers increased by 43%, as compared to 2005 and reached 6,600 TEU. Transit transport showed 64% growth reaching 1,200 TEU.

- During 2007 first five months cargo transit increased by 59% from the same period in 2006, reaching 449 TEU.

There is an interest, there is a plan, there is willingness to do business," he added.

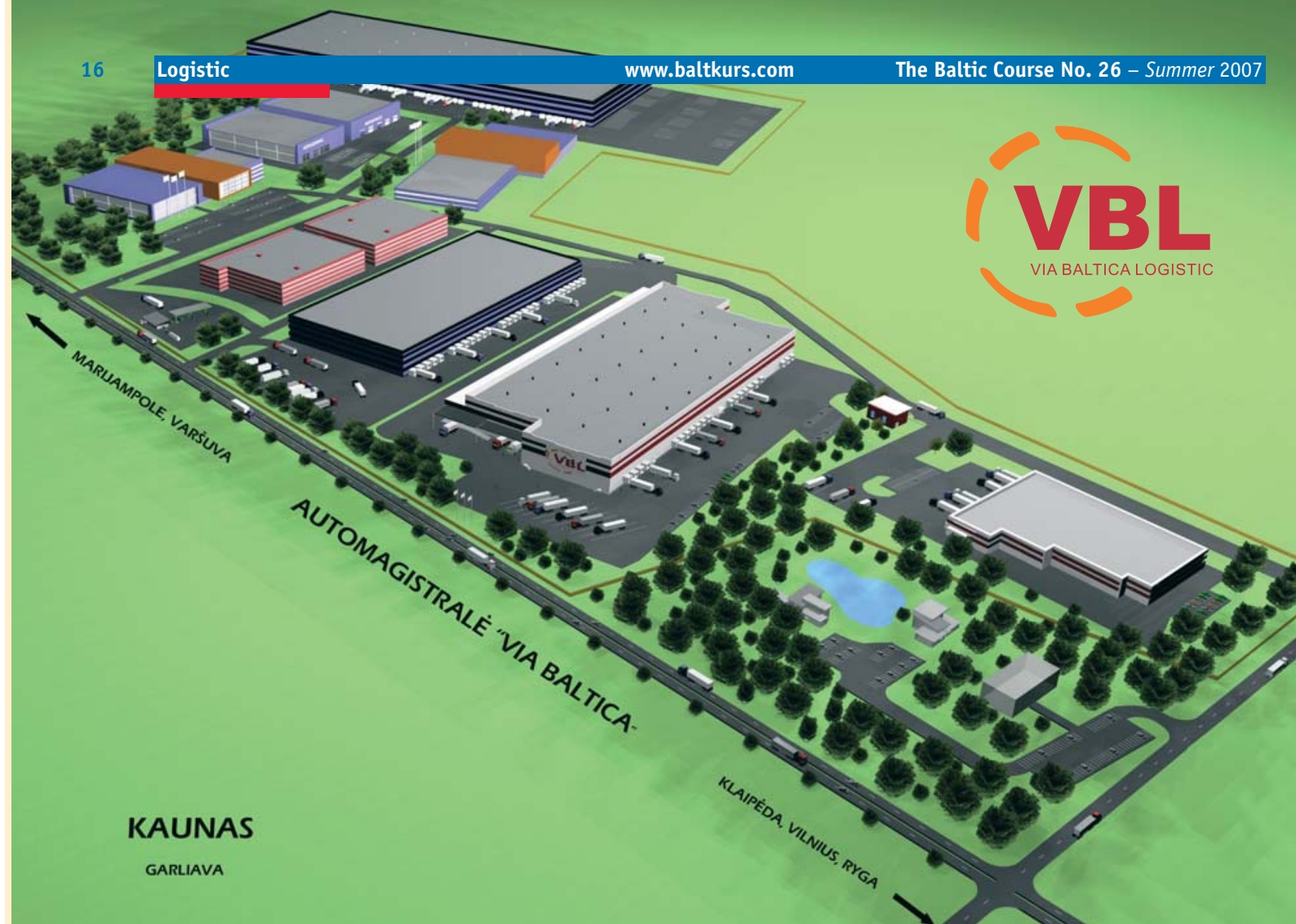
Ugis Magonis, Board Chairman of the Latvian state owned-railway company *Latvijas dzelzceļš*, said: "We are glad that we have managed to move a little bit ahead of our Baltic neighbors. We are glad that *TransContainer* supports us. Our objective is to get container trains running from Liepāja and Ventspils ports up to Moscow."

Raimonds Krievins, the head of *TransContainer* representation office in Latvia, explained: "According to the Latvian law, a representation office of a foreign company has no right to conduct business here. Therefore we will begin with a detailed research of the container freight transportation market. Based on the research and analysis of the market situation, we will choose the most efficient model to provide *TransContainer* services. At the same time, the representation office will be carrying out systematic marketing activities in order to attract foreign trade cargos to railway routes running through Russia and Latvia. In addition, the representation office will be exploring the opening-up opportunities of launching regular container freight transportation routes"

"When the *BC* asked Mr. Baskakov about *TransContainer* participation in construction of a container terminal at the Riga port project, he said: "We do not participate in the project at the moment but we are willing to consider participating in construction of the terminal following a market research."

- The Russian national container operator *TransContainer* is a subsidiary of *Russian Railways* company. Today *TransContainer* employs more than 4,500 people and has 17 branches in different regions of Russia covering the entire Russian railways network. The company's revenues in July-December 2006 exceeded 167.1 mln EUR and net profit was over 41.3 mln EUR.

- *TransContainer* is the owner of the largest rolling stock fleet in the CIS countries and the Baltic states, which includes nearly 24,000 fitted flatbed cars and 48,000 containers.



BALTIC LOGISTIC CITY: looking into the future

BALTIC LOGISTIC CITY is the first in Lithuania logistic-city where in subsequent three stages the following facilities will be built: class-A clearing house of 56 sq. m with all the necessary administration offices and infrastructures, and all the required means for transportation and temporary leisure facilities for the personnel involved.

The logistic center, *Via Baltica Logistic*, which has just started its operations, constitutes a first stage in creating the so-called city-logistic concept, acquiring an unofficial title of a Baltic logistic capital along the Via Baltica highway. Main arguments behind such a title are simple: extremely favourable centre's position and future *BALTIC LOGISTIC CITY* opportunities.

"We regard it as a stroke of good luck that we managed to house this project exactly in this place, i.e. 7 km from Kaunas", said **Arunas Tamauskas**, general director in a closed joint-stock company *Via Baltica Logistic*. He continued: "It is situated practically on the junction of the international highway "Via Baltica" and two other heavily used transportation lines: "Klaipeda port-Vilnius-Minsk" and "Kaliningrad-Riga-St.Petersburg". It means that here, on the 6th km territory several main auto roads are interconnected".

It has to be added that Kaunas, as a centre which already attracts great investors' and transportation interest, is situated at the junction of two rivers. Next to this second by size city in Lithuania, there are two additional logistic points: airport capable of receiving heavy-cargo planes and inter-modal terminal of the future EU-dimensional Rail Baltica.

"These two projects being of the EU priority – Via Baltica and Rail Baltica will be in a close proximity to each other", underlined Mr. Tamauskas.

Therefore, *BALTIC LOGISTIC CITY* will be situated in such a place where rail, road, water and air transport are intersected.

Another important aspect is macroeconomic one. Kaunas as a big city can provide for adequate energy and human resources. At the same time the city is very attractive in logistic and commercial sense: since the time immemorial the city was an international junction of several transportation routes. To-day these opportunities have greatly increased; the fact that various international companies involved in logistics preferably establish their representation offices and branches in Kaunas can serve as additional proof of the fact.

In order to use the abovementioned advantages in full, the *BALTIC LOGISTIC CITY* project developers have approached it as a conceptual and complex solution in the sphere of logistics

rather than a set of ware-houses of about 62.5 thousand sq. m. On top of this, the general project's aim is aimed towards the future with a view to expected consumers' needs the humble outlines of which can be hardly seen today. This idea has been actually set out already in the project's title where instead of a common word "centre" a different word "city" is used.

"We would like to regard our project as a city equipped with its own organisational structure, — Mr. Tamauskas continues. Most important that the depots will be multi-functional; the time has come for the so-called universal ware-houses, i.e. to be used for the food-stuff, frozen food, pharmaceuticals, etc. These are going to be the depots with additional requirements?"

The depots' multi-functionalism is underlined by the general city's infrastructure: thus, two coffee-houses have been constructed (one is already functioning), and a petrol-station is expected soon.

Newly constructed ware-house of 25 thousand sq. m and the custom terminal are expecting their first customers this August.

The second stage in the *BALTIC LOGISTIC CITY* implementation program is connected to the security issues; the surveillance structure is to be arranged on the round-the-clock basis. Presently an enlarged security concept is adopted, i.e. including the surveillance of motels, parking lots, industrial complexes and show-rooms.

It is expected that there will be representation offices of cargo- and heavy-construction equipment industry companies in the "industrial part" of the city with all the necessary service complexes: administration, exhibition floors, etc.

There are some perspective plans for the industrial section of the *BALTIC LOGISTIC CITY* development as well, though it is too early to reveal them as certain corrections might be incurred by the market developments, new demands and new opportunities.

"Our project is a living substance and it will be constantly evolving;" — added the head of *Via Baltica Logistic*. Therefore I would recommend our potential customers to take a good notice of our project, even if we are not presently of much interest to them: tomorrow or in a near future the situation might change drastically.

According to Mr. Tamauskas, when two years ago this Lithuanian company started the project, not very many people believed in it. Constantly increasing cargo transfers, transit ones in particular, not only proved the perspectives in this field but provided additional efforts in resolving logistics' problems as a specific developing sector. Therefore, the growing interest to the project's second stage is enormous.

"At present, we would like that our potential partners together with us have looked at the project's third developmental stage, which will begin next spring. We regard the third stage as the most promising, as at this period we are witnessing a geometric expansion of the logistic market in the Baltic states and Lithuania, in particular. The situation was not like that two years ago, when we started the project, but only presently. It seems that we calculated right and are ahead by two years' time. We would like to keep steadily such pace of development?"; summed up Mr. Tamauskas. •

Closed joint-stock company

Via Baltica Logistic

Lukshnu Str.32/Kybulisa Str.12,

Vilnius-08222, Lithuania-LT

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Iteca (Kazakhstan)
Тел: +7 327 258 34 34
Факс: +7 327 258 34 44
E-mail: industrial@iteca.kz



EUF (Turkey)
Тел: +90-212-291 83 10 (pbx)
Факс: +90-212-240 43 81
E-Mail: halec@ite-turkey.com



Iteca-Caspian (Azerbaijan)
Тел: + 994 12 4474774
Факс: + 994 12 4478998
e-mail: transport@iteca.az



ITE (Uzbekistan)
Тел.: + 998 71 113 01 80
Факс: + 998 71 152 51 64
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Baltic regional energy: politics and business

By Eugene Eteris,
Doctor of Laws, Denmark

It is not often that the heads of three Baltic States governments meet to discuss together just one economic development sector. But so was that during the “Baltic Regional Energy Forum” which took place in Riga, June 11-13 providing a clear indication of the sector’s importance for the Baltic States.



The Union’s strategy has underlined that the member states’ energy systems must be built on broad diversification (for both energy resources and supplies), energy efficiency and active policy along international energy networks. There is a lot to be done in the Baltics along these directions with common efforts from political and corporate sides. In fact, during the forum’s discussions the countries’ politicians mostly dominated during its first part and energy sectors’ experts and businessmen during the second one.

EUROPEAN STRATEGY

The background for discussions at the forum was provided by the “European strategy for sustainable, competitive and secure energy”, so-called “green paper” adopted by the Commission in March 2006 [Document Sec(2006) 317]. This paper put forward suggestions and opinions that could form the basis for a new comprehensive European energy policy in view of the fact that both the EU and the Baltics lacked a commonly agreed policy.

The present Union’s energy structure is rather alarming: coal and lignite

account today for about 1/3 of the EU electricity production; nuclear power contributes roughly to another 1/3; however about 20% could be saved (which equals to about 60 bn EUR). Only recently renewables started to compete on the price levels with fossil fuels: the EU renewable energy market has an annual turnover of 15 bn EUR (half the world market). The EU aim is to provide about 20% of electricity in 2010 by the renewables; about 6-10% of all petrol and diesel should come from bio-fuels. The global situation’s becoming tense, said EU Energy Commissioner: by 2030 the world will use 50% more energy resources; oil consumption would increase by 2% each

NORD STREAM PIPELINE

1200 km pipeline on the Baltic Sea bed between Russia and Germany. In exploitation from 2010. Initial gas-flow capacity — about 27.5 bn m³. Final capacity — 55 bn m³.



year with constantly growing prices. How do the Baltic States face the challenges?

BALTIC’S RESPONSE

Mr. Piebalgs called the Baltic States “the lonely energy island” in the turbulent global politics, meaning the region’s historic “separation” from the rest of Europe’s energy structures. Presently the region is self-sufficient in electricity (a great deal due to the Ignalina NPS). But in 2009 this NPS will be closed down and the new one is planned only for 2015; is there a danger that the region would suffer serious drawbacks during six years? All three states’ prime ministers were surprisingly confident about the future though acknowledging certain “2015-problems”:

Representatives of the French utility giant *Areva* (which for several years is leading the negotiations about the new Lithuanian NPS) have already suggested a pool of the Baltic States, including Poland, to speed up the construction of a new plant. The key to the problem lies presently with the Lithuanian lawmakers that have to adopt a “nuclear energy bill” for the country, which is facing strong opposition.

Brussels is trying to push the Baltics to diversification, energy efficiency and joining EU networks; so far only Estonia has done something in this regard creating *Estlink* (with 350 MW capacity) which is connecting it to Sweden and *Nordel* system. Some other Baltic connections’ opportunities to join existing 5-6 major energy networks in Europe have been revealed at the forum.

The most diversified country in Northern Europe is Finland showing a good pattern to emulate for the Baltics. There are

Comment

It would be wrong to say that we depend on Russia; I'd rather say that we are Russia's customers. And oil in this sense is the private business sphere of activity; business can definitely make commercial deals with Russian partners. We need reliable energy supply with diversified sources to minimize dependence on monopoly supply, and energy mix. **Gediminas Kirkilas**, Lithuanian Prime-Minister.

We buy Russian energy resources according to the global prices' level. In this sense we feel both secure and independent seeking further cooperation with the main gas delivery in Europe. Our Baltic strategy is to build a "common" nuclear power station, to find new renewables, to cooperate with other suppliers. We are satisfied with Russian deliveries. **Aigars Kalvitis**, Latvian Prime Minister.

The Baltic States and Russian are in the state of inter-relationships: they sell energy, we buy it. Estonia could easily be sufficient in electricity and even export it to Finland. Estonia buys about 9-13% of its internal gas consumption from Russia; one can't say that it's a sort of dependence. **Andrus Ansip**, Estonian Prime Minister.

In the National Research Program on energy efficiency, security of supply and environmental protection we have a priority direction aimed at reducing household energy consumption which in the Baltic States equals about 40% (36% – in Latvia). Out of this about 75% is used for heating and boiling water. Household expenses on heating and isolation reach 15% in the average family's budget, while in the EU – 5%. **Yuris Ekmanis**, President, Latvian Academy of Sciences.

Main present Baltic States' issue is to increase energy efficiency, reduce consumption, find new and better renewable energy resources. This issue for the three states becomes both political and economic providing good incentives for energy diversification. The EU badly needs a single EU energy coordinator and negotiator for the benefits of all. With oil prices at 70 USD and a carbon price of around 20 EUR, the target to supply 20% from renewable energy more or less pays for itself. This is a sensible measure to enable Europe to manage its security of energy supply while representing enormous commercial opportunities for Europe. **Andris Piebalgs**, EU Energy Commissioner.

the following most vital components in its energy structure: oil – 24%, coal – 18%, natural gas – 11%, hydro – 12,6%, nuclear – 15%, and the rest are renewables.

IN NEED OF COOPERATION

The forum's participants stressed the importance of cooperation in various fields, e.g. in construction of the safe nuclear energy plants (NEP) in the region. In this regard, several internationally renowned companies promised their assistance (Areva, General Electric, Westinghouse, etc.). Some prospects have been underlined in electricity sector, gas and oil supply development, and renewables.

AMERICAN EXAMPLES

The US governmental and corporate establishment was heavily represented at the forum, which reflects a pro-American stance in the Baltics' orientation. The US Ambassador to Latvia, **Catherine Todd Bailey** underlined the similarities and convergence in trans-Atlantic energy challenges. **Mr. C. Boyden Gray**, the US Ambassador to the European Union emphasized the importance of such issues for the US and EU as energy security (first of all, as part of national security), climate change, economic effects of regulations, etc. Thus, during last six years the US spent 12 bn USD on energy R&D and 37 bn USD on climate change-related activities since 2001.

The US financial subsidies into energy R&D have had a strong impetus for changes, said deputy assistant secretary in the US Department of Energy, **John Miroch**. He particularly underlined the importance of liaison between the public and private sources, which in fact doubles the initially devised funds. The general

scheme: from laboratory to industry, to business, to consumers and houses has a particular aim, i.e. to reduce power consumption in the houses. The program is known as "Zero energy buildings" and is aimed at reducing traditional energy fuels' consumption in households. And again the pivotal instrument is financing: only one office (energy efficiency and renewables) in the US Department of Energy spends 1,3 bn USD a year on R&D; the Department's budget is about 30 bn USD (which is more than Latvian last year's GDP).

CONCLUSION

Taking into consideration that presently the Baltic States are self-sufficient in energy, it seems justified, to a certain degree, that these states do not have an available "common energy strategy"; at least on a policy-guide level. The most recent Baltic Prime ministers' declaration (Trakaj, 2005) on the issue is about two years old. Baltic Forums' debates organised by the US State Department and the US Embassy in Latvia is a good impetus in the right direction. Probably, it would be even better if the Russian side had been more actively participated as a major energy player in the region.

In January 2007 the Commission presented proposals for a renewed program entitled "An energy policy for Europe". The new policy formulated its main core objectives: reduce greenhouse gas emissions by 20% by 2020; provide security in energy supplies; improve energy efficiency by 20%; raise the share of renewables in the energy mix to 20% by 2020, and increase the level of biofuels in petrol to 10% by 2020. These guidelines must be transposed into the Baltic States' national development programs. •

BLITZ-AFTER-FORUM INTERVIEW

MEP, **Roberts Zile** (Latvia), European Parliament's Committee on Energy and the Forum's session "Clean energy for tomorrow" moderator.

BC: How the Baltic States will cooperate within the EU in order to develop a common strategy in the energy sector?

R. Z.: There are three inter-connected elements in the unified efforts in the EU and the Baltics: common EU electricity market, diversity of energy sources and energy efficiency. Only common efforts in Latvia, Estonia and Lithuania in these fields would make this strategy happen. For Latvia, for example, it is important to cover the deficiency in electricity supply during tough times in hydroelectric stations.

BC: What measures must be taken?

R. Z.: First of all, the energy issues require both economic and political decisions; second, we need strong governmental support for energy conservation and efficiency incentive measures. For example, so-called green-coal initiative: what we need here is funds for R&D in new coal combustion plants. Or new capacities for gas, though to my mind LNG is not a good idea.

I would say that the three Baltic States have been equal partners in elaborating common approaches to energy development; now they are equal EU members and shall take active part in the energy sector strategic development.

The way companies change owners

By Alexander Fedotov,
Latvia

There is no corporate raiding in its classic sense in Latvia; however a lot of other methods are used for changing corporate ownerships.

Many Latvian companies providing stable revenues to the owners have experienced recently changes in ownership. However, it is presumed that corporate raiding does not exist in Latvia; the term actually means a hostile corporate merge and/or acquisition. There are no such cases in the court, possibly with the exception of the case of Ventspils' Mayor **Aivars Lembergs**. But formally the charges being pressed upon him have a completely different background.

RECENT EXAMPLES

The dairy company *Rigas pien-saimnieks*, which used to be owned by several individuals, changed the owners last December. The company's new owner, *RPS Group* which belongs to the Swiss bank *Awsbacher* is in its turn owned by *UK Investment Bank*. The amount of the deal was kept confidential. The need to attract substantial investments for entering new foreign markets was given as the reason for the change of ownership. However, the company is profitable: its 2006 profit was 2.4 mln lats. Its former owners, including former board chairman **Arvids Usca** refused to disclose either the amount of the transaction or the real reasons for selling a comfortably functioning company.

As a matter of fact, the dairymen followed the same pattern which applied to sale of the vegetable and fruit processing company *Spilva*, formerly a private family business, back in 2004.

The company was acquired by Norway's *Orkla Group*. *Spilva's* former owner **Lolita Bemhena** said that it had been very difficult for the company management to invest in production and receive profits in return while staying within the confines of the Latvian market. The entry to the international level requires millions of investments, which can only be obtained by finding a strategic investor.



ANYTHING TO INVEST?

“Selling a business to foreigners is a quite logical move”, said **Kriss Karnitis**, economist at the Institute of Economics in the Latvian Academy of Sciences. He continues: “private investment funds have become quite active in the Central and Eastern European countries recently. They have assets portfolios which could be profitably invested. And food industry, wood-processing and insurance businesses are profitable areas for long-term investment though one could get much more profit from for example real estate. But it entails significant risks, and the investment and pension funds are basically made up of private contributions by Western individuals who do not want to take any risk. On the other hand, Latvian corporate owners also have to make a choice. It is difficult for producers to compete without major investments therefore it is easier for them to sell their business at the time when a good price is offered. As a rule, the buyers are foreign funds and banks. Similar Latvian entities are not yet able to compete in this respect?”

The funds are busy attracting money for implementing their investment activities. For example, several months ago *Firebird Management* raised 150 mln EUR for its Amber Trust II fund specializing in investments in the Baltic States to assist the fund in acquire 48.99% of shares in the insurance company *Baltijas Apdrošināšanas Nams*.

ONLY BIG DEALS

Janis Zelmenis, Latvian branch of the consulting company *Deloitte & Touche* representative expresses belief that there are quite a few companies in Latvia which can attract attention of private investment funds. In order to be ranked, the company must first of all be fairly large and be also present on the markets in neighboring Estonia and Lithuania. It is supposed that such a company has great potentials for growth in turnover and profits being therefore more attractive for capital investment. Currently private investment funds' interest in the Latvian market is much higher than 3-4 years ago. It means that the owners of those few companies, which have remained “independent”, will soon start receiving acquisition offers. For example, *Pure Food* fruit processing company had received several such offers. However, for now the company owners have no intention to sell their business.

DISPLACEMENT TACTICS

As a rule, investment funds prefer to buy a controlling stake in the company at once. If it is not done, the tactics of displacing previous owners is applied. Such a tactic is performed by a special team of managers sent by the fund. This is exactly what has happened with the meat processing company *Trials*. Until 2005, the company was 100% owned by its founder, **Ludvigs Tribockis**. But after Latvia's accession to the EU, multi-million invest-

ments were required to reorganize the company in line with the EU directives. Therefore the businessman had to sell 37.05% of the company shares to the Swedish investment funds *Askembla Growth Fund Kommanditbolag*. They agreed to invest 2 mln EUR in development of *SIA Trials*. On top of that, the businessman was forced to sell out another portion of company shares. In that way the investment fund first acquired 49.9% in the company, which later reached as many as 90%.

Then the reorganization began. Unprofitable lines of business — the slaughterhouse in Valmiera and the logistics base in Daugavpils — were closed down. The entire company administration was transferred from Ogre to Valmiera. At the same time, at the shareholders meeting Mr. Tribockis was removed from the post of the Board Chairman of *Trials* because the investors were not satisfied with his style of management.

Abovementioned examples have shown that the corporate raiding tactics in the West have been elaborated in details. It is probably only in Russia where raiders can still use openly criminal methods. In Latvia the situation is different. It is much better simply to buy the company from its previous owners than to orchestrate complicated raiding schemes.

CASE: VENTSPILS NAFTA

Nobody was eager to comment the situation around the investigation carried out by the Prosecutor General's Office against representatives of the so-called *Ventspils* group headed by *Ventspils* Mayor Aivars Lembergs. "It is politics, not economy," said Karnitis.

Mamerts Vaivads, Council Chairman of *Ventspils nafta* holding company, who was arrested in public by the officers of the Corruption Prevention and Combating Bureau in a restaurant in Riga and taken to the prosecutor's office for interrogation, believes that he had fallen victim to a purposeful settling of scores with certain transit-business players. However, Mr. Vaivads refused to comment on the real people running the show. Lembergs, who is currently being held in custody, also keeps silent.

The news agency *LETA*, quoting the daily *Diena*, reported that the management of *Latvijas Naftas Tranzits (LNT)*, which this spring saw the opponents of Lembergs to take over the control of the company, has applied to the prosecutor's office, contesting the legality of the sale of 7% in *Ventspils nafta* carried out in secrecy last year and alleging forgery of documents.

According to *Diena's* sources, the investigators will be provided with documents and facts about the sale of 6.9% in *Ventspils nafta* in March 2006, which was made public only at the end of April, had been fictitious as the transaction was documented with a retrospective date, allegedly forging documents in the process. The application requesting that an investigation should be started against former officials of *LNT*, including Council Chairman **Uldis Pumpurs**, has been filed with the prosecutor's office.

The prosecutor's office is also looking into another *Ventspils nafta* shares' transaction carried out last year. As a result of this transaction intermediated by Estonian company *GILD*, 4% of *Ventspils nafta* shares were sold to offshore company *Nibre* registered in the Virgin Islands for nearly 15 mln USD.

At the end of April the Estonian prosecutor's office also started investigating this case. Last May *LNT* filed with the Harju County Court a request for declaring the sale of shares null and void. The court accepted the case for hearing.

Those two transactions resulted in sale of a total of 11% in *Ventspils nafta* to two offshore companies, and this substantially altered the shareholder structure of the company. But the information about those transactions was kept secret and only this spring it became known that *LNT*, which had ended up under control of Lembergs' opponents, has lost the status of the largest *Ventspils nafta* shareholder (49.9%) and the control over the group.

Talking to the press at the beginning of this year, *LNT* Board Chairman M. Vaivads, who is in custody for charges concerning the abuse of power by *Ventspils* officials, claimed that the company had not sold any *LNT* shares. Council Chairman U. Pumpurs assured the *Diena* newspaper too that no transactions had been made with *Ventspils nafta* shares; although it became known that the shares had been sold after all.

Another significant fact is that at the shareholders extraordinary meeting on 25 October 2006, *LNT* voted with all its 49.9% in the *Ventspils nafta* shares. At the same time, *LNT* management has failed to find out the company which acquired 7% in *Ventspils nafta* shares for 25 mln USD. Mr. Pumpurs insisted that both transactions had been conducted in a lawful manner but was unable to answer the question why the information about those transactions had been kept secret.

Currently the largest shareholder in *Ventspils nafta* is *Euromin*, a daughter subsidiary of the Cyprus-registered oil and gas group *Vitol*, which owned nearly 49% of *Ventspils nafta's* assets. •

"Decent" raiding

By Sigitas Pasilaitis,
Lithuania

It would be, of course, an exaggeration to say that Lithuanian newspapers in recent years were obsessed with stories about businesses' takeovers by way of so-called corporate raiding. Simply because, even if something like that did happen, such events didn't obviously fit into the pattern of a well-functioning system tested on many occasions. Such raiding could be attributed to certain genuinely witted businessmen acting on the brink of law or even beyond it.

The number of raiding cases is apparently insufficient for serious analy-

sis and conclusions about presence of the corporate raiding in Lithuania.

Yet, one assumption can safely be made, i.e. takeover operations of other businesses as a strong trend rather than occasional cases belong to the past when the markets were actively divided and re-divided. The current situation provides for different and more civilized approaches, e.g. acquisition of a controlling stake in the competitor's business.

But it would be a careless exaggeration as well to say that presently business in

Lithuania is being done “in white gloves and tuxedos” only.

The largest of the three Baltic States has seen events overshadowed by the pirate flag.

DEATH BEFORE BIRTH

The most recent raiding example is the scandal surrounding the birth and early demise of the website delfis.lt.

Internet users, particularly in the Baltics, are well aware of a website with a similar name; they probably decided that www.delfis.lt is just a Lithuanian version of the popular Delfi portal functioning in Latvia and Estonia. But it was not at all so.

The website with a surprisingly similar name was created by the media group *Respublikos leidiniai*, founded by the publishers and owners of one of the leading Lithuanian newspapers, *Respublika*. The anger of Delfi owners, which, among other things, took the form of appeals to the patent authorities, petered out quickly as the competitor showed no intention of fighting back.

The state of things remained like that for quite a while until *Respublika* announced that it had sold delfis website to a former Lithuanian, now German national **Antonas Tunyla**, who wished to turn it into the most scandalous (and, consequently, the most popular) Internet source in Lithuania. The new owner through *Respublika's* assistance notified the country's population about the time when the new site would go off. Since that time Lithuanian mass media published stories about delfis and its controversy with Delfi on a daily basis.

As a result, the venue of the news conference organised by the former and the new owners of delfis.lt was overcrowded. All of a sudden, the Delfi representatives appeared and showed a court decision which prohibited the use of the web address www.delfis.lt. In response to that, Mr. A. Tunyla observed that these actions represent nothing but a PR campaign, and he announced that the new website will have entirely different web-address. All Lithuanian mass media immediately released the news.

Nevertheless, there is in this story some elements containing a sense of failed or faked raiding that makes the whole plot seen from a somewhat different angle.

While the conflict was still underway, *Respublika* published the following fact. It appeared that about seven years ago delfi.lt already used a suspicious scheme stealing from www.online.lt all its visitors almost overnight. It happened that *Litnet* company, using its domreg.lt service dealing with Lithuanian Internet names' registration was redirecting the users who had entered the old address to the newly-organized site, which obtained a large number of visitors almost automatically.

At least this is the story in the *Respublika's* interpretation, which presently is difficult to verify. In particular as the former www.online.lt owner, **Vladas Palubinskas** pressed charges against the raiders. The then owner of *Microlink*, Mr. **Allan Martinson** and its Lithuanian subsidiaries involved in the story came to Lithuania and were able to fix the unpleasant situation, among other things, by means of cash compensation. Mr. Palubinskas in his turn promised not to make public details of the incident. By the way, he kept his promise when the dispute between Delfi and delfis began.

PROTECTING THE LAW... AND OWN ASSETS

Not so long ago Lithuania saw the so-called security scandal, when certain political parties expressed doubts about professional competence of some officials of the National Security Department (VSD) and its head, **Arvydas Pocius**, in particular. At the parliament hearings the VSD's head revealed to the lawmakers sensational information: somebody from the Lithuanian security service had been leaking secret information to a “certain foreign nation” during the negotiations about sale of the shares in the oil group *Mazeikiu nafta* last year and received 100,000 USD per a “leakage”.

The Lithuanian MPs and businessmen looked at this fact from a perspective broader than one specific leak. If the VSD's people can fall for easy money, how can one be sure that dishonest competitors did not took the advantage of using such officials' services during various privatization tenders? Moreover, because there had been few tenders where the outcome was most dramatically influenced by secret reports from the VSD about this or that company being unreliable. It happened, for example, in case of the Latvian alcoholic drinks producer

Latvijas balzams, which few years ago bid for acquisition of *Stumbras*, the largest Lithuanian distillery.

However, the incident was not solved as quickly as was expected. For some reason Mr. Pocius did not rush to expose his corrupt subordinates. Two months passed but the names of “the moles” still have not been revealed. And business people still have not received an answer to the question whether in future they can be safe from anyone attempting to produce a negative secret report about some company just because he had been “nicely asked” to do so.

“BURNING”, BUT ON A SMALL SCALE

After the construction boom hit the Lithuanian capital, by a strange coincidence fires started to occur frequently in the areas that had the biggest prospects in future real estate development. Those affected by fires were small wooden houses whose owners, again by a strange coincidence, were visited by potential buyers.

There have been very many such cases, but only in one case the arsonists were caught red-handed. However, it is still not known who instructed them to start the fire.

One could try to add to this small list but in any case the conclusion is obvious, i.e. corporate raiding as a phenomenon is not present in Lithuania.

But what is the opinion of the Lithuanian prosecutor's office, which by nature of its work has to rely not on impressions, but on bare facts and statistics?

“I agree with the opinion that corporate raiding as a phenomenon not only did not take any root in Lithuania but also is unlikely to do so in future as there are no preconditions for this,” said Prosecutor **Erikas Vaitiekunas** from the Lithuania Prosecutor General's Office. “First of all, in order for this to happen there must be a rather high corruption level in the country. Of course, we do have some corruption but, luckily, it is a long way from the level where such things could happen creating, consequently, preconditions for more cases of corporate raiding.”

Mr. Vaitiekunas said that democratic business rules have been established in Lithuania, therefore it was unlikely that the phenomena like corporate raiding could occur in the Baltic state in the future. •

Estonian-type corporate raiding

By Dmitry Kulikov,
Estonia

There are no tough guys in military berets storming corporate offices in Estonia. Here they simply rewrite the articles of association or buy out minority shareholders regardless of the pre-emptive rights of other stakeholders.

Corporate raiding phenomenon is quite young in Estonia; one cannot see people actually invading buildings, seizing documents and PC's hard disks with accounting records. Rewriting the company's articles of association to one's favour, introducing "own men" into the Board of Directors and buying up the controlling stakes by equally suspicious methods, which somehow infringe the rights of other shareholders — these are the typical signs of corporate raiding in Estonia.

The police is unwilling to speak about raiding; they believe that Estonia is too small and too democratic a country to do business in such a manner. The same opinion prevails in the Estonian parliament. "Business culture in Estonia is too high to engage in dishonest takeover practices," said one of the country's MP, who preferred to remain anonymous. Nevertheless, there are few cases which could be called raiding with some reservations.

EVERYTHING BEGAN WITH PRESENTS

The starting point could be the case which was on the Estonian press front pages for several years and which involved a large and attractive property assets in the capital's Pirita district (expert estimated its current market value at 500 mln EEK or about 30 mln EUR). The following people have been involved: media mogul **Hans H. Luik**, real estate businessman **Priit Kajari**, minority shareholder **Aleksandr Gude** and a number of "actors" with supporting roles possessing minor stakes in *Laferme*. The latter company was founded on the basis of the Electrical Engineering Research Institute, which was established during the Soviet era. By 2004, when the whole story began, the number of shareholders was equal to the number of employees (a little over 200 people). After restoration of Estonia's independence the company took up the real estate business by leasing out its premises.

In December 2004 Mr. Kajari, a leading Estonian businessman, received "as a present" about 90 shares and thus had

become one of those shareholders with the pre-emptive rights in the company, which meant that an insider shareholder had a preference in acquiring shares as to a potential outside buyer.

The company's leaders, in response to the businessman's activities, started to look for a larger strategic investor who would buy the controlling stakes thus preventing Mr. Kajari from taking over the company. The minority shareholders, i.e. the company staff, have been still completely unaware of the happenings.

ON A DISCOUNT PRICE

In a year, in December 2005, Mr. Luik and his associate **Indrek Meltsas** received Christmas presents (one share each) from **Rita Urbanovich**, the holder of 5,300 shares (later, during the court procedures, she would admit that Mr. Luik had paid 2,500 EEK for each present). At the same time, Mr. Luik makes a written proposal to shareholders to buy their shares offering 350 EEK per share; which meant that he estimated the whole amount of the company's shares at 250 mln EEK. A month later experts, by the way, made a real estate assessment report which made the value of company's real estate assets at 350 mln EEK. But for the time being, the shareholders were still unaware of this. The company's leadership recommended the staff to sell their shares to Mr. Luik. In two week's time the influential businessmen had acquired 157,000 shares which constituted about 42% of the company's assets.

PRESENT OR ACQUISITION?

At the same time, the other side in the case, a shareholder Aleksandr Gude who supports Mr. Kajari, starts an inquiry: why Mr. Luik, when suggesting to buy Mrs. Urbanovich shares did not ask Mr. Gude as a shareholder with the pre-emptive rights. The case is becoming a subject of a court proceeding and the shares held by other shareholders were arrested. The shareholders, who sold their shares, are curious why

could not they get money for the sold shares. The company's leaders supported by 87 people supported those suffered in the case and demanded compensations from Mr. Gude for delayed payment. The country's court of first instance took the side of the media mogul, but the circuit court is holding presently and stipulated that the initial court failed to take into account the fact that Mr. Luik's the very first share in his possession had been bought and not received as a present.

The story is not yet over. Anonymous sources told the *Postimees* newspaper that the Russian criminal circles were also involved in the case and their representatives, seeing that things were taking a wrong turn, visited Estonia recently to talk to the media mogul in person. The meeting did not take place because the same day Mr. Luik left the country. The situation presently is the following: Mr. Luik has actual control over the company, there are several court proceedings and a pending criminal case related to this complicated story.

REWRITING THE ARTICLES OF ASSOCIATION

Another incident which happened in Tallinn is an example of a widely used fraudulent scheme. A certain person is forging the minutes of a company shareholders' meeting where he had "appointed" himself the Board's member; he then certifies his signature as a board member at a public notary office and afterwards sends the document to the National Commercial Register. The Register, which is not supposed to verify the public notary's actions, automatically accepts the new member of the Board in a company.

"Such schemes often happen," said **Jaanus Rahumagi**, member of the legal committee in Estonian parliament, providing comments on the story to *Deloviye Vedomosti* daily. The main idea behind such schemes is the intention to obtain real estate as the company's assets. According to Mr. Rahumagi, the National Register must examine the incoming documents with due diligence, so that even if the fraudsters accomplish the abovementioned scheme, it would be still quite difficult for them to sell a "stolen" property or register it in another name. •

Rizen Technology has come to Russia

Russian-Latvian boarder agreement's negotiations have accelerated both countries' businessmen activity. One of the notable examples was *Rizen Technology* initiative, a Latvian company entering Russian market. The company's marketing director, Mr. **Andrey Kamyshev** has told the *BC* about the *Rizen Technology's* initiatives and perspectives.

PRIMAKOV'S ASSISTANCE

Actually, everything started during Russian Chamber of Commerce and Industry (CCI) president, Mr. **Yevgeny Primakov** visit to Latvia this February, said A. Kamyshev. On that occasion, at the reception in "Grand Palace" we were introduced to the chairman of the Pskov regional CCI, Mr. **Vladimir Zubov** who showed an interest in *Rizen CRM* work concerning automated business processes.

Then, this March we arranged *Rizen Technology's* program presentation in Pskov and signed a deal for a special *Rizen CRM* program implementation in Pskov CCI management operations. At that time, we agreed on a plan of action concerning *Rizen Technology* products



VALMIERA, 12 APRIL 2007: V. Zubov, A. Kamyshev, J. Leja (Latvian Chamber of Commerce and Industry — LCCI, General Director) and Y. Slengis (LCCI's Valmiera Department).

advancement on the Russian market between the Pskov CCI and *Rizen Technology* under Latvian CCI support; we have been actively cooperate with the Latvian CCI.

This July *Rizen Technology* participated in inauguration of the Russian-Latvian Business Council under the Russian CCI. *Alfa Bank* president, Mr. **Peter Aven**, was elected the new Council's chairman, with two vice-chairmen, i.e. Mr. V. Zubov and Ms. **Tatjana Letchichina**, vice-director in Russian CCI's international cooperation department. The latter has shown particular interest to the *Rizen Technology* specific software solutions offered for use in the Russian CCI headquarters and regional trade chambers.

FROM VALMIERA TO PSKOV TO ST. PETERSBURG

Within the approved *Rizen Technology* cooperation program, A. Kamyshev continued, the company participated this April in the "Entrepreneurship Days" in Vidzeme with about 40 businessmen taking part in the event in Valmiera from Russian Pskov region and city administration.

Proceeding Valmiera contacts, *Rizen Technology* took part this May in a large regional fair "Pskov-Expo-2007" where the company



MOSCOW, 2 JULY 2007: V. Zubov, G. Petrov, Y. Primakov, A. Teikmanis (Latvian Ambassador in Russia) and P. Aven.

demonstrated its development programs and organised a seminar on special software technology solution (*Rizen TechnoDENT*) for dental clinics in Pskov region. The interest shown for the company's modern software and contracts concluded at the fair initiated a first Russian *Rizen Technology* branch-office establishment in Pskov.

Cooperation with the Pskov CCI can open new and broad horizons for the company: thus already this September *Rizen Technology* is taking part in a business forum at "Riga Days in St. Petersburg" events where the company presents special software solutions for the trade and industry chambers in St. Petersburg and Leningrad region.

RIZEN TECHNOLOGY: TODAY AND TOMORROW

Latvian company *Rizen Technology* has been on the information technology market since 2000. The company has received ISO 9001:2000 certificate for "software development, implementation and maintenance for industrial applications", with auditing from Lloyd's Register Quality Assurance (LRQA).

Since 2003 the company is concentrated on producing its own multidimensional software products, e.g. ERP, CRM and HRM, including special complex solution development for transport- and forwarding-companies (*Rizen TranspoRT*), for dental clinics (*Rizen TechnoDENT*), as well as web-software and design at various level of complexity.

The company opened branches in Lithuania (Kaunas), Cyprus (Limassol) and Belarus (Vitebsk).

Among *Rizen Technology* customers are prominent companies, e.g. *Liepajas Metalurgs*, *TonusElast*, *Elladent*, *Sirowa*, *WMT Baltic*, etc.

The number of projects with the EU structural funds is constantly increasing. Among the company's nearest plans are the increasing participation on the markets in Eastern Europe and the Balkans with the aim of increasing complex special-business programs, e.g. for textile production, construction, advertising, etc.



PSKOV, 29 MAY 2007: At the "Pskov-Expo-2007" exhibition.

RIZEN Transport
discovering new horizons

WEB TECHNOLOGIES

CRM

ERP

HRM

IT CONSULTING

RIZEN TechnoDENT
technological automation systems

New horizons

New opportunities

New achievements

Development. Implementation. Service

Most successive year

By Algimantas Nedzveckas, Martynas Visockas, Viktorija Cerniauskaite,
Prime Investment, Lithuania

Baltic IT services companies continued to benefit from the overall Baltic economy growth. The total increase in annual IT service revenue of TOP-20 companies (except Lattelecom Group) exceeded 30% for the first time making year 2006 one of the most successful years ever for the Baltic IT industry. IT service revenue growth rates have now been consistently increasing for 3 years and the demand for IT services remains very strong in 2007.

Same as in the previous year, IT services revenue grew faster than the overall IT sales revenue. In 2006 the share of IT services revenue made up 49% of the total revenue, an increase by almost 10% compared to 2005. This continuing trend verifies the tendency identified in the previous reports that the sector becomes more services oriented.

COMMON TO ALL GROWTH RESOURCES

All three Baltic countries share similar market growth drivers. IT companies grew mostly on the back of large government projects financed by the EU and Shengen funds. At the same time private sector demand has also been positively affected by strengthening economy, inflow of EU funds and accelerating adoption of modern IT technologies by enterprises as the key element of their business management infrastructure.

The shortage of workforce had a twofold effect on the dynamics of IT industry. On one hand, private sector enterprises need to increase their operational efficiency levels in order to maintain their own growth in the environment where additional labor pool is shallow. That results in the increased demand for IT solutions and the drive for outsourced solutions. On the other hand, scarce human resources, particularly personnel experienced in development of complex solutions has become one of the biggest if not the biggest limiting factors on the way to even more rapid growth of IT firms.

MAJOR IT-SERVICES' PROVIDER

Exigen Services remains the biggest IT service provider, others far away Exigen Services retained the 1st place in the

TOP-20 rankings. Its nearest competitor Sonex Group did not provide data for this year (in 2005, Sonex had 15.6 mln EUR revenue from IT service).

Alna recorded a significant growth adding almost 4 mln EUR to its IT service revenues, which put them in the 2nd place in the rankings.

Informacines Technologijos Group (total revenue of 13 mln EUR in 2006) and IT Alise/TietoEnator that would surely qualify to the TOP-20 did not provide data for the report. The report also does not include the data of the Baltic divisions of international vendors and service providers such as Siemens, IBM, and Skype.

NEWCOMERS' HIGH GROWTH

The highest growth of almost 430% was recorded by ABC Software, a Latvian IT solution provider that specializes in development of specialpurpose systems for security and law enforcement institutions as well as web solutions. These high growth numbers were partially a result of revenues generated from several large projects that continued from the previous year but were billed in 2006.

TOP-20 BALTIC IT SERVICES COMPANIES IN 2006, TH EUR

	IT services revenue		Growth, %/year	% of total	Total revenue		Growth, %/year
	2006	2005			2006	2005	
1. Exigen Services (Lithuania)	21057	20011	5.2%	100.0%	21057	20011	5.2%
2. Alna Group (Lithuania)	14288	10345	38.0%	56.0%	25459	20365	25.0%
3. Microlink Eesti (Estonia)	9616	7600	26.5%	53.7%	17901	12560	42.5%
4. Lattelecom Group (Latvia)	8370	-	-	31.0%	27035	-	-
5. Webmedia Group (Estonia)	7052	3712	90.0%	93.5%	7539	4032	87.0%
6. Elsis Group (Lithuania)	6853	5236	30.9%	30.2%	22720	17450	30.2%
7. Baltic Data Center (Lithuania)	6154	4021	53.0%	100.0%	6154	4021	53.0%
8. Blue Bridge (Lithuania)	5600	3500	60.0%	21.4%	26200	23700	10.5%
9. Tilde (Latvia)	4521	2633	71.7%	100.0%	4521	2633	71.7%
10. FMS (Latvia)	4364	1275	242.3%	99.3%	4395	1279	243.6%
11. Helmes (Estonia)	4122	3727	10.6%	46.3%	8902	6601	34.9%
12. Microlink Lietuva (Lithuania)	3959	4020	-1.5%	74.3%	5329	4631	15.1%
13. Regio (Estonia)	3523	2852	23.5%	100.0%	3523	2852	23.5%
14. Columbus IT (Lithuania)	3622	3325	8.9%	56.5%	6407	6313	1.5%
15. Sintagma Group (Lithuania)	3200	2882	11.0%	35.8%	8951	7436	20.4%
16. Baltic Amadeus (Lithuania)	2967	1560	90.2%	26.0%	11410	7179	58.9%
17. Santa Monica Networks group (Estonia)	2843	1559	82.3%	15.7%	18086	10188	77.5%
18. HNIT Baltic GeoInfoServisas (Lithuania)	2597	1630	59.3%	45.3%	5734	3785	51.5%
19. New Vision Baltija Group (Lithuania)	2259	2143	5.4%	25.8%	8747	10832	-19.3%
20. ABC Software (Latvia)	2120	400	429.7%	100.0%	2120	400	429.7%
Average*	-	-	34.3%	49.2%	-	-	29.4%

* Excluding Lattelecom Technology group's results, as comparable year 2005 data were not available due to vital changes in the company's structure.

This is the proprietary ranking of the leading Baltic IT service companies by their revenues from in-house developed IT services and does not include any sales of hardware, distribution of software other than developed inhouse, office equipment or other products.

Source: Prime Investment.

Another newcomer to TOP-20, *FMS*, a former subsidiary of *Lattelecom Technology*, specializing in ERP, financial management and accounting solutions, jumped to the 10th place by reaching IT service revenue of 4.36 mln EUR, a 242% growth. The company is expected to expand its Lithuanian operations as a result of a new joint-venture established together with *Blue Bridge*. *FMS Lietuva* will offer new corporate management solutions to private and public sector clients in Lithuania.

Webmedia remains one of the most rapidly and consistently developing IT companies in the region. Its IT services revenues grew up to 7.05 mln EUR (90%), while annual growth rates for the year 2005 and 2004 equaled 78% and 103% respectively.

Santa Monica Networks Group that is operating in all three Baltic countries as well as Finland remained one of the fastest growing companies by increasing its revenues by 82% (117% in 2005).

Rix Technologies have showed significant growth of 107% that resulted from several completed large-scale projects and almost made it to TOP-20 by taking the 21st position. The Company created the Latvian state portal and

implemented the united migration system and digital culture cardsystem.

ERP, a Lithuanian ERP solution provider, fell just short of TOP-20 list as well. It occupied the 22nd place with IT service revenue of 1.9 mln EUR and annual growth of 61%. However, the revenue of *ERP* does not include company's activity in Ukraine and Kazakhstan.

Two former incumbents of TOP-20 – Lithuanian companies *Prototechnika* and *Edrana*, specializing in in-house accounting and business management systems, were surpassed by faster growing providers of complex and tailor made IT solution and left were left outside the TOP-20.

ADDED VALUE GROWTH

An increase in added value of over 20% for the companies which provided it is somewhat unusual compared to previous years when added value per employee remained almost unchanged. It suggests that significant market growth may be putting some of IT service providers close to fully exhausting their capacities.

In the short run this may suppress growth of some smaller market participants as they will not be able to absorb all market potential and it is also likely to

put upward pressure on the pricing of IT services.

INCREASING EFFICIENCY AND CURBING STAFF

The most significant shift in added value per employee was determined by two factors. Firstly, market players managed to increase productivity while implementing large scale projects. Secondly, as the lack of qualified professionals is increasing in all three Baltic countries, the companies increasingly resort to subcontracting. This boosts added value per employee, as additional profit is achieved without the increase in in-house staff.

OUTSOURCING OPPORTUNITIES

Latvian *FMS*, which showed one of the largest growths in IT service revenues, reached the largest growth of added value per employee. This helped *FMS* to occupy the 2nd place in added value ranking. *FMS's* number of employees increased by 20% in 2006, while added value increased more than 3 times. Estonian *Helmes* retained the 1st place in the added value ranking for the fourth successive years. The extensive use of outsourcing services is one of the factors for this great performance of *Helmes*. •

BALTIC IT COMPANIES BY ADDED VALUE IN 2006, TH EUR

	Added value per employee			Added value			Average number of employees	
	2006	2005	Growth, %/year	2006	2005	Growth, %/year	2006	2005
1. Helmes (Estonia)	53.9	53.1	1.5%	3718	2868	29.6%	69	54
2. FMS (Latvia)	52.8	16.5	219.7%	3483	908	283.7%	66	55
3. Compservis atvirosios sistemas (Lithuania)	47.6	42.3	12.7%	619	465	33.1%	13	11
4. Elsis Group (Lithuania)	37.3	16.6	124.9%	7639	3712	105.8%	205	224
5. Digitalmind (Latvia)	34.6	20.0	72.8%	311	180	72.8%	9	9
6. BCS Itera (Estonia)	33.9	22.8	48.9%	543	319	70.2%	16	14
7. Microlink Eesti (Estonia)	30.9	27.6	11.9%	7726	4942	56.3%	250	179
8. Compservis (Lithuania)	29.7	35.3	-15.8%	1457	1766	-17.5%	49	50
9. Aqris Software (Estonia)	28.7	27.3	5.1%	860	682	26.1%	30	25
10. Tilde (Latvia)	27.9	23.7	17.7%	2457	1756	39.9%	88	74
11. Microlink Lietuva (Lithuania)	25.0	22.4	11.7%	2248	1900	18.3%	90	85
12. Regio (Estonia)	23.4	23.7	-1.4%	1525	1204	26.7%	65	51
13. NRD (Lithuania)	23.1	23.4	-1.2%	879	773	13.8%	38	33
14. Exigen Group (Latvia)	22.3	22.1	0.9%	14726	14597	0.9%	660	660
15. Sintagma Group (Lithuania)	21.9	19.4	12.8%	3046	2604	17.0%	139	134
16. Alna Group (Lithuania)	21.9	18.4	19.0%	8663	6928	25%	396	376
17. Webmedia (Estonia)	21.5	22.5	-4.4%	4765	2268	110.1%	222	101
18. Columbus IT (Lithuania)	17.8	-	-	2613	3147	-17.0%	147	-
19. Uptime (Estonia)	16.0	13.4	19.8%	1056	734	43.7%	66	55
20. Prototechnika Group (Lithuania)	14.4	9.5	51.0%	1206	837	44.1%	84	88
21. Iterija (Lithuania)	11.3	11.2	0.3%	315	258	22.1%	28	23
22. Sekasoft (Lithuania)	10.2	6.9	48.1%	287	159	80.3%	28	23
23. Edrana (Lithuania)	8.1	7.3	10.2%	742	593	25.2%	92	81
24. Check IT (Latvia)	7.7	8.1	-4.0%	116	64	80.0%	15	8
Average*	26.3	21.5	22.4%			32.3%		
Average per working day, EUR	105.0	85.8						

* Excluding Columbus IT as the employee number for previous period is not available

Value added is calculated as EBITDA plus personnel cost.

Source: Prime Investment.



The client prefers the integrated approach

By Alexander Fedotov

Citrus Solutions will equip your facilities with all required information and communications technologies

In this day and age, one simply cannot imagine a home, office building, shopping mall or industrial facility without security and fire alarm systems, as well as telephone and Internet communications. Often, however, each communications system is installed by a different company. As a result, even an experienced specialist cannot make his or her way through the jungle of entangled wires and cables. Maintenance costs for systems increase. It is much better if an integrated project is developed and implemented. This is a task which *Citrus Solutions* will handle in an excellent way.

Rinalds Sprogis, board chairman of *Citrus Solutions*, told *BC* that the company's staff develop, install and maintain data transmission systems, computer networks, fire safety systems, alarm systems, and video surveillance systems. Clients define their requirements for their homes or businesses, an integrated design is tailor-made for the specific site, and a cost estimate is produced. Clients are offered a number of options, from inexpensive to exclusive. Once the contract is signed, the work is done as quickly as possible. *Citrus Solutions* takes an individual approach to each client, allowing people to choose the solutions which they find to be most acceptable. This is an important advantage for the company.

Many companies, after all, do business in the modern market, but they operate in a strictly defined and narrow field. As a rule, moreover, they often offer products from a specific manufacturer, because they are the official distributor of those projects. This is the state of affairs in the business of security alarms, for instance. *Citrus Solutions*, however, offers products from several major manufacturers, describing all of the advantages and shortcomings of each piece of hardware. The same is true when an Internet connection is established. The company does not provide Internet services. The client chooses the provider, and *Citrus Solution* does all of the installation work. If the client insists on a wireless system — no problem! Internet service providers are interested in this, because they increasingly are focusing on core services, while leaving installation services to subcontractors. Co-operation with *Lattelecom* is based exactly on this kind of arrangement. This is understandable — in June 205, *Citrus Solutions* split off from that powerful company to become an independent enterprise.

In addition to the Internet, no modern facility can make do without security systems which protect against break-and-entry through windows and doors. Help is available through various kinds of movement detectors, as well as video cameras which are installed along the perimeter of the facility and within the building itself. Fire safety systems add to the security. All of the equipment is linked to a local security console and to the central console of the security company which has been



hired by the owner of the real estate. In this segment, *Citrus Solutions* offers a choice of equipment, working directly with the representatives of three or four different manufacturers. Substantial discounts can be available as a result of these individual contacts. Security companies are interested in finding new clients. The principle of an integrated approach is extremely useful for the owners of large and newly built facilities such as shopping malls and office centres, because the combined savings can be quite significant.

Citrus Solutions has gradually grown beyond the Latvian market, and it has now focused on Lithuania. This is understandable, because specialists who work for the company's branch in Jelgava — a town which is comparatively close to the Lithuanian border — can easily work on jobs in Piauliai and Panevezys. "We knew what we were doing, and we know everything about the specifics of the Lithuanian market," said Sprogis. "Our office in Vilnius opened in December of last year, and we have already signed our first contracts with clients. There is demand for our services, particularly because we are able to offer high-quality products at very attractive prices."

The company's Web site, www.citrus.lv, offers more information on the whole range of *Citrus Solutions* services.

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Your imperial simplicity



Architect Juris Lasis: "Thinking about the housing development "Ķeizarmeža krasti", it was important to not lose sense of the proximity of the lake. The buildings have been constructed as nine sovereign shapes. In relation to one another they open up like fans, letting the wind, light and air flow through the buildings toward the lake. To achieve the necessary amount of sunlight in the apartments, the ends of the buildings, not their facades, face the lake. The facades are facing each other on the southern and western sides; they incorporate internal terraces that allow a panoramic view of the lake. The buildings have been placed in such a way that no window of any building is exactly aligned with a window of another building. The buildings will not sit on the ground: each will be lifted to a certain height, leaving space for parking lots underneath. Thus even those who live on the first level will have a chance to see the lake. On this level, buildings are also connected by inner green air terraces through which the inhabitants will be able to move without climbing down to the parking lots."



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Latvia: glow of prestige

By Alexander Kregers,

Marketing Director, New Projects and Investment Department, Ober Haus Real Estate Latvia

In order to comply with all the glows of prestige, the real estate must meet a number of criteria. Sometimes just a few tens of meters can deprive an estate project of any chances to strive for an elite status.

The criteria used to determine the elite status' apartments, houses and offices in the capitals, other cities or resorts are in fact the same in all the countries.

SOME "EXTRAS" FOR THE WELL-OFF TENANTS

Of course, the location comes first; its value depends on the neighborhood's social status, the proximity to the downtown, the view around and the area's historical development. Then, comes the "extras" specifying the apartment's interior infrastructure, the degree of comfort offered to the tenants, the number of "extravagancies," which are not important for the ordinary functional use but which are a must for rich people making their lives special as compared to all others. This includes also technical and esthetic elements, e.g. the quality of construction materials used, their novelty and reliability, as well as architectural and interior design features.

The overall concept of the construction project, its idea and essence are very important. It may not be just a very high



quality apartment-box for living situated in a good location. It must have its own history, own legend and message supposed to bring out certain emotions to people living there, making them feel that theirs is a somewhat different and special in life "over there".

The general characteristics of the office buildings are actually the same, only the location, architectural solutions,

the number of parking lots, interior infrastructure and technical "supplements" of the construction which are much more important for this type of building. These are the elements of office buildings that have primary influence on the business' success. The emotional aspect is not as strongly obvious here, even though its latent presence is

By Vladimir Dorozhkin,
Manager, Real Alliance,
Latvia

The Latvian real estate market, including the segment of exclusive projects, is directly influenced by Russia. It is because Russians can find in Latvia familiar language environment, democratic laws as regards purchase of real estate (unlike in many other EU member states), acceptable prices as compared to, let's say, Estonia, where the market capacity is much smaller. No doubt, there is also another important factor, i.e. the prestige that goes with a residence in Latvia, which means a lot to potential buyers, in particular those looking at elite projects. The quality of one's residence has a direct bearing on business growth: the positioning of a person in business circles, his trustworthiness, etc.



Speaking about exclusive housing, I would like to point out that this market's segment is in early stages of development in Latvia. It is true that new developments are on the rise here in recent years. But, as a rule, those projects are intended for middle-class customers. I think that few projects can really be called elite, including the prestigious 9-storey multi-functional complex *Edem*, which is expected to be put into commission in the last quarter of 2007.

As to the market in general, I would say that buyers have become more selective of lately, also when making investment for what is called speculative purposes. Only two or three years ago all real estates were sold off like hot cakes. Today customers attach importance to location, the class of the project and other factors. Considering the legislative changes, it is exactly in the segment of elite projects that the speculative component will be quite high while almost disappearing altogether on the secondary housing market.

As to the price component, experts have currently noted stabilization on the secondary housing market, which naturally affects the market in general. Yet, the housing prices will go up in the near future. In view of the investment policy, there will not be too many elite projects in Latvia; therefore the demand for them will be rather high, which will be consequently reflected in the prices.

no less important. In this case it reflects the prestige of the building.

LOCATION AND STATUS

Due to the specific layout of cities with a long history, real estate in the center is the most expensive. In our case, it is the Old Riga with its own peculiar style. Limited number of offers, unique architecture and valuable cultural heritage make the real estate in this area very expensive. But the price alone does not make a property an elite real estate. In Old Riga, the elite real estate could be as well a house that has been renovated.

Some buyers of elite housing would rather choose not the polluted city center, but the more spacious and quiet area of Mezaparks, where expensive private houses are available; however, there are no elite apartments for offer in this area so far. Somehow, several exclusive apartments did appear but they were rather exceptional cases and did not satisfy the required elite status, i.e. their concept failed to meet the criteria described above.

Specific reference should be made to Jurmala and Baltezers. It is commonly recognised that the latter is a popularly accepted location for elite private houses. Meanwhile, the offer of exclusive apartments at Jurmala has bloated to such extent that there is a serious risk of shortage of potential buyers.

In any case, the location should provide for a glow of prestige-kind area. This notion is determined not only by the buildings in the vicinity and the social status of neighborhood but, first of all, by the histories development of the selected location. Sometimes just few tens of meters can deprive and estate project of any chances to claim for the elite status.

OTHER CRITERIA

The second criterion qualifying a property as an elite housing is a special club-type atmosphere. Potential buyers of such housing attach great importance to identities of their future neighbors and, as a rule, know them: the world of business is too small.

The third criterion is a specialized round-the-clock security using the most advanced equipment that would protect the tenants against excessive curiosity and restricts access by outsiders.

The fourth criterion are high-end construction materials and the latest building innovations applied in construction and finishing of housing and public access facilities, as they determine the level of comfort to be enjoyed by the tenants.

The fifth criterion is that the apartment should be a one-time offers, not a massive one on the market and unique in its own way.

The sixth criterion is the infrastructure of the property, comfortable for tenants and protected from outsiders, as well as the exterior infrastructure offering attractive view and meeting the tenants' requirements. It could mean, for example, that there are no old or ugly buildings in the neighborhood and there are services facilities, shops, etc. within an easy reach.

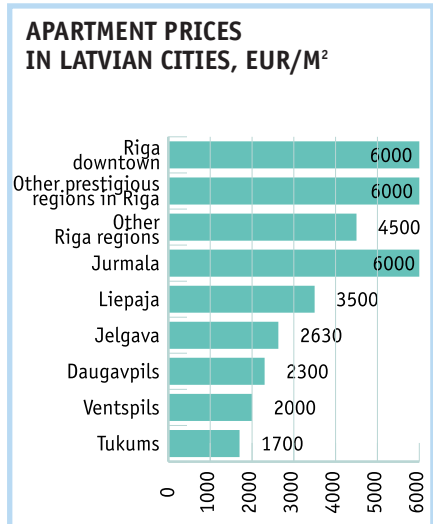
The seventh criterion includes special elements, increasing the level of comfort, such as a concierge and a reception desk at the entrance, available terraces, panoramic windows, professional in-service system, air conditioning, underground parking lots.

And, finally, the last criterion is an original architecture and particular layout solutions.

SNOB-EFFECT

Buyers of the elite real estates can be divided into two categories. The first category includes popular people, who have achieved high living standards, they are independent and active, and mostly public figures (artists, politicians, etc.) who do not wish to encounter increased interest in their persona in daily life. These people appreciate the joy of increased comfort while the middle class cannot afford to pay extra for any special features or prestige of their homes. Also, those people have talents and skills which make them part of the bohemian circles.

The second category consists of people, who have special requirements to their living standards. And, due to their success in business, they are able to satisfy those requirements. These people advance in life with confidence and make independent decisions. Partly, it is their rising social



Source: Ober Haus Real Estate Latvia.

status that prohibits them from living in a home that fails to meet certain standards. For those people an elite house is an element of their status.

There are also some buyers, who look upon purchase of this kind of real estate as quite reliable and profitable investment. However, all the above motives can be combined.

The segment of elite apartments satisfies not so much the functional demand, based on the need to have a roof over one's head, but for most part rather a much



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higher level of physical and emotional comfort. This is ensured by more spacious living space as well as the prestige and status of the residence itself.

According to the Austrian business school theory, such kind of “goods” are in demand among people influenced by the so-called snob-effect, i.e. people who try to achieve exclusivity in everything, to be different from the majority, to be special, to stand out from the crowd. Buyers from this elite category would agree to a substantially higher price for the housing if it is exclusive for its quality or location.

FOREIGN DEMAND

Foreign demand can also be divided into two categories. The first category comprises foreigners, who work in Baltics and buy real estate for residence purpose. But, of course, they look at real estate not only as a place of residence but also consider its attractiveness for investment purpose, which is a peculiarity of the Western mind.

The second category consists of foreigners, who are specifically looking for profitable investment opportunities. They come from different countries, but the British prevail, as in their country there is a substantial surplus of capital and real estate prices are very high; Latvia is seen as a sort of El Dorado in real estate.

NEW TRENDS

First of all, the new trends are related with extensive development of the areas

near the city center, such as Kipsala, Balastadambis, Andrejsala, Zakusala, the area near Skanstes street. Construction of the new regional developments will alter the downtown area borders and adjust the very meaning of the elite property. After all, along business-class projects there will be developers willing to offer something very special which will be based on the freshly-built infrastructure of new city regions. Just imagine, what kind of projects one could build, if not confined by the limits of old buildings. Such offers will definitely compete with the best houses in the Old Riga and the busy downtown areas.

FORECASTS

Considering the intensive construction activities in Latvia and lack of saturation in the elite housing segment, it can be presumed that world-class exclusive properties in Latvia are only beginning to emerge. Most interesting and so far the only new luxury home construction to begin this year is at Balasta Dambis 11. Without exaggeration, this project can be regarded as the most prestigious and elite-estate in Riga. We are certain that soon more offers will appear on the elite housing market as the attractiveness of this segment cannot be overestimated.

The main driving force will be the centralization of the market, meaning that it would first concentrate on major projects

as well as leading developers and real estate companies. This will provide an impetus for creating an elite offer of a new quality on the market.

Riga is a growing region, new territories are being developed and new opportunities arise. It will not take long before we will be living in a completely different and more interesting city.

BEST APARTMENT PROJECTS IN 2006*

1. Sokolade
2. Valnu 4
3. Alberta iela 1
4. Ridzenes Rezidence
5. Jurmalas Vilnis
6. Dunties Ozoli
7. Tobago
8. Metropolia
9. Dienvidu Pakavs
10. Zelta Rasa.

* Not all of these projects qualify as an elite real estate.

THE MOST INTERESTING RESIDENTIAL PROJECTS UNDER DEVELOPMENT IN 2007*

- Mezaparka Plaza
- Skanstes Virsotnes
- Soleville
- The project at VEF Culture Palace
- Green City

* Not all of these projects qualify as an elite real estate.

Lithuania: luxury is a personal matter

By Raimondas Reginis,
Ober Haus Real Estate Lithuania

There are no official regulations or definitions concerning luxury or economy apartments in Lithuania. Therefore there is no unanimous opinion as to what should be considered economy housing-class and which can be called a luxury. Of course, the definition “luxury housing” sounds much nicer and is often used by agents to attract clients, though the apartment itself might not be very expensive and neither located in a prestigious place. Therefore we happen to find “luxury housing” close to a busy street in an old five-story apartment building which is in an ordinary residential district of the city.



Taking into consideration market's demand and potential clients needs, we can define luxury housing as having

the following qualities: the construction is to be located in the prestigious city district, e.g. in Vilnius this could be

the Old Town, Zverynas, Antakalnis, Valakampiai, some places in Naujamiestis and Snipiskes, or in a place that is marked by distinctive natural view or has a good strategic location.

NOT EVERY PLACE IS LUXURIOUS

Not every place in the district, which is considered to be prestigious, can be good to build luxury housing. The house that has luxury apartments for sale should not be close to evident sources of noise or pollution, such as busy streets, transport connections, industrial quarters, electricity transformer stations etc. The house should not be close to slums, deserted buildings, social houses, cheap cafes and other non-representative buildings.

ONLY PERFECT QUALITY

The building should be constructed only of high-quality materials, using new technological and architectural ideas. The outside design and architecture should reflect the distinctive value and durability of the house: both the durability of constructive elements and architectural value should be ensured.

Special attention should be paid to the quality of communal premises and their layout. Apartments that have spacious hallways, sunlit stairwells with high quality decoration elements such as marble floor, car-

peting, elegant lights etc. are considered to be most valuable.

PHYSICAL SECURITY

Physical security including a guard or a porter, videophone, CCTV systems is also considered to be of a special advantage, which provides more than an average safety for the house.

PATIO

The house or the apartment adds up a special value if it has a patio, i.e. an inner backyard, which is not used for recreation rather than as a parking lot. The backyard should be nicely and artistically arranged with beautiful plants, benches for rest, lights, decorative pool, possibly with a fountain, and some artistic elements, e.g. sculptures, that make the place particularly attractive.

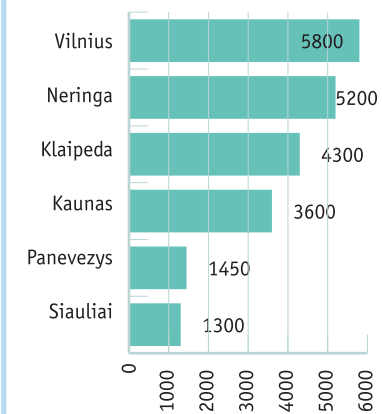
PARKING LOTS, ETC.

The parking problem should be solved by establishing underground parking lots or garages.

The lift is a must even in low-rise buildings.

The residents should be offered all other kinds of home comforts, which create a maximum comfort in the apartment, e.g. spacious terraces, balconies, possibility to construct a fireplace in the apartment, air recuperation and

HIGHEST APARTMENT PRICES IN LITHUANIAN CITIES, EUR/M²



Source: Ober Haus Real Estate Lithuania.

conditioning systems, the safe wireless internet etc.

COMFORTABLE AND SPACIOUS ARCHITECTURAL PLANNING

Low ceiling and small spaces usually do not attract potential clients. The luxury of the apartment is highlighted by beautiful views from the windows, e.g. a view of the Old Town, historical objects, or beautiful natural elements such as a wood, a river etc.

Small number of neighbours in the house and in the driveway is also the thing that makes the housing more luxurious.

By Dita Putlene,
Marketing Director, Ranga
IV Investicijos, Lithuania



As the main trend in this segment, to my mind, could be a great land deficiency for possible elite-construction projects. Generally, we can talk about such projects only in Vilnius; in other big cities that could be quite problematic. True, in Vilnius itself one can separate the so-called real-elite construction (e.g. in the Old City, in the downtown area) and other constructions that could be regarded as elite, though situated far from the center, but with certain reservations.

When approaching our company's elite real estate projects, I have to say that they can be approached without any reservations.

It seems that situation will hardly change in the near future; it is known Vilnius is included in the UNESCO list of cities with protected architecture, therefore we can expect that new elite projects would be quite rare. New high-stack build-

ings in Vilnius' downtown probably will not be constructed at all. *Vilniaus vartai* is most likely to be the last elite construction of that kind.

Talking about the elite apartments' customers, I would specify two groups of people: one is attracted by the exclusive character of the project itself. For example, our two buildings — on the Constitution prospect next to trade — and business-center "Europe"; and *Vilniaus vartai* are exactly that type of projects, i.e. there is nothing like that around and will never be.

The other is attracted by the share situation in the city's downtown and the exclusive character of the project slightly bothers them. Our company concentrated on the first type of customers which cherish the exclusiveness.

For example, in *Vilniaus vartai's* construction about 49% of all project's expenses were connected to engineering and equipment; in all other projects (though not at all cheap ones) this share is at the level of 27-32%.

Most probably apartments in elite constructions will be more and more expensive; those who can afford such apartments can not expect steep growth in the apartment's value, though these customers, probably, do not think that way at all. However, they know for certain that such apartments will not go down in prices either. It is quite unreal that there will appear a lot of vacant land-lots in the Vilnius' center. Therefore such acquisitions can be definitely regarded as a solid and fortunate investment.

SUPPLY AND DEMAND IN LUXURIOUS-CLASS

Having in mind the demands of the clients and the present supplies for luxury apartments bring to the conclusion that it is hard to find apartment buildings even in Lithuanian capital Vilnius that ideally fulfill all the above mentioned requirements for luxury housing. Therefore often the fussy client has to do with very high quality of a house or an apartment but not the best outdoor view; or he gets an offer to buy an apartment in a very nice and prestigious district but the building is of a low quality and architectural value.

Just a few houses in Vilnius have well arranged backyards, good security (electronic system or porters), therefore a client with high requirements could complain about any of the apartment buildings in Vilnius that are called luxury. On the other hand, the prices of these places are rather high. The prices of such luxury housing in Vilnius now range from 2,900 to 4,600 EUR for a square meter. In some cases the owners of such places charge 5,800 EUR or more for a square meter. The number of people who could afford buying the home of their dreams for 5,800 EUR per square meter or more is not known.

The most luxurious and expensive apartments in Kaunas cost up to

3,600 EUR/sq. m; in Klaipeda the highest price is 4,300 EUR/sq. m. The rest of the cities (obviously, with the exception of resorts) have much lower prices: the most expensive flats in Siauliai cost up to 1,300 EUR/sq. m and in Panevezys up to 1,450 EUR/sq. m. On the other hand these places do not have most of the requirements applied to luxury housing.

PROFITABILITY'S EVALUATION IS NOT CLEAR

The prices of luxury housing often contravene objective criteria and this should be taken into consideration. Potential buyers of luxury housing often have the highest requirements for their purchase and only a few places can be considered as covering all the criterion mentioned. These people are ready to pay the sum of money which is often much higher than the market price of the apartment. These clients are more concerned with the requirements than with the rationality of the price.

Therefore some apartments that are built in the best places and are built from very high quality materials may become a good with small liquidity because they do not match some requirements of the potential clients. However, if the client likes such an apartment he will buy it even if its price

is much higher than the real market price. Because of these reasons the terms of realisation of a luxury apartment in the market are often times hard to tell. Usually the owners of such apartments do not want to sell their property for the medium market price and look for customers that would purchase the place for the price that is much higher than the real market price. The search for the client who will be willing to pay the higher price just because he likes the apartment may last a year or even longer.

On the other hand, apartments that are really nice and fulfill most of the indicators of luxury are most often reserved beforehand and bought at the very beginning of the house construction or when the project is introduced into the market (if the sale-price at least resembles the real market price level). The supply of luxury housing is not big but the demand is always there even during the times of market crisis. Therefore investment in this kind of property is considered to be very safe (probably the safest of all the segments in the real estate market). But the evaluation of the profit in this kind of investment (the apartment rent and purchase ratio) shows rather vague results: annual profitability of investments in luxury housing is rarely over 3-4%. That means that the dividends will return not earlier than 25-30 years later. •

Estonia: originality plus quality



By Annika Jakobson,
Uus Maa Real Estate Agency, Estonia

Estonian real market has been fundamentally formed over the last ten years. Newly-built housing drew most vivid interest during that decade. At the period of gigantic increase in prices, which began at the end of 2005, newly-built apartments were sold out in a few weeks at most, and the buyers did not care much about exclusivity and luxury. Today the situation on the market has changed. Additional values, high quality and originality of the property have gained primary importance in acquiring real estate.

So far no surveys have been carried out in Estonia concerning exclusive apartments. Therefore it is quite difficult to identify customers' requirements in buying this kind of real estate. However, judging from our experience, it can be said that the priorities include such additional values as a nice view from windows, the balcony or the terrace, a fireplace or a sauna, original design, interior finishing of the apartment and, of course, a personal parking lot.

MOST EXPENSIVE PROPERTIES

The most expensive apartments in Tallinn are those situated in the Tornimae twin high-rise towers, which were built in 2006. The high prices are due to the amazing view on the city and the Gulf of Tallinn, unconventional architectural solution and the central location rather than to the quality of construction.

Apartments in the Fahle House built in 2006 also are valued for the exceptional

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view opening from its windows. Yet, this building is far away from downtown as compared to the Tornimae twin towers.

The apartment house on the Pirita beach is another prestigious place of residence. The apartments offer a beautiful view on the sea, the downtown is within a short distance and the surrounding pine forest makes those apartments especially charming.

Interest in expensive and exclusive real estate in Tallinn is demonstrated also by investors, who buy up such apartments for speculative purposes as well as for personal use.

The first stage in construction of Tammsaare, the largest business center in Tallinn, is to be completed in 2008. Even though the building will be located quite far from the city center, it will be located at the intersection of main highways.

Additional advantages include convenient access and well-developed infrastructure. In addition, the project is interesting for its exclusivity and architectural solution.

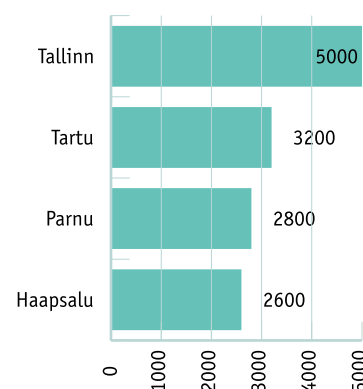
Previously exclusive new apartments were sold rather quickly. Booking of the apartments already began when the building was still under construction, and the real estate prices were comparatively low. In the current market situation it is already difficult for high-priced projects to achieve such fast success. The prices are high and often are not consistent with the quality required.

Recently there has been a certain demand for exclusive private land plots situated in picturesque locations or near the sea.

Moderate growth trend and increased demand for apartment's exclusivity and additional values can be expected in future.

These are so-called average prices for exclusive apartments. The last apartments (on the 29th-30th floors) in the Tornimae twin towers in Tallinn were sold at the auction for 120,000 EEK per sq. m. Apartments in the building at Pirita tee 84a are also on offer for 115,000 EUR per sq. m.

HIGHEST APARTMENT PRICES IN ESTONIAN CITIES, EUR/M²



Source: Uus Maa Real Estate Agency.

EXCLUSIVE PROJECTS IN OTHER ESTONIAN CITIES

Tartu	Parnu	Haapsalu
Vaike-Turu 5 (apartments/offices)	Jalaka 10 (apartments)	Posti 41a (offices/trade floors)
Lossi 21/23 (apartments)		

Source: Uus Maa Real Estate Agency.

EXCLUSIVE PROJECTS IN TALLINN

Apartments		Offices	
2006	2007	2006	2007
Twin-towers Tornimae, Tornimae 7	Rotermanni's Quarters	Commercial Housing Foorum, Narva Road 5	Commercial Rotermanni Str.
Fahle house, Tartu highway 84a	Luchterni Quarters	Liitsa 2	Liitsa 2a
Beach House, Merivalja 5	Pirita 28a	Tornimae Office, Tornimae 7	

Source: Uus Maa Real Estate Agency.

By Peeter Raudnagel, Sales Director, Skanska EMV, Estonia

Elite apartment prices at a standstill for the coming 2 years

It is rather difficult to define the elite real estate, as prices are varied in line with customer's intentions. Looking two years back, when apartments were constructed only "on paper" but nevertheless were quickly sold out, the price of 10 th EUR for a sq. m would not surprise anyone.

We can say that the price level for elite apartment can start with about 80 th crone for a sq. m; although the price it is only one criterion. Besides, it has to be an apartment in the capital's center, with quite specific materials used for internal finishing and a unique design.

Prices at present are at a standstill, negotiation periods become greatly extended and customers becoming quite experienced in real estate issues: thus, time is over when the apartment was sold while the customers have not even seen the premises. For



example, we have an apartment house on *Piirita tee 28*; it's a unique house next to a historic place ("Singing field") with a wonderful view over the sea and the old city. The prices for apartments with 80 to 170 sq. m are in the range of 80 to 100 th crone for a sq. m. (besides, the bargaining opportunities are left open).

It's quite clear that the developer's aim is to earn money, although elite-housing development is the domain of only those firms that can afford to wait until a real client comes.

Developer's situation is hampered by the fact that most "sweet" places in downtown are already occupied; nobody wants to deal with the old houses. There are two types of customers: those who buy for themselves and speculators that want "quick money". As to the apartment's type, the customers prefer new construction. There are, certainly, also those who would rather buy a renovated property, though there quite of few such clients.

Quick enrichment on the real estate market becomes problematic as the market becomes more regulated and stable: supply and demand sides become stable, as well due to a lot of new apartments coming to the market. Customers are not any more worried while buying an exclusive apartment that second-hand dealers would get over. Profiteers and small firms are already leaving the market because of reduced revenues. I think that during the coming couple of years the property prices would be rather stable.

Kungu iela 25, Old Riga



What is home? You can use thousands of words without speaking any of the truths about what a home provides. Being at home. Having complete security and utter peace. Have you noticed that greatest values of our life can't be captured in words? This is so simple and self-explanatory, it escapes description. At home, we are beyond time, haste or intrusion. The ages are right here with us, they are palpable, and all we know is that nowhere else, at no other point in time but right here at home are we truly ourselves. Respectful of times long past, hopeful for success today and a better tomorrow! Our whole lives are right here with us, within arm's reach. To the North, the East, the South and the West... Along Northerly, Easterly and all other winds... As long as we are at the heart of living history, we cannot but witness and shape its development. Secrets and answers go hand in hand. This is our home. This is us.

Rīdzenes rezidence is first-tier real estate. *Rīdzenes rezidence* is the largest of all the new multi-apartment projects in Old Riga. The house's address is Kungu iela 25, although its two sections and the spacious, cosy, green inner courtyard take up a whole block between Mārstaļu iela, Kungu iela, Mīnsterējas iela and 11. Novembra krastmala. The historic Trauksmes iela has been restored in the middle of the housing complex. The basement of the new building retains a section of a medieval city wall.

The first floor of the building will be accessible for anyone as there will be stores and restaurants. The house's storeys 2 through 6 have 72 spacious flats, with area ranging from 70 to 250 m². The top floors have duplex apartments. The height of the ceiling in apartments is 3 m, floors have double sound insulation. Apartments have the top quality oak entrance doors with special sound insulation, wooden windows, French balconies, the top floor has *Velux* skylights and terraces. There are water and heating meters, central air conditioning system and a possibility to install a fireplace in each apartment.

The house's outside walls are brick. There are the state-of-art noiseless lifts in the building, while cars could be easily placed in the underground car park intended for every apartment. The parking garage allows smaller cars as well as higher and wider ones.

The house is provided with security guarding and fire safety systems. Each apartment has an intercom with a video feed. You can arrange flat cleaning, linen washing and ironing service with the house managers, SIA *Cleanhouse*.

Project developer *Zaļais fonds* ltd.
Telephone: + 371 7211388
e-mail: info@citra.lv
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Person must be treated rather than a disease

By Olga Pavuk

Ukrainian physician, **Vladimir Kabachny** recollected these words attributed to Avicenna, during one of his visits to the Latvian capital. After Latvian tour he is heading for Lithuania where he has been providing treatment for the last six years. Some extracts from an interview with the doctor we suggest to our readers.

The idea to meet Mr. V. Kabachny appeared after conversations with his Latvian patients cured from serious diseases lately. Most often, by the word of mouth people find way to the doctor they can rely upon and truly believe in.

Professor Vladimir Kabachny, having doctorate degree in pharmaceutical sciences (he chaired a department in Ukrainian National Pharmaceutical University (UNPU) for the last 23 years) nor his sophisticated healing abilities. It is quite remarkable that his degrees and titles he acquired in 1985 at the age of 30-way back in Soviet time!

UNIQUE UNIVERSITY

History of pharmaceutical education in Ukraine and that of UNPU dates back to 1805 when Kharkov Imperial University was established by **Vasilij Karazin**.

More than bicentennial UNPU has at present more than 17 thousand students taught on 14 different majors in 3 languages; there are 43 departments, 59 education offices and 11 faculties. The university is a complex entity uniting a professional college, prep-faculty for foreign students, post-professional pharmaceutical institute, master studies, PhD group and a doctorate section, to name a few.

The greatest UNPU's asset is, of course, its academic stuff, teachers and professors: there more than 86 professors with the doctorate degrees, more than 400 lecturers and docents with PhD rank. More information about the university can be seen on: www.ukrfa.kharkov.ua.

SCIENCE IN UNPU

UNPU is famous both as a focal point for educating pharmacists for the world medical community and for its fundamental research. One of its leading scientific directions is connected to discovering and investigating biologically active substances (BAS) of synthetic and natural origin in order to resolve most acute medical practice problems. BAS, in fact, is Kabachny's main sphere of scientific activity.

For several years he was researching BAS that would increase human body's resistance in extreme situations. One can say that life itself was guiding his research directions. Thus, being asked, how to better defend human body from external

pressures, professor firmly pointed out: there is nothing better than a natural self-defence human body's reaction. In fact, in all illness-stricken situations a strong and healthy organism survives and recuperates better, e.g. in physical diseases (radiation, operations, burns, trauma), in chemical ones (toxic substances and drugs) and in infectious diseases (viruses, bacteria, swamps), etc. Our aim is to clarify corresponding biochemical reactions, to activate natural human protective and resistant processes and supporting them at the highest level until the complete cure, he said.

METHOD'S ESSENCE

In order to optimise the human body's recuperation and resistance's processes and dynamics, Mr. Kabachny uses a well-known and popular so-called fall-diagnostics (named after its inventor, **Rheingold Fall**). In its essence the method is based on patient's electro-punctual tests along 120 point on the body. Afterwards, computer data processing provides for a complete system analysis: both to find out the disease's origin and to select optimal components and BAS' doses for treatment.

Quite impressive is that even without a trivial introductory question to a client ("What's wrong with you?"), already in about 45 minutes the doctor can come up with the precise description of client's problems and the ways to treat them. Under other conditions, in order to find out the disease, people quite often spend a lot of time and money.

RESULT IS THE KING

Most remarkable is that professor Kabachny's patients are usually those people that already lost hope in "traditional" medicine. He says: "It's actually too bad that often people are consulting us with a big delay, when the disease is almost difficult to cure. The system we have developed which is called **"HELIOPLANTUM"** is based on body's recuperation, in another words it is based on activation of the human body's natural defensive-recuperating processes with an intention to support these processes on a high level; this approach provides total method's security and high efficiency. It is all quite natural: a perfectly functional body "initially knows" the sacred personal recuperation procedures and can not make anything to harm itself".



Examples Mr. Kabachny presented at the 2nd European Aerocosmic Medicine Congress were quite impressive both by share volume of the problems under solution and yielded results. Among successive treatments are adenomas and brain's astro-citomas; intestine, gullet and stomach's carcinomas; various tumours, prostate and pancreas, and so on and so fourth.

"HELIOPLANTUM" system taken together with the chemo- and laser-therapy allows for drastic reduction of the orthodox medicine side-effects' methods and effective tumours destruction with a complete avoidance of relapse.

A human body with the help of **"HELIOPLANTUM"** system can assist in treatment of the following diseases: chronic arthritis, diabetic complications, heart disorders, infarcts, neuron-sensual deafness, brain and skull accidents, epilepsy, children's cerebral paralysis, retarded kids' development, severe headache and migraine, to name a few.

What is important that **"HELIOPLANTUM"** system can assist at that disease's stage when the orthodox medicine can not recognize the deficiencies. Therefore the system is completely harmless and at the same time it can be quite helpful in prophylactics.

NOT BY MEDICINE ALONE

At the conclusion of our meeting, Mr. Kabachny pointed out that his method can be used far beyond strictly medicine fields. For several years his achievements have been used in treating grain and crops, in increasing harvest fertility (by 10-30%) and in producing environmentally clean foodstuff. Some positive results have been observed in treating patients with genetic abnormalities. **"HELIOPLANTUM"** technology can be applied in curing reproductive capabilities in humans and animals.

I would have thought otherwise myself if I had not known personally a woman with a fatal diagnosis — leukaemia. After being treated by the **"HELIOPLANTUM"** system, the patient's blood has become normal and during last 2 years she has been a healthy person taking no drugs; she deleted from both the invalid and oncology-patients lists. Happy ending! •



Contemporary means to finance business activity

By Olga Pavuk

The theme of the recent Baltic International Academy (BIA)-BC round table "Contemporary means to finance business activity" was chosen due to the issue's extreme importance for the Baltic states economic development.

After privatization programs have been completed in the Baltics' developing markets at the start of 2000s, these economies experienced a certain decrease in the amount of investments. However, afterwards completely new means to finance undertakings have appeared. These were the issues under discussion at the BIA-BC round table this May.

BIA's docent, **Vjacheslav Davidov** has shown the structure of relationships between the capital market and the real economy situation in developing countries.

Capital investors experience new possibilities to revive exchanges' activity by way of introducing at the bourses in the Baltic states so-called alternative financial instruments. These arrangements were the theme of reports delivered by *Rigas Fondu birza* deputy-chairman, **Indars Ashchuks**

and strategic projects' expert, **Mikus Janvars**. It is to be mentioned that alternative Baltic Stock exchange system has already started in Latvia and Lithuania this June and expected to be functional in Tallinn at the end of the year.

Latvian Economy Ministry on behalf of the government authority has been installing a national program to support Latvian undertakings, which was the theme of the report by the chairwoman of the Board in Latvian Guarantee Agency, **Lita Kalnina**. She underlined the main aspects of the first two years in agency's activities.

Modern means to finance a developing enterprise was described by **Martins Jaunarajs**, Head of the Investment Banking Division at Parex banka.

The trends in venture capital and business-angels' activity were analyzed by **Rihards Svelpe**, member of the board in Latvian venture capital association and a member of Latvian business-angel society. We express our deep appreciation to Mr. Svelpe for his assistance in the round table's arrangements.

LE/Rom Group's representative, **Lena Romanova**, both as a developer and an investor, is engaged in residential, offices

and industrial parks' property in the Baltic states, as well as in trade centers' development in Russia. The theme of her report was the modern means to finance commercial and residential real estate in Latvia taking as a practical example the closed-stock investment funds activities and that of the Mezzanine-type funds.

BC's international editor, **Eugene Eteris** specified some new trends in the EU and Scandinavian states' investment policy, the trends important for consideration for the Baltic countries.

At the end of the round table discussions, BIA professor, **Vladimir Sharapov** described his new innovative project (under the working title "Active transport suspension"). The project attracted the participants' attention and there were real chances that it could get necessary financing for its implementation.

We are quite aware that we did not cover all of the issues involved in the services within the business financing sector. We hope that the reports presented by experts in their fields would be helpful for the companies choosing adequate means of financial assistance.

Capital market as a financial resource

By Vjacheslav Davidov,
Docent, BIA

For the developing and ambitious companies, in developing countries in particular (among which is Latvia) the problem of finding resources is becoming ever urgent. Capital market is often called the mirror of economy: in another word, relationships between the capital market and real economy are constantly transforming, i.e. the pace of economic development is closely connected to the efficiency and maturity of the capital market.

Capital is liquidity; this market is associated with a group of people and organisations lending and/or borrowing liquidity. Capital market represents the floor for emissions and trade in long-term securities, e.g. corporate and government bonds, simple and privileged shares. This is, at the same time the floor for hedging and securing financial risks, trade in derivatives, futures and options as well as basic securities and assets (commodities and currencies).

Therefore it is the capital markets that find liquidity for companies providing a sufficient profit for credit agencies. Capital market is a mechanism, which is transforming people's savings for use in activities by those who need these savings. Companies often address capital market in order to finance business development, to cover expenses and losses incurred at initial business stages.

Thus, capital market is an important and efficient instrument to mobilize funds for companies and securing an efficient source of investments into the economy it services. This market plays a decisive role in mobilizing savings for investments into developing assets and consequently increasing long-term economic perspectives in a country. This way the market performs the major catalyst functions in transforming national economy into an efficient, competitive player in all globalisation processes.

BANKING CREDITS' ALTERNATIVE

Capital market can be regarded as an alternative market for bank credits as the latter is not always accessible, advantageous and efficient market for borrowing because of limited capacities and credits interconnections. It is quite risky for the long-term financing of a certain country's economy to rely solely on bank credits. A crisis of the bank system can occur.

Since 1982 about 100 bank crisis have occurred in the developing countries. One of the most serious of this was so-called Asian financial crisis in 1997-98 which increased attention to the relative bank sector's role in developing countries, including Latvia, Lithuania and Estonia and under-

lined the capital market development problem, in particular, bonds and fund markets.

Internal bond market in the new EU member states is so far relatively weak compared to banking system and sometimes with market in shares. In view of the Asian financial crisis a logical outcome can be made in the direction of the necessity to develop internal bond market as an alternative to the banking credit market, which can undoubtedly serve as a source of economy crisis.

Generally, it's not necessary to prove that it is quite risky for the long-term financing in a certain country's economy to rely solely on bank credits. The meaning is that bank system crisis can provide an immediate negative impact on economy as companies being under the credit conditions would be forced to refuse investments.

The existence of an efficient and active internal capital market, in particular bond market, would provide companies with alternative possibilities to increase borrowed capital in case the banks would not issue credits. Besides, the existence of a developed bond market could strengthen the restoration of the bank system after crisis, to allow the bank system re-capitalize its balances through securitization, e.g. by bond emission.

Moreover, the companies can have more financial costs using bank credits than through bond (or shares emission) increase for its capitalization. National corporate bonds market allows companies to reduce financial expenses in two ways. First, allowing companies using bond emissions borrowing directly from investors without intermediate role of commercial banks. Second, emitting corporate bonds, companies can efficiently use their assets and debt capital, in particular in long-term borrowing.

LARGER OPPORTUNITIES FOR INVESTORS

Without good functional bond market (as well as the fund's one) the investment savings face rather restricted choice of assets used for savings; as a rule, bank deposits are used as such assets and to a lesser extent — the shares.



Sometimes the savings are aimed at acquiring non-financial assets, e.g. real estate, which greatly reduces the supply of liquidity for productive investments in the form of savings. The latter, in its turn, can lead to the decrease of the country's economic wellbeing.

Therefore an active and effective bond and funds' market could expand capital market at the expense of private persons' offers which would turn their savings into a broader specter of financial assets. This would allow investors to find adequate investment risks and reach optimal decisions concerning investment's accommodation.

The existence of a vital bond and fund market in a country can permit financial institutions better manage the structure of their balance accounts, in particular the companies with the long-term obligations, e.g. insurance companies and pension funds.

In economies without a developed bond market, interest's rates (devised by banks) can not be set on a competitive basis. Therefore they can not reflect an actually possible capital value. For example, banks can enter into confidential agreements among themselves for the setting up the interest rates.

Secure guarantees for business ideas

By Lita Kalnina,

Head of the Board, Latvian Guarantee Agency

Since 2003 Latvian Guarantee Agency (LGA) is working under the supervision of the Latvian Ministry of Economy. The Agency is performing the tasks specified in the national economic development strategy for the development of small and medium size enterprises (SMEs) and it assists entrepreneurs in finding new investment sources to finance most perspective outcomes.

LGA provides a mechanism with which SMEs can get both real financial assistance and/or security for implementation of various innovative business-ideas, as well as to secure credit guarantees or leasing opportunities in Latvian banks.

LGA'S MAIN FUNCTIONS:

- Providing loan guaranties to Latvian SMEs; this way they can resolve problems of insufficient funding guarantees for loans in Latvian commercial banks;
- Issuing financial leasing guarantees for Latvian SMEs in case of industrial leasing;
- Performing the fund of funds' functions in risk capital while participating with LGA's own financial resources in creation and performance of new risk capital funds.

All the above mentioned activity spheres are performed within the state development support program; its financial side is secured by the Latvian government together with the EU Regional Development Fund. The Agency has acquired about 13.9 mln LVL to support the national development program out of which 3.6 mln is devoted for securing guarantees, while 10.3 mln is aimed at supporting risk capital investments.

LGA' PARTNERS

LGA has the following partners:

- Commercial banks and other financial bodies performing the functions of financing SME's activity, e.g. *Hansabanka, SEB Latvijas Unibanka, Latvijas Hipoteku zemes banka, Latvijas Krajbanka, DnB NORD Banka*, etc.;
- Private capital risk funds and individual investors.

WHAT IS A LOAN'S GUARANTEE?

Guarantee is a financial security required by the commercial banks in order to provide the businessman with a loan.

Using the state guarantees for supporting entrepreneurship activity businessmen receive the required guarantees from

LGA to acquire the loans without being forced to mortgage personal property.

Thus LGA takes the burden of providing certain security guarantee for short- or long-term risks in business' credit obligations in front of commercial banks.

As soon as the LGA's guarantee reflects the state's business support activity, the fees for issued guarantees (calculated as a one-time payment in investment projects and as yearly fee for projects with running expenses) is at the level of 0.2-3% from the sum under guarantee.

LGA GUARANTEES' ADVANTAGES

- As it was already mentioned, the companies in order to acquire LGA guarantee do not need to mortgage personal property;
- Legal procedures connected to paper work are simple and quick compared to procedures involving additional property mortgage as collateral means;
- In case of failed investment projects, the recovered losses would not be transferred on the businessmen's personal property.

WHO CAN GET THE LOAN'S GUARANTEE?

- Those SMEs which activity is aimed at investment and attracting operating finances for creating a new company or developing some other entrepreneurship ideas;
- A start-up businessman who is in business for not less than two years;
- An already functioning businessman whose company is functioning for more than two years;

WHAT PROJECTS CAN GET LOAN'S GUARANTEE?

- Projects aimed at acquiring property or equipment necessary either for intended business activity, reconstruction or refurbishing needed for business implementation;
- Projects aimed at acquiring working activities, e.g. materials, natural resources, etc.



THE PROJECTS ARE NOT SUBJECT TO GUARANTEE FACILITIES IF THEY ARE CONNECTED TO:

- Farmers activity (except agro food processing);
- Commercial export activity and creating networks for goods' distribution;
- Companies under critical conditions

RISK CAPITAL

By the definition, risk capital represents liquidity offered by an outside investor in order to finance new and quickly developing companies promising big returns in the future. Risk capital's investors are ready to take greater risks compared to commercial banks in return for greater share in company's assets.

RISK CAPITAL'S ADVANTAGES

Investors dealing with risk capital can offer the following advantages:

- Quick company's development;
- Financial opportunities without collaterals;
- Flexible financial terms;
- Safe financial prospects;
- Assistance in acquiring additional financial resources;
- Professional assistance in company's management issues;
- Access to investor's communication channels;
- Facilitating company's goodwill

RISK CAPITAL CANDIDATES

Each risk capital fond has its own investment policy although all of the

funds have one definite aim, i.e. to find a suitable company for the future risk capital investments. Such companies have to possess:

- Attractive innovative ideas and decisions;
- High return on investments;
- The company's high quality products and/or services can explore quickly growing and so far non-explored distribution market;
- Motivated, qualified and experienced leaders and managers;
- Leaders that have elaborated the company's clear vision of its future perspectives with necessary financial resources for the "vision's" implementation.

RISK CAPITAL FUNDS

Latvian Guarantee Agency has informed that there were three risk capital funds within the national "Financing risk capital" program supported by the state budget and the EU structural funds. These are the following funds: first, ZGI-fund managing JSC *Zalas gaismas investicijas*, second Eko fonds managing JSC *Eko Investors* and, third INVENTO-fund man-

GUARANTEE AMOUNTS

Project's aim	Activity	Max. guarantee's amount, th LVL	Max. guarantee's amount, % of the credit
SME's start-up project	Financial investment guarantee for the project and/or running expenses	100	80
SME's project aimed at fostering commercial activity	Loan guarantee in technology transfer projects, by acquiring parent rights, licenses, special professional information or non-patented technical knowledge	20	
SME's development project	Financial guarantee for the investment projects and/or running expenses	250	

aging JSC *TechVentures Fondu Vadibas Kompanija*.

These funds have invested into SMEs with high potential growth rate and additional value in order to increase the companies' own capital or providing other financial resources connected to it. As a result, acquired financial resources are used either for commercial start-ups, increasing already

existing activity or developing new products and technologies.

Risk capital funds provide profitable opportunities both for the individual companies and the national economy as a whole. Thus, active developers acquire financial resources to implement ideas and national economy can attract internal investment resources and new knowledge. •

Alternative securities market in Baltic countries: the First North experience

By Indars Ashchuks,

Deputy Chairman of the Board, Rigas Fondu birza

Riga Stock Exchange opened from 1 June an alternative share market, First North for small and medium enterprises.

Two reasons stand behind the rapid development of alternative securities marketplaces in Europe. Firstly, in light of recent European Union regulatory changes in financial markets and the increased competition in attracting high-growth and high-potential issuers, stock exchanges all over Europe have started to introduce less regulated securities market segment or so called alternative markets.

Secondly, alternative markets meet the needs of the companies striving for growth. Such companies traditionally have been heavily dependant on bank financing, therefore the opportunity to access equity financing means can propel those companies' faster and more efficient development.

ALTERNATIVE MARKETS IN EUROPE: RECENT OUTCOMES

The pioneer among stock exchanges was London Stock Exchange, which introduced its Alternative Investment Market

(AIM) as early as in 1995. Today AIM is a benchmark for alternative markets across the world.

AIM's success story has encouraged other stock exchanges to follow. As a result OMX — the operator of seven Nordic and Baltic exchanges — introduced its First North alternative market concept, which is now Europe's second largest alternative marketplace.

THE DIFFERENCES BETWEEN ALTERNATIVE MARKET AND REGULATED MARKET

In essence alternative markets are securities trading platforms that have been tailor-made for trading in shares of small and medium sized enterprises (SME). Basic alternative markets' operation principles are very similar to those of regulated stock exchanges; however there are some notable differences. Table below sums up those changes.



ALTERNATIVE MARKET BENEFITS

In general, alternative market emitters receive the same benefits as do those of the regulated market though at relatively lower cost. The main reason that attracts emitters to the alternative market is additional capital. First, it assists faster developments, as in some stages of a company life-cycle organic development pro-

vides very limited growth potentials. Second, equity capital in many cases can be the only alternative for financing riskier, more ambitious projects and development plans as banks while providing their loans normally have considerably lower level of risk tolerance in comparison to equity investors. Alternative markets eliminate this inefficiency providing necessary equity capital to company segment that has previously been neglected by public stock markets.

Certified advisers approved by exchange rules are crucial to successful alternative market operations. An experienced and professional adviser active in corporate

finances or other consulting spheres is attached to every alternative market emitter on a permanent basis. Advisers assess the suitability of the companies to the admission to the market and inform potential issuers about their obligations in relation to listing of shares on the alternative market. In addition, advisers provide assistance to companies in elaboration of market admission's related documentation.

FIRST NORTH AS AN ALTERNATIVE MARKET IN THE BALTICS

OMX Baltic stock exchanges in Riga, Tallinn and Vilnius are planning to

implement the First North concept in the near future. The existing First North offering will be somewhat adjusted to fit the needs of local businesses and companies. The requirements towards the alternative market will be the same in all three Baltic countries.

First North is the second largest alternative market in Europe with market capitalization of 4.4 bln EUR and more than 86 emitters admitted to trading. 16 companies have already raised equity financing on First North in 2006, amounting to 220 mln EUR.

ALTERNATIVE MARKET AND REGULATED MARKET

Baltic Main List	First North Baltic Model
Status of the market and supervision	
FSA's monitored market, subject to MIFID regulations and other EU directives	Market operator's regulated market, subject to market rules set by the market operator
Entry conditions and circumstances	
At least three years in operation	No minimum years of operation
At least min 25% of shares in free float or shares amounting to 25 mln EUR in public hands	No minimum market value and no free float requirements
Prospectus is approved by FSA	Prospectus necessary only for initial offering
Listing fee	Reduced listing fee
A number of external advisors (investment bank, law office, international auditors) is usually necessary	Requirement to enter into service agreement with a company from Certified Advisors list
Information disclosure	
Financial accounting according to IFRS	Financial accounting according to local accounting principles
Quarterly financial reports	Semi-annual financial reports
Information disclosure in local language and in English	Information disclosure in one language (local or English)
Subject to corporate governance code	No requirement to follow corporate governance code
Risk perception by investors	
Controlled risks on Main list due to the high admission and information disclosure requirements for companies	Higher risks on alternative market due to lower requirements for companies

Comment

Mikus Janvars

There are 87 thousand enterprises registered in Latvia; among them about 1% – big companies and the rest 99% are small and medium firms. About 200 companies can satisfy the Baltic official listing's criteria: own capital – more than



4 mln EUR, 3 years of experience, etc. But only 20-30 companies can really fit into the regulated market listing.

The alternative Baltic OMX stock exchange was introduced in Riga on 1 June, in Vilnius in mid-June and in Tallinn is expected at the end of the year. In Denmark the alternative SE has been functioning since 2005, in Sweden – since 2006.

Presently there are about 100 companies involved in the alternative SE system; interest to this arrangement is great, first of all from the side of producing companies.

The single Baltic market, First North means that the companies can join it making a deal with one of the Baltic's OMX. Access to settlements is open automatically to all existing Baltic exchanges, including brokers and banks, as well as their clients. Trade and settlements is done the same way as in the official Baltic listing.

Lita Kalnina

Latvian government, through the Economy Ministry's channels, is going to develop an assisting program for the alternative stock exchange providing a system of guarantees. Thus, State Guarantee Agency is ready to cover some companies' expenses connected to joining the alternative exchange.



Modern financial solutions for the developing company

By **Martins Jaunarajs**,
Head of the Investment Banking Division, Parex banka

Presently, most companies in order to finance their growth can use several sources of capital.

Among the most often used are:

- selling-off non-profile assets;
- using bank credits or leasing;
- employing suppliers' credits;
- customers' prepayments;
- using securities' emission;
- attraction of subordinate or Mezzanine capital;
- attracting shares or risk capital.

Below we would have a look at these sources in detail.

SELLING-OFF NON-PROFILE ASSETS

Various companies possess assets in the form of, for example, real estate and equipment; some have daughter firms and offices which are not critical either to company's "profile" activities or to the main development directions. Such assets can be easily put on sale; in this way the company can acquire necessary liquidity and capital for investment into the profile activity thus securing visible growth. Real estate disposition is actually quite a typical example in this regard. Houses, for example, might be sold to a property fund making at the same a long-term rental agreement with the fund.

USING BANK CREDITS OR LEASING

This is a well-known source to acquire financial resources; probably one thing can be added: it is still the cheapest and most elastic source for borrowing capital.

EMPLOYING SUPPLIERS' CREDITS

Effective cooperation with suppliers can assist a company in reducing the amount of the needed working capital. For example, the company can reduce in this way big interest payments concerning other incurred debts.

CUSTOMERS' PREPAYMENTS

It often happens that the company's products are so good and in demand that they are easily sold out. In this regard a situation can be created that customers' prepayment amounts could be the major source of financing company's business activities. Some real estate developers man-

aged even finance construction projects using customers' installment fees long before the construction could kick-started.

USING SECURITIES' EMISSION

In case all the above mentioned additional sources of acquiring capital are exhausted and the company (after all the regular payments, e.g. wages, rental payments, bank credit interests, etc.) is still having some quite predictable financial assets, there is a good reason to contact investment banks.

Various banks and brokerage investment societies in Latvia can offer their clients services concerning the emission of securities or bonds. Such bonds' emission is, in fact, the same as a borrowing procedure with one probably difference that the creditor is not a bank but a rather wide range of investors which the emitter or debtor would never meet.

With the help of bonds' emission, investment banks can "connect" emitters and investors; the latter intends to invest in profitable though risky business, which neither bank nor leasing company can afford.

Although small companies' share emissions are more risky from the creditors' point of view, compared with a bank credit, the shares' emission represent one of the most expensive ways to borrow capital. There is an additional circumstance with which potential emitters would have to deal with: emitted financial instruments have a fixed rental payment timetable with a fixed date for the final payment, both of which are practically impossible to change.

ATTRACTION OF SUBORDINATE OR MEZZANINE CAPITAL

There are already several funds in Latvia, which are mainly dealing with high risk capital investments. These funds offer companies opportunities to attract capital with the help of such financial instruments which by their nature are something in between the loans and the capital (hence, the name — Mezzanine). The main difference between Mezzanine capital and other traditional kinds of attracting loan capital is



that Mezzanine-type investor would like to get both the rental debt payments and a share of company's profits. It is not a surprise that an investor's representative would like to enter the company's board of directors or other company's governing bodies as that kind of investor takes over quite high risks and therefore would like to acquire more control over the debtor's activities.

ATTRACTING SHARES OR RISK CAPITAL

In case the company's direction and its presently functioning owners wish a quicker pace of development for the company (without adequate resources for such development) there are still a couple of chances to attract additional shares capital. It goes without saying, that the new shareholders would not only bring new additional equity for the company's development (which actually does not require additional interests) but the acting company's owners would have to divide with the new shareholders the profits of such developments. This kind of solution can be suitable only for those businessmen who would be willing to become, for example, owners of 40% shares in the company worth 100 mln LVL rather than being owners of 100% shares in a company worth 10 mln LVL.

A businessman can by himself attract shares and capital, as well as, for example, to repair his car; though, regularly, it's well-worth to assign both activities to professionals. In the first case, investment banks can be of a help. The following two possible solutions in attracting risk capital could be defined:

- attracting private equity (thus, private equity investment funds or some rich people would be co-owners of the company);
- public emission of shares (the shares are sold to a broad range of investors and afterwards the shares would be traded on stock exchange).

The new old things

Venture financing trends in the Baltic states

By Rihards Svelpe,

Board Chairman, PriBalt SIA; member of the Latvian Venture Capital Association; member of the Latvian Business Angels Society.

Looking at the modern venture financing trends in the Baltic states, it should be pointed out that they present definitely modern trends rather than some new and just appeared on the market financial tools.

You will ask: “How can it be? There was nothing of the kind yesterday! It’s only today that we have heard about venture capital, but you say, these are modern trends?”

It is right, the notion of venture capital appeared in the Baltics recently but this kind of financing instruments has been here since the first days of Latvian independence. After all, in practice venture capital is invested through purchase of shares or stocks. Thus, venture capital investments are practically realised through acquisition of bonds or shares. It is in that way the privatization was carried out. Historically, venture capital financing has been done according to the principle: money is given to implementation an idea. And the companies were set up exactly that way. So, it is seen that venture financing has been here for a long time, only we have not been actually aware about it.

For example, the notion “venture capital” came to Latvia together with the EU program for small and medium-sized enterprises’ through venture financing. The first to turn to its substance were those civil servants who were analysing the EU papers concerning “venture capital”. After a while, the first three venture funds were set up for financing small and medium-sized enterprises. Those were local private funds with local private managers. The EU and Latvia participated as subordinate investors contributing less than 70% of the total amount of a particular fund. It is through growing activity by those funds that the notion of venture capital has been coined into public life gaining increased popularity.

But this was not the actual beginning of venture investments in the Baltics; both foreign funds and direct/venture investment funds established by foreigners have been operating in the Baltic states for at least 10 years. And the phenomenon of individual’s investing their assets into a new business seems to be age-old. Today they are being called “busi-

ness angels” and have been included into already organized venture capital market; so to say, savaged were turned into something organized.

The author of this presentation intentionally played with the words; what should be taken as the starting point: the time when the term genuinely occurred, or when it occurred on a specific territory, or appearance of certain activities corresponding to this definition? It seems that the very notion of “occurrence” is relative. I have chosen that way of description in order to underline that venture capital and venture investment are not principally new phenomena. They define only modern form of financial or rather economic instruments that we have known and actively used long before.

Let us get back to the trends. The main trend is that venture capital has become more accessible to Baltic businessmen; though it is only a trend but good news for business people, too.

Venture capital market has entered the next stage of its development and become organized. This is seen by various non-commercial societies and venture capital associations organised around the world and their active involvement into similar European and international organizations.

Today the venture financing opportunities and conditions have become generally accessible and understandable. Even financial market’s supervisory bodies have kept an eye on venture investment funds and are thinking about regulating this market and protecting investors.

At present we can already witness a kind of competition among venture investors; in some market segments the competition can be quite significant involving five and more market players. Financing can be provided to business projects worth over 50,000 EUR. There is no maximum limit, which means that the financing could easily amount to several



hundreds of millions, a huge amount for our market.

Private equity investors have also made a public appearance. Taking over the Western tradition, they are called business angels. They are united into local non-commercial societies, which in their turn have joint international business angels’ networks. Anyone can submit an investment application and, possibly, get the idea might be financially supported.

Business angels are different in the way that they render financial assistance at earliest project’s stages, making great personal impetus, i.e. helping with their experience and capacities in implementation of the idea.

In conclusion I would like to point out that venture investments have brought along other related financial instruments, e.g. private equity (large investments in the less-risky or venture projects) and mezzanine financing (loans without a classic pledge but with a higher interests). These and other types of actually available and competitive financial instruments make the Baltic states not only attractive but truly “financial Klondike”; i.e. the region with unique opportunities for implementing business projects! •

Modern methods to finance real estate investment projects

By **Lena Romanova**,
CEO/Founder, LE/ROM Group, Latvia

There are numerous ways presently to finance residential, commercial real estate investment and development projects. Two of the methods, Private Equity Real Estate Fund and Mezzanine Fund financing will be discussed in detail below using *LE/ROM Group's* current development project as an example.

LE/ROM Group is involved in developing residential, commercial (including office centers, flex space and industrial parks) properties in the Baltics, as well as co-investing in shopping centre developments in Russia. Myself, I spent over 5 years working in investment banking at *Morgan Stanley* and *Citigroup* in New York and London in the M&A, as well as for a number of Private Equity Funds in London and Geneva.

As soon as the present round-table discussion is about current methods of project financing in Latvia, where real estate has become one of the fastest developing industries, I would like to discuss two of the current real estate investment and development financing methods:

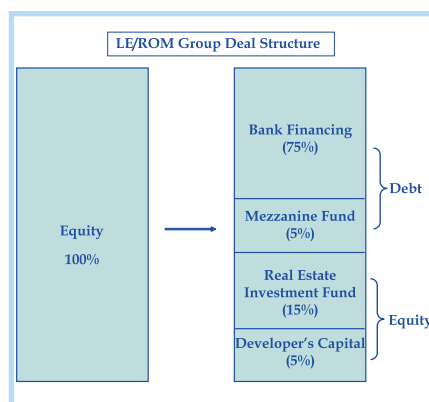
- Real Estate Private Equity Funds,
- Mezzanine Funds

For better understanding how the syndicate of various capital providers' works and what are the pros and cons of each method, I would like to present a table of the *LE/ROM Group* latest project's financing structure. The table shows the most optimal method of financing a construction of 30,000 sq. m of mixed-use development in Riga. In addition to leveraging the deal to a maximum with the local bank, we are bringing capital from Real Estate Investment and a Mezzanine fund providers.

PRIVATE EQUITY INVESTMENT FUNDS

Private Equity is a medium to the long-term financing provided in return for an equity

stake in a potentially high growth unquoted company/ project. Insurance companies, pension funds and other financial institutions or private investors are commonly the investors into a private equity fund. Returns for investors in such funds vary depending on the type of the project, risk profile, project's geography, etc. One of the pros of involving a real estate investment fund is an ability to bring



large scale financing that allows an investor to implement projects that wouldn't have been possible otherwise. On the other hand, the loss of a particular control over a project can be envisaged once another partner is involved.

MEZZANINE FUNDS

This type of funds differ from pure Private Equity funds in a way that in the latter an



investor into private equity funds gets both money returned and a share of income once the project is completed and the SPV is dissolved. However, an investor into Mezzanine funds sees cash flows coming already during the development of the project because such type of financing is similar to bank financing, only with a higher interest rate and a lower loan's life; mezzanine funds always paid after senior bank financing but before equity investors.

For example, this type of financing could be helpful for construction projects that are in the process of being already built and the construction costs went up, the bank refuses to increase the loan and the investor doesn't have enough equity. In this case Mezzanine financing represents a bridge between own equity and bank financing. In *LE/ROM's* current project some Mezzanine financing is used; this helps to minimize the use of equity and increase the cash on return and other profitability measures. Apart from an increased interest rate, negative sides of such financing are the same as with a common bank financing.

Each method has its pros and cons, therefore all developers/ investors should calculate the most optimal financing structure for the project/ business and the most important thing is not to be afraid of combining several financing sources.



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New trends in European investment policy

By Eugene Eteris

Increasing corporate profits and personal earnings, that accumulated enormous wealth, have been following stable growth in global economy during last years. The investment development strategy is rather simple by definition: to secure stable dividends and maximize growth in profits. As a result, new forms are being introduced into all-traditional investment structures. At the same time, some new forms appeared, as well, e.g. hedge funds during last seven years and other forms of private equity and futures. The new trends provided grounds for reflections.

CORPORATE AND INDIVIDUAL INVESTORS: PROFILE

Investment policy in Scandinavian region (the Baltic States regard themselves as an integral part of it) is defined by both institutional and individual investors.

As to individual investors, in three main forms of investment, i.e. stocks, bonds and saving accounts it is the age and volumes of assets that define their priorities with the clear shift from the former to the latter with age. Thus, at the age of 30s (aggressive type) people used to invest heavily in stocks and shares and only 20% is invested in bonds. A “balanced investor” in ‘40-50s, tends to divide available assets: 60% in shares, 35% in bonds and 5% on saving accounts. A “conservative type”, closer to pension age is more cautious: 75% in short bonds, 15% in the long ones and 10% in shares.

There is a solid ground to think that this is an average statistical profile of a European investor in general. Quite notable that corporate shares in Scandinavia are the most profitable in Europe and the world with rate of profitability at 10-13% during last 35 years (in contrast to 3-5% in European south (Spain and Portugal). Only Asian shares can provide for higher yield of 15-16%.

As to the corporate bodies, both the investment’s structure and policy is constantly changing. About a decade ago classic investment textbooks generally mentioned only options and futures, alongside primary and secondary financial markets (though, hedgers were mentioned but in a different context). Presently we have quite a number of different funds — from pension funds and IPOs to hedge funds and “funds of funds”.

INVESTMENT TRENDS IN INFRASTRUCTURE

It seems that institutional investors (II) have found a way to attractive and generous returns. Infrastructure investors are typically attracted by the steady, predictable cash flows associated with publicly regulated operations. The flurry of infrastructure funds has been “spread out” among airport operators, electricity producers, transportation sector, etc. Reliable S&P’s Global 1200 Stock Index has shown a present ratio trend — 30 utilities, 30 — transportation and 15 — energy shares. This ratio prevents soaring prices in any one industry. Some argue that the most optimal ratio could be 40-40-20, correspondingly.

Quite remarkable, that private-institutional investment ratio has changed from a total II dominance a decade ago (with the total volumes of 20-40 bn USD) to a near parity with volumes reaching 110 bn USD. Hence, the apparent convergence speed up of private equity and hedge fund industries.

THE RIGHT APPROACH TO HEDGE FUNDS

New investment ideas are spreading around the continent; to reflect the tide the EU legislation tries to harmonize pan-European market for financial services (Mifid). Banks, brokers and stock exchanges must overhaul their IT systems, internal procedures and business practice. Hedge funds can get around the rules easily though.

No doubt, the intentions are strong to regulate hedge funds (more by politicians than economists, more on the continent than in the UK). Germany, the current president both in the EU and the G-8 group, argued with extreme degree of hostility against hedge funds



(HF) known as “locusts”. The country’s finance minister went out to voice his concern of HF’s lack of transparency. That could increase systematic risk for the financial system as whole.

There are good and bad reasons to regulate HF: a bad reason is to protect investors and companies where the HF’s are investing. Nor is it coherent to regulate the HF because of their size (widely quoted estimate for the global HF industry is 1,300 bn USD under management, — *Financial Times*, 12.02.2007). Arguments in favour of HF’s regulation are that they have become very similar to commercial banks, at least structurally. This argument is largely undisputed: though insolvent banks are often private companies, the financial system as a whole is a public good.

The business of “old banks” is simple: to borrow money from a central bank (the cheaper, the better), lend it to customers at a premium and apply leverage to maximize profits. Rather similar to the way the HF’s are doing “business”. Except one thing: banks are subject to various forms of regulations while many HF are not. And it is not an easy thing to perform, e.g. as many HF’s are registered in tax havens’ zones. The need for regulations is obvious until it becomes too late.

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СУДОХОДСТВО



"Basic law" for Europe turned into a "reform treaty"

By Eugene Eteris

About seven years' turbulent history around the "Unions' basic law", called these days a constitution, provided a reflection on dramatic and complicated political and economic issues concerning both the European future in general and its integration prospects in particular. Probably the most controversial in the former are decision making issues and in the latter are the problems concerning division of economic competences between the European Union (EU) and the Member States (MS). Union's June 2007 summit showed the way out.

LEARNING FROM THE PAST

Integration processes in the Union have been always the outcomes of political compromises among the MS' leaders without real public involvement. That was the reason, among other things, that tens of various treaties forming the background of the European integration experts called "*elite project*". It is true, to a certain extent: up to as late as 1990s the EU's administration issues have been the sole domain of political elite; hence the lack of democratic principles in the Union's governance. It might sound strange though, but all the EU's present "constitutional" problems are, in fact, the result of introduction and incorporation into this elite project certain democratic instruments. During the last 20 years, the Union's politicians have elaborated and approved four quite important treaties transforming in a varied fashion the extent of Union's integration processes (besides the founding treaties concluded in 1957 in Rome, the 50th anniversary of which was broadly celebrated in Europe). These are the following treaties: the Single European Act (entered into force in July 1987), Maastricht and Amsterdam Treaties (correspondingly, in May 1993 and 1999) and the last in line, the Nice Treaty (signed in February 2001 and entered into force in February 2003). All these treaties formed the backbone of Union's economy dealing with various integration issues; remarkable, though that none of them aroused any controversies in the MS except the last one, Nice Treaty, delayed by Irish referendum for about 2 years.

More than that, these treaties (or rather, "political agreements") have never been the subject of either a popular debate or discussions in the MS, except the common currency issues and Irish referendum on enlargement. Only at these instances some "integration divides" occurred, e.g. Denmark rejected — twice — the country's participation in certain aspects of regional integration (including common currency and securing some other "reser-

vations"). But quite notable, these "rejections" have been regarded by the Commission as a kind of Danish "freedom of expression" rather than a sign of the "Union crisis".

It has been expected to be so with the new "draft treaty establishing a constitution for Europe" (as the official title stayed) had there never been so active involvement recently of the democratic principles into the "*elite project*". Suffice it to say that never before the treaties were translated into all the Union's official languages being widely available to the public.

FROM THE CONVENT TO THE DRAFT CONSTITUTION TO THE "REFORM TREATY"

It seems that the draft Constitution was a hasty endeavor. It took about a year and a half after the December 2001 Council's declaration establishing the Constitutional Convention to elaborate the draft's first final document in June 2003. Then, after the EU-25 leaders introduced some minor changes in June 2004 into it already in October 2004 in Rome they unanimously signed the draft. In order to become a valid treaty it needed "just a formal ratification," as people used to say those days; that was the way all the previous Communities' treaties have been brought to life. There were solid grounds for such beliefs: the EU was developing on the principles of permissive consent when people delegated to the politicians the task of "dealing with the integration." During the last half a century this principle was working just fine: who else but politicians knew better how to proceed further on through compromises!

But then in 2005 something unexpected happened, i.e. during the two referendums in France and Holland the draft was rejected making the whole project "hanging in the air". That was quite extraordinary in the Union's history and in June 2005 in order to resolve the critical situation the Solomon decision was reached: to make "a pause for reflection" finding out what should be changed in the draft.

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Though the climate of discontent prevailed in the Community during last two years, 18 MS up to June 2007 have ratified the draft in its original, later rejected by France and Holland form. All that however did not make things easier; on the contrary, it has become even more complicated to tackle the issues around a problematic draft as more than half of the present Community agreed with its original and unabridged version.

THE DRAFT IS DEAD. LONG LIVE THE "REFORM TREATY"!

It can be acknowledged that in its essence the draft was not anything specific: it actually embodied all the major features from the previous treaties (with some additions, e.g. permanent Union's presidency, instead of half-year's rotating; the post of the EU's foreign minister, the Charter of Human Rights, to name a few).

All the draft's novelties can be summed-up in three groups: issues concerning economic integration (the main feature being the division of competence between the EU and MS), legal integration (providing for the Union's legal structure) and decision-making procedures.

During German presidency in the first half of 2007 a lot of efforts have been made to revive the "draft project" and reconcile controversies. The options were numerous, e.g. from a cosmetic text reduction to drastic changes to suite all MS. During the summit in June 2007 the EU-27 leaders agreed to reduce the draft's political contents thus limiting the number of MS needing ratification, with simple government or parliament approval instead. Some states argued that there is no need to call it the constitution; it is still a treaty among sovereign states, hence the "reform treaty".

The perspectives seem to be the following: to adopt during Portugal presidency in summer-2007 a new treaty text, sign it in December and ratify during 2008. Main idea is to complete the assignment before new European Parliament elections in June 2009. •

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KIRILL ANDROSSOV, Deputy Minister, Ministry of Economic Development & Trade, Russian Federation*
ALEKSANDR MISHARIN, Deputy Minister, Ministry of Transport, Russian Federation
MUSA PANAKHOV, Deputy Minister, Ministry of Transport, Azerbaijan
VICTOR MOROZOV, Vice-president, Russian Railroads
GENNADY BESSONOV, General Secretary, Coordinating Council on Transsiberian Transportation
ALEXANDER SINYOV, Deputy Director, Department for Transport Regulation, Federal Tariffs Service*
VLADIMIR NIKONOV, Deputy Governor, Novosibirsk region
Federal Ministry of Transport, Building and Urban Affairs, Germany*
Ministry of Transport and Communications, Finland, Russian-Chinese Business Council*
SCHENKER, MAERSK

• SPECIAL SECTION 1

Cargo containerization

SPEAKERS:

PAVEL BASKAKOV, General Director, Transcontainer
ALEKSANDR GORODETSKY, Managing Director, Eurosib-Terminal
MIKAEL GEVORKYAN, Head of GESEACO Services in the CIS
JOHN KEIR, Exclusive Agent, Cronos Containers
VERA SHAPKINA, General Director, Baltiysky Lesopromyshlenny Holding
TATIANA KONDRASHENKO, Head of Logistic Centre OZV
ANTON GANS, Marketing Director, Port of Sillamäe
ALEKSANDR GOLOVIZNIN, Deputy General Director of Port Ust-Luga
Also invited: Port of Tuapse, Port of Arkhangelsk, Port of Novorossiysk, and others

• SPECIAL SECTION 2

Cargo shipments to/from China. Optimal schemes and routes for transportation of motor vehicles, construction materials, consumer electronics and domestic appliances

SPEAKERS:

SERGEY PORUTCHIK, General Director, Vneshcontact
TAIGA SHENYAN, Speaker – awaiting final confirmation
ALEKSEY DRUZHININ, Director of Logistics, Bang & Bonsomer Group Oy
EDUARD KONOVALOV, Head of Representative office in Beijing, Eurosib-Terminal

DAY 2.

• SPECIAL SECTION 3

Transportation of cars and car components. Car manufacturers requirements for transport logistics

SPEAKERS:

PAUL DONALDSON, Managing Director, Trans Rak
DMITRY ORLOV, General Director, IRITO-Invest
RASHID POZDNYAKOV, Eurosib-Terminal
GENNADY SIDNIVETZ, General Director, Chery Motors (Novosibirsk)
DENIS PASTUKOV, NYK Logistics
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- Visit to one of A-class terminals
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CONTACTS:

Ms. Viktoria Podsevnaya, project manager

E-mail: vpodsevnaya@eurosibspb.ru, tel.: + 7 (812) 326 8111, fax: 326 8110

Ms. Daria Zemskova, project manager

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Latvia would welcome Moldova's membership into the European family

By Olga Pavuk

In May this year Moldova's official delegation headed by its prime minister, **Vasile Tarlev** visited Latvia. Moldova's premier called Latvia "a clear example of stability and prosperity, from the economic point of view".



RIGA, MAY 2007: Vasile Tarlev and Aigars Kalvitis signing a common declaration.

During the lunch organised for the Moldovan delegation by the Latvian Foreign Affairs Minister, **Artis Pabriks** eight Baltic region's foreign offices' representatives took part, i.e. from Denmark, Estonia, Finland, Lithuania, Norway, Sweden and the US State Department official, **David Kramer**.

EXTERNAL POLICY'S PRIORITIES

In the introduction speech premier V. Tarlev underlined Moldova's interest in Latvian development experience, in enlarging and broadening bilateral relations in various fields. Moldova's prime minister pointed out

that Latvia has rendered his country strong support on the way to the rule-of-law society and blossoming market economy, as well as European integration. "Latvia for us is a clear example of a stable and prosperous country from both the economic and social point of view; it is therefore so important for Moldova to emulate Latvian experience, as well as deepen and broaden bilateral relationships in various fields", pointed out Moldova's premier. Mr. Tarlev wished that Latvia would render Moldova its assistance in joining European integration process.

Mr. Pabriks noted that Moldova has acquired strong stability in all

developmental spheres and the presence of colleagues from eight countries was a clear example of interest and support in Moldova's way towards European integration. Representatives from the mentioned eight countries expressed their views on the problems under discussion and unanimously supported Moldova's efforts towards European integration. Particular interest was shown to support Moldova's preferences in trade with the EU.

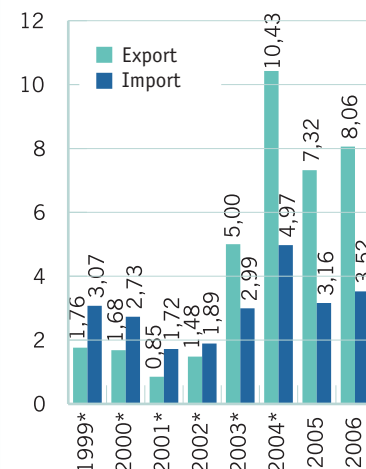
AT THE HIGHEST LEVEL

Mr. Tarlev has met with his Latvian counterpart, **Aigars Kalvitis**. After a private meeting and official delegations' meetings the both states' prime ministers signed a common declaration expressing the two states' intentions to develop bilateral relations in various developmental spheres.

According to Moldova premier's opinion, one of the main aims in the country's present state of development was to facilitate business environment by creating adequate legal and economic framework. He observed that "we fully recognize the fact that only attractive business climate could force foreign companies to enter longstanding economic relationships with Moldova".

- There are about 2 mln Moldovans living in Latvia; about 500 Latvians are living in Moldova. Latvian Society "Star" is registered in Kishinev; there are several Moldavian societies registered in Riga — "Dachia", "Strugarsh" and "Doina".
- Diplomatic relations between Moldova and Latvia has been established on the 1st of September 1992.
- Moldova's Embassy in Latvia was established in 2005.
- Moldova's President visit to Latvia took place in 2005.
- Latvian prime minister, A Kalvitis visited Moldova in 2006.
- Between the two countries 22 bilateral agreements have been signed; 16 agreements entered into force.

LATVIAN-MOLDOVA TRADE, MLN EUR



* According to USD/EUR currency exchange rates fluctuation.

During the meeting between V. Tarlev and Latvian president, **Vaira Vike-Freiberga** the issues of two countries' bilateral relationships and the perspectives of Moldova-Latvian cooperation have been fully discussed. Considerable time in the discussion was devoted to Moldavian Republic's integration into the European Community. Latvian president, Vaira Vike-Freiberga noted that "Latvia would welcome Moldova's membership into the "European family".

ECONOMIC COOPERATION

In his speech at the 2nd Latvian-Moldova economic forum (the first one took place in March 2006) Mr. Tarlev observed that Moldova had been always oriented towards open-to-the-world national economy, attracting foreign direct investments by creating favourable business climate for investments. As a result, Tarlev said, an open and liberal regime was established with the tariffs' structure being among the lowest among the trade regimes in other Eastern European states.

According to Moldova's premier, his country acquired the liberalised approach to neighbours markets, joined both WTO and modernised CEFTA; drastic economic reforms have been under way presently in the country.

"The scale of Latvian-Moldova economic cooperation is far beyond existing potentials and therefore there is much room for growth", concluded Moldova's premier at the economic forum.



RIGA, MAY 2007: Vasile Tarlev (in the front), Eduard Melnik (in the center) and the members of official Republic of Moldova delegation, Ghenadie Onceanu and Valeriu Ostalep.

According to Latvian statistics, trade between the two countries reached 11.54 mln EUR in 2006; Latvian export is represented by telephone and telegraph equipment, foodstuff, chemical and medical sector reaching 8.06 mln EUR. Import from Moldova is at the level of 3.52 mln EUR (foodstuff, mainly wine products, dry fruits and metal production). Latvian import in value terms in 2006 slightly increased the level of 1999, though export increased by 4.5 times.

Latvian Companies Register and *Lursoft* agency noted that Moldova's investments into Latvian companies' capital reached 0.382 mln EUR, as of 4 July 2007. There are 39 Latvian-Moldova joint ventures registered in Latvia.

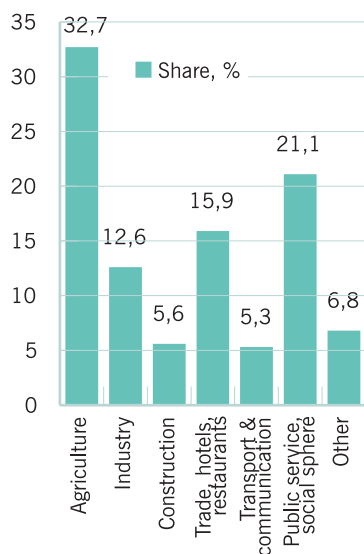
Moldova and Latvia signed in Riga an Intergovernmental agreement on economic, industrial and science-research cooperation, as well as a Cooperative agreement between the two countries' justice ministries.

During Moldavian delegation visit an agreement was reached to open in Riga Moldova Trade House where Moldovan goods would be available for sale. Moldova Ambassador to Latvia, **Eduard Melnik** mentioned in conversation with the *BC* that decreasing trade volumes with Russia had forced Moldova activate its relationships with the EU member states.

He said: "We expect from the EU special trade preferences which would allow us to increase our main agricultural items, as well as our wines and brandies".

Ambassador E. Melnik recommended to those who like Moldovan wine to buy in Latvian shops "*Purcari Basa vin*" brand. As to other wine brands, the ambassador advised to read carefully instructions on the bottles and pointed out that soon the entrance to the market of several wine companies producing quality products was expected.

EMPLOYMENT STRUCTURE IN MOLDOVA, %



Source: Moldova's Embassy in Latvia.

MAIN ECONOMIC INDICATORS IN MOLDOVA, 2006, PRELIMINARY DATA

GDP (January-September), bln USD	2.3
GDP growth rate as to 2005, %	4.6
Level of inflation (January-November) as to 2005, %	12.7
State budget profit (January-November), bln USD	1.2
External debt, mln USD	663.7
Investment share into basic capital, mln USD	384.3
Average monthly wages, USD	136.79
Average monthly pension, USD	34.05
Export (January-September), mln USD	718.6
Import (January-September), mln USD	1843.3
Industrial production, bln USD	1.34

Source: Moldova's Embassy in Latvia.

The 1520-gauge as a sign of changes

By Olga Pavuk

More than 600 participants gathered in Sochi, the Russian Black Sea resort last May at the 2-nd International Railway Business-Forum "Strategic Partnership-1520" representing 32 countries and 183 companies. Changing corporate brand was the main drive behind the forum's agenda. The *Russian Railways'* new brand, the enormous presentation of which occurred during forum in Sochi, reflected the changes that went on in the company.

It has become a good tradition for the *Russian Railways* to sign several contracts during such forums. Thus, the *Russian Railways* President, **Vladimir Yakunin** and the transportation company, *Transmashholding* Board of Directors Chairman, **Dmitry Komisarov** signed a contract on the development and supply of 806 locomotives with four completely new modifications up to 2015.

During the forum, Mr. Yakunin announced that *Alstom*, French engineering company had won high-speed-train delivery tender for St. Petersburg-Helsinki route.

BC's correspondent concentrated mostly on discussions around the Baltic States railway issues.

ESTONIA: EXPERIENCE IN RE-NATIONALIZATION

During the Forum's round-table "Railway's reform in 1520-gauge system: individual approach in view of common aims" the *Estonian Railways* Board of Directors Chairman and administrative director, **Kaido Simmermann** specified some re-nationalization experiences during Estonian railways reforms.



This sector, Mr. Simmermann underlined, has underwent during last years drastic changes and radical reforms. Thus at the first stage of reforms, such railway's activities as local passenger routs, suburban and international railways have been transformed into the separate companies.

Henceforth, following the government's decree about 66% of *Estonian Railways* stakes have changed hands with private persons. Thus, *Estonian Railways* became the first private railway system on the mainland European territory.

During 5 years in private ownership the *Estonian Railways* has acquired interesting examples from the US railway's technical solutions. No doubt, he said, some of these solutions would be sooner or later used by our neighbour states.

Most remarkable were decisions aimed at increasing productivity and wages. Thus, during 1996-2006 the total workforce was reduced from 8 thousand to 2.5 thousand persons while wages increased on average from 200 to about 700 EUR.

At the second privatization stage, some legal means have been introduced in order to provide broader accession to railway's infrastructure as in administration sense the *Estonian Railways* has been still an integrated entity. Thus, for the sake of calculating access to infrastructure separate accounts were installed for infrastructure network and that of cargo transportation. However, some contradictions have occurred. For example, first independent companies turned up at the cargo market offering mainly locomotives and goods' transportation services, as well as a number of companies mainly involved in leasing and offering railway-cars for rent. Then, businessmen accused *Estonian Railways* of lack of transparency in accounting and some cases were raised to protect private interests. The state, in its turn, having still 34% of shares in ownership accused the private companies of inadequate investments.

Private investors wanted to offer their stocks for open trade in exchanges, though the state refused to do so. As a result, the government's decision in January 2007 announced to turn 100% of shares into the public ownership.



At the new reform stage, the railway's capacity and infrastructure's rates were devised and approved by a new independent public body, i.e. Railway Inspectorate and all contacts with operators were conducted on a contractual basis.

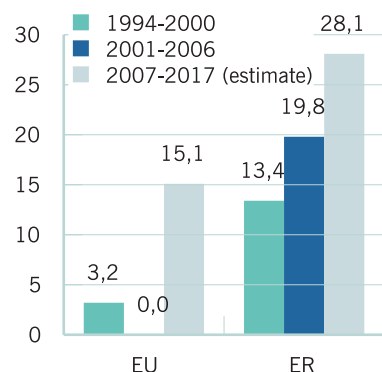
Three types of contracts have been introduced: for using infrastructure, for rendering commercial services and for railway park's servicing. Within a year (during May 2006-2007) three contracts were concluded with three passengers' operators (JSC *Elektriraudtee*, JSC *Edelaraudtee*, and JSC *GO Rail*) and three cargo's operators (JSC *Spacecom*, JSC *Westgate Transport* and JSC *Coal Terminal Trans*). For the next period, 2007-2008, it is expected that these contracts would be prolonged, except for *Coal Terminal Trans*.

It is important to underline that the new re-nationalization has not changed relationships with customers and partners. New property forms allow for more appropriate and generous loans in foreign banks. For example, public companies are offered loans with higher rates (at least 1% more) and payment terms of 7 years (instead of favorable 15).

Investments in infrastructure are the key indicators of economic activities and reliability. During 1994-2006 the *Estonian Railways* provided investments from its own sources. After returning into public ownership we expect a dramatic increase in various project investments from the EU funds in 2007-2017, said Simmermann.

The third *Estonian Railways'* reforming stage is under implementation phase presently. A business-plan is under completion with the aim of creating a railway hold-

ESTONIAN RAILWAYS INFRASTRUCTURE INVESTMENTS, MLN EUR ON YEARLY



ing company to include two legally independent entities specializing in infrastructure services and in cargo deliveries. Thus, management and financial transparency in *Estonian Railways* is to be secured.

**LITHUANIA:
LOGISTIC BUSINESS**

At the round table discussion devoted to “Logistic business at 1520-dimension: creating global level service” *Lithuanian Railways’* general director deputy, **Albertas Simenas** underlined the advantages of logistic processes at the time of globalization.



His main attention was devoted to the Klaipeda port activity which had been a leader in container transport among the Baltic States. Thus, during 2006 about 250 th TEU containers have been processed which was twice the amount as to the previous year.

In his presentation Mr. Simenas has clearly shown the advantages and shortcomings of different transportation modes in international logistic channel (See Table).

Mr. Simenas provided a successful example of the container train “Viking” traveling 3 times a week from Klaipeda to Ilyichevsk (Ukraine) covering during 55 hours 1734 km. He stressed the attractive transportation rates: 551 USD for 20 TEU and 885 USD for 40 TEU. Due to growing “Viking” train success a greater attention is devoted to cargo flow analysis along the TRASECA transport route crossing Asian and Caucasian republics (Kazakhstan, Azerbaijan and Georgia) and further on towards Turkey and quickly developing China.

Mr. Simenas specifically mentioned the necessity to further develop Klaipeda’s logistic center and creating a new logistic center in Kaunas in view of the Rail Baltica construction — the place where the European routes would meet the Eastern IX-1520 railway corridor. The first step in this direction was made already — last March a partnership agreement was signed within

the intermodal transport technology platform framework; Lithuanian transport companies’ cooperation formed the backbone of this agreement.

**LATVIA:
UNITING 1520-SYSTEM WITH WTO**

Mr. **Ugis Magonis**, Governing Board chairman in *Latvian Railway (LDz)* took an active part in the forum’s panel discussion “1520-network and WTO”. He specifically pointed out the possibilities of railway cooperation among the countries outside the former USSR territory, e.g. the EU member states and China. He said: “as to business we live according to 1520-rules, but as the EU members we have to follow the Union’s rules and norms”. And added: “entering the WTO system can assist in joining together our systems. In the EU context, we would have to proceed with coordination and adopt the decisions concerning mutual TSI rules introduction (Technical Specifications and standards in Interoperability). In this regard, with the assistance from the European Railway Agency and the United Railway Network, various research and working groups are organised in order to find out which TSI rules can be best implemented on the former USSR territory.

To increase the railway speed and transportation quality, the new decisions



must be taken to resolve customs and border control problems including web-documents exchange”

Mr. Magonis underlined in his speech the necessity to speed up railway transport in both directions: from East to the West and vice versa. In the future it would be preferable to develop new transport services, including intermodal transport. We have to create and develop, at the same time, new logistic canters, both of European and Asian dimension. But the major requirement would still be that all 1520-system participants join WTO, concluded Mr. Magonis.

TRANSPORT IN THE INTERNATIONAL LOGISTICS CHANNEL

Transport mode	Advantages	Shortcomings
Road & auto	<ul style="list-style-type: none"> • short distance transportation • high flexibility • "door-to-door" delivery • regular deliveries • flexible requirements to packing 	<ul style="list-style-type: none"> • high transportation costs • slow cargo processing • low loads' volumes • comparatively high tariffs • often stolen goods and tracks
Railway	<ul style="list-style-type: none"> • big cargo quantities transfer with various cargo types/sizes under different climate conditions • regular transport time • comfortable cargo load-unload facilities • relatively low cargo transport fares • quick customs processing (project CARGO) 	<ul style="list-style-type: none"> • inadequately developed logistics
Sea & internal waters	<ul style="list-style-type: none"> • low cargo tariffs • high transportation facilities 	<ul style="list-style-type: none"> • low speed • inadequate facilities to particular custom's address delivery • tough requirements to packing • infrequent sailing and forwarding • weather and navigation dependence
Air	<ul style="list-style-type: none"> • best delivery speed • possibilities to remote places' deliveries • high cargo security 	<ul style="list-style-type: none"> • high cargo tariffs • restricted cargo dimensions • weather dependence • restricted cargo qualifications

“Second Davos” in St. Petersburg

By Olga Pavuk

The XI-th International Economic Forum, which took place in St. Petersburg (8-10 June, 2007) cut all the records, both by the conference's budget (500 mln RUB), level of guests' representation, the number of important for Russia announcements made and by the number of signed deals and agreements. There were double so many applications for participation in the forum than it was expected, which gave the solid ground to the St. Petersburg governor, **Valentina Matvienko**, who opened the forum to call it “the Russian Davos”.

For the second time the *BC* has received invitation to take part in the forum and the accompanying forum's exhibition. Although the admittance to the forum events was rather restricted, the *BC* staff managed to take part in the round-table “Dialogue with the foreign investors”; the hall was fully booked with big foreign and Russian business firms participants interested in the foreign states' investments.

Large-scale business has been represented by the companies in various economy sectors: *Transneft and Gazprom, Lukoil and Chevron, Gasunie, Fortum and Rusall, BP, Ericsson, PSA Peugeot Citroen, Volvo Trucks, Norilsk Nickel, JSC “United Russian Energy Network”, PepsiCo, Indian Sun Group, AFC “Systema”, Euronetwork, etc.*

Several investment agreements and memorandums have been signed during the forum on the total amount of 13.5 bn USD; private companies' deals accounted for 7.5 bn USD and the rest were private-public-type contracts.



Herman Gref, Minister for Economic Development and Trade, Russian Federation and Valentina Matvienko, Governor of St. Petersburg.

INVESTORS' DIALOGUE

Round-table “Dialogue with the foreign investors” moderator, **Sergey Naryshkin**, Deputy Prime Minister of the Russian Federation, suggested to the audience to discuss the problems that foreign investors face in the world and in Russia, in particular.

Mr. Naryshkin specified favourable investment climate in Russia: thus, Russian GDP growth during 2001-2005 was at the level of 6.1%, with perspectives in 2006-2010 of about 6.3%; corporate investments into Russian companies increased by 9.9% and 12%, respectfully. The level of inflation during first 5 months in 2007 was 4.7% (and about 6% for the same period in 2006). Russian Federa-



James Volfensohn, Chairman, Citigroup Advisory Board; former World Bank President. Plenary session “Russia: Scenarios for 2020”.

tion Deputy Prime Minister expressed his belief that the inflation level could be held at about 8% during the year.

He said: “we regard foreign investors both as a source of new capital and a source of new modern management trends. Capital inflow in 2006 reached 42 bn USD, in the first 2007 five months it reached 60 bn USD; we expect the investments to reach 90 bn USD by the end of the year?”

As to the investments' structure: 29% is aimed at processing and manufacturing sector, 25% — into extraction, mining and retail trade.

Special economic zones and venture funds with state capital stimulated equity investments in Russia. A special Development Bank for that purpose was created on 8 June 2007 with the initial capital of 7 bn roubles, which is expected to increase to 200 bn roubles by 2010.

Mr. Naryshkin noted that administrative hurdles are still quite heavy in Russia, and said: “our aim is to reduce excessive federal regulation and thus reduce the background for corruption in the country?”

The second round-table moderator, **James Turley**, Chairman and CEO in *Ernst & Young* added: “it is surprisingly positive that initiative to resolve the problems stems from Russian government. Favorable climate creates the conditions for expedient reforms both in the energy resources' market and other economy sectors.” He underlined the importance of helping Russia to join WTO; foreign direct investments can serve as a good additional incentive. Mr. Turley noted that foreign investors are waiting for adoption of advertising law in Russia, with the provisions that would not restrict corporate activity.

GOOD NEWS FOR BANKS

Management Board Chairman in the *Deutsche Bank*, **Josef Ackermann** (the bank is the leading foreign investment bank in Russia) underlined that Russia is becoming a super-power country. He continued: “it's obvious that contemporary macro-economic indicators present good news for the banks; however growth rate in bank sector is 45%, which is much higher than the country's GDP growth.” At the same time, he underlined, that so far it was still difficult for Russian banks to enter international IPO markets. Only 12% of all the banks' assets are owned by foreign investors, which according to Mr. Ackermann is not enough. He underlined that the Russian

International Economic Forum in St. Petersburg is convened each June, since 1997 and represents a main economic summit in Russia and CIS-countries. The forum's organizers:

Russian Federation Ministry for Economic Development and Trade, Russian Parliament's Federation Council, St. Petersburg Government assisted by the EBRD. The forum is held under the Russian President's patronage.

There were 8966 participants in this year's forum from 65 countries, including 54 official delegations. In the work of the forum participated 9 presidents, 4 prime ministers and 4 deputy premiers, 11 heads of government, 44 ministers, 40 ambassadors, about 500 top-managers from global biggest companies, 1400 journalists, more than 40 TV-companies and 450 mass-media. During the forum 4 plenary sessions were held, 16 round-tables arranged and more that 70 presentations occurred.

banks' structure is not strictly defined which leads to certain suspicions; as well as banks which have been integrated into industrial groups are not very transparent either. Banks' credit histories would provide for control and increase consumers' approach to investment bank's capital, summed up Mr. Ackermann.

INVESTORS EVALUATE RISKS

Coca-Cola's CEO, **Muhtar Kent** revealed some results of a research conducted on the basis of the poll among Western European and Asian participants in Davos in April-May 2007: there about 2/3 of global companies involved in transactions exceeding 1 bn USD. According to the research, 47% of potential investors acknowledged that Russia was moving in the right direction while 41% were not at all certain about it. Majority of investors (56%) were satisfied with the investor's regulations in Russia, though the opinions of real and potential investors greatly differentiated: the former valuated risks at the level of development markets, the latter thought that risks in Russia were much higher; about half of them have not been satisfied with the level of information about Russian image in foreign mass-media.

Mr. Kent summarised: "we have to provide a positive picture about Russian development in the press and promote its energy sector's development. At the same time, Russian government has to combat corruption and red-tape in a more consistent way. From our side, we have to assist Russian government in providing better conditions for foreign investors"

Mr. Turley, in his turn, suggested that the results of the abovementioned poll would have to be presented to the Russian government.

ON-WAY DEVELOPMENT

Russian integration into world economy reminds **Victor Vekselberg**, Chairman of the Board, United Company *Rusall* and Chairman of the Supervisory Committee and Executive Committee of the *Renova Group*, the eight-line highway with all the cars moving only in one direction, i.e. foreign investments in Russia; movement in the opposite direction is only on one line and is very slow. "Nobody has been waiting for us over there and nobody still is"; he noted. According to Mr. Vekselberg, out of 70 bn USD investments in Russia only 12 bn are investments earned by Russians abroad. Among the main reasons behind inadequate Russian capital movement abroad are the following: difficulties in Russia-EU negotiations, problems in defending shareholders' rights (though not only Russians'), negative experience in a number of foreign deals, e.g. unsuccessful *Severstal* acquisition attempt towards *Arcelor*. Mr. Vekselberg's opinion was that both ways movement in this regard is necessary; an adequate form for that already existed, i.e. joint ventures (*Renova Group*), by the way, intends

to invest 800 mln USD into the apartment complex development project in Latvian Mezapark region).

There are still complicated investment barriers from developing countries into developed ones, said *Alfa-bank* president, **Peter Aven**: "all our efforts to invest abroad run across specific obstacles". Mr. Aven sees the only way in bringing together mutual investment for Russian, the EU and the US: "the more Russian equities move to the US, the more we'd understand each other." And he added that at present the situation is quite the opposite, underlining that "reciprocal exchange in investments represents the guarantee for political stability".

The problem lies in the "negative wishes-circle's cycle towards Russian image abroad", said *Severstal's* owner, **Alexey Mordashov**. The sole efforts by the Russian government and business are not enough, he underlined; it is important that Russian foreign colleagues, e.g. governments, media and business would make adequate efforts to understand Russia.

It is quite notable that billionaires V.Vekselberg, P.Aven and A. Mordashov have already established business connections in the Baltics, or intended to do so. Thus, as we mentioned already, Mr. Vekselberg intends to invest in real estate development in Latvia. Mr. Aven intends to acquire a solid Latvian bank and a telecommunication's operator. Mr. Mordashov has been already working in Latvia and Estonia through daughter branches of his companies — *Severstal* and *Severstaltrans*.

ATTENTION TO PROVINCES

Former Russian minister and present "Liberal mission" fund's president, Mr. Evguenij Jasin's speech has been highly praised: he underlined that about 30% of Russian processing and manufacturing companies are quite competitive on a world market. Foreign investors generally choose big cities (only in St. Petersburg there are three car assembling plants). Mr. Jasin said: "I would recommend to re-direct foreign interest towards Russian provinces, where the workforce is cheaper, education level is adequate and people are willing to earn; it's a great reserve in development: good example is *Volvo* company which had chosen Kaluga"

100 MILLION DEAL

The investment agreement between *Volvo Trucks* and Kaluga regional administration was signed ending several hours' discussion about 100 mln EUR investments into the new truck-assembling plant at the XI-th Economic Forum in St. Petersburg.



Lars Corneliussen, General Director, Volvo Trucks Corporation and Lars Himmer, Deputy General Director, Volvo Trucks Russia. Happy to sign the deal.

GROSS DOMESTIC PRODUCT

	Latvia	Lithuania	Estonia
GDP at current prices, mln EUR			
Q4 2006	4681	6573	3586
Q4 2005	3732	5686	2948
GDP at constant prices, %			
to Q4 2006	111.7	106.9	110.9
to Q4 2005	111.4	108.7	111.3
GDP per capita at current prices, EUR			
2006	7003	6996	9732
2005	5602	6040	8217

Source: Central Statistical Bureau of Latvia.

WAGES, EUR

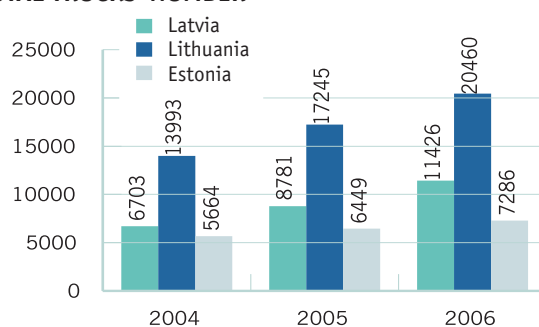
Monthly average, Q4 2006	Latvia	Lithuania	Estonia
Gross wages	489.0	501.0	653.0
% to Q4 2005	127.9	119.1	117.5
Min. wages, April 2007	171.0	174.0	230.0
% to April 2006	133.3	109.1	120.0
Old-age pension, monthly average, Q1 2007	148.0	160.4	200.0
% to Q1 2006	113.1	124.0	114.4

Source: Central Statistical Bureau of Latvia.

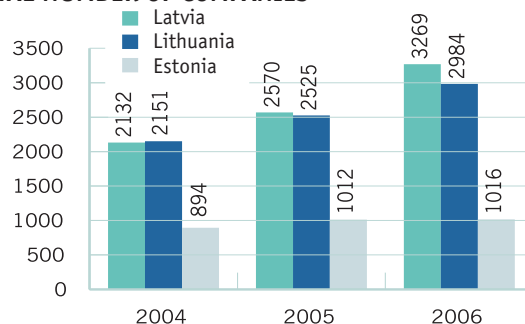
NUMBER OF CAR FIRST REGISTRATIONS

	Latvia	Lithuania	Estonia
April 2007	9632	18914	6975
April 2006	7519	16042	6447

Source: Central Statistical Bureau of Latvia.

BALTICS INTERNATIONAL ROAD CARGO TRANSPORT: TOTAL TRUCKS' NUMBER

Source: Latvian Road Transport Directorate, Lithuanian State Transport Directorate, ERAA.

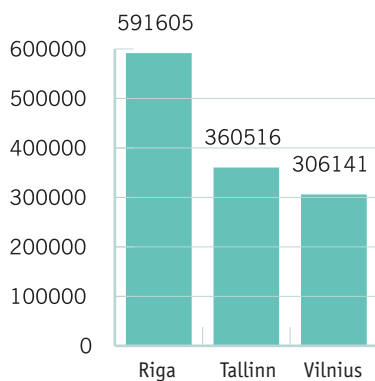
BALTICS INTERNATIONAL ROAD CARGO TRANSPORT: TOTAL NUMBER OF COMPANIES

Source: Latvian Road Transport Directorate, Lithuanian State Transport Directorate, ERAA.

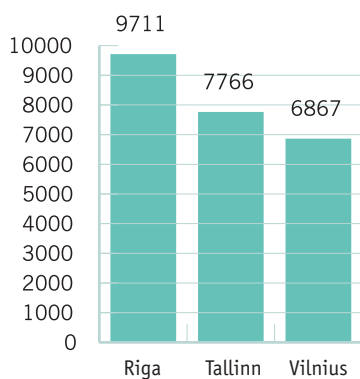
BALTIC SEA CONTAINER TERMINALS' SHARE IN CONTAINERS PROCESSING

Port		2000	2001	2002	2003	2004	2005	2006
St. Petersburg	TEU	289 730	480 659	580 639	649 812	776 576	1 119 346	1 449 958
	changes	28.02%	65.90%	20.80%	11.91%	19.51%	44.4%	29.54%
Kaliningrad	TEU	16 280	21 313	27 871	44 687	72 489	112 528	151 047
	changes	13.20%	30.92%	30.77%	60.34%	62.21%	55.23%	34.23%
Total Russian ports	TEU	306 010	501 972	608 510	694 499	849 065	1 231 874	1 601 005
	changes	27.13%	64.04%	21.22%	14.13%	22.26%	45.09%	29.96%
Kotka	TEU	192 108	201 004	242 697	264 400	325 729	366 666	461 874
	changes	43.33%	4.63%	20.74%	8.94%	23.20%	12.57%	25.97%
Hamina	TEU	96 345	93 851	89 958	106 995	144 066	159 783	166 983
	changes	3.64%	-2.59%	-4.15%	18.94%	34.65%	10.91%	4.51%
Total Finnish ports	TEU	288 453	294 855	332 655	371 395	469 795	526 449	628 857
	changes	27.08%	2.22%	12.82%	11.65%	26.49%	12.06%	19.45%
Riga	TEU	84 928	101 077	127 459	132 109	150 016	168 978	176 826
	changes	-1.14%	19.01%	26.10%	3.65%	13.55%	12.64%	4.64%
Klaipeda	TEU	39 955	51 135	71 589	118 366	174 673	214 307	231 548
	changes	39.37%	27.98%	40.00%	65.34%	47.57%	22.69%	8.05%
Ventspils and Liepaja	TEU				5 225	1 756	4 188	21 541
	changes					-66.39%	138.50%	414.35%
Tallinn	TEU	76 692	78 072	87 912	99 940	113 081	127 585	152 399
	changes	16.75%	1.80%	12.60%	13.68%	13.15%	12.83%	19.45%
Total Baltic ports	TEU	201 575	230 284	286 960	355 640	439 526	515 058	582 314
	changes	11.82%	14.24%	24.61%	23.93%	23.59%	17.18%	13.06%
Total all ports	TEU	796 038	1 027 111	1 228 125	1 421 534	1 758 386	2 273 381	2 812 176
	changes	22.85%	29.03%	19.57%	15.75%	23.70%	29.29%	23.70%

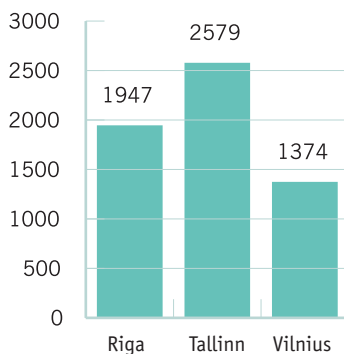
Source: Muuga CT.

BALTIC STATES' AIRPORT TURNOVER, Q1 2007: PASSENGERS

Source: LETA.

BALTIC STATES' AIRPORT TURNOVER, Q1 2007: FLIGHTS

Source: LETA.

BALTIC STATES' AIRPORT TURNOVER, Q1 2007: CARGOS, T

Source: LETA.

FOREIGN DIRECT INVESTMENTS

At the end of quarter	Latvia	Lithuania	Estonia
FDI, stock, total, mln EUR			
Q4 2006	5744	8334	12390
Q4 2005	4213	6921	10748
Per capita, EUR			
Q4 2006	2518	2462	9214
Q4 2005	1836	2034	7976
FDI, flows, mln EUR			
Q4 2006	418	815	249
Q4 2005	102	180	-13.9
% of GDP			
Q4 2006	8.9	12.4	7.1
Q4 2005	2.7	3.2	-0.47

Source: Central Statistical Bureau of Latvia.

GENERAL GOVERNMENT DEBT

At the end of period	Latvia	Lithuania	Estonia
Total, mln EUR			
Q4 2006	1605	2953	301
Q4 2005	1543	2312	251
Per capita, EUR			
Q4 2006	704	872	224
Q4 2005	673	679	186

Source: Central Statistical Bureau of Latvia.

AVERAGE PRICES FOR GOODS AND SERVICES, EUR PER KG

	Latvia		Lithuania		Estonia	
	April		April		April	
	2007	2006	2007	2006	2007	2006
Beef	3.19	2.97	3.39	3.32	3.00	2.98
Pork	2.79	2.66	2.69	2.55	3.74	3.39
Chicken	2.48	1.98	1.95	1.58	2.53	2.30
Butter	3.87	3.56	4.78	4.55	4.31	3.97
Milk, 2.5% of fat, 1l	0.61	0.54	0.52	0.48	0.43	0.44
Eggs, 10 pcs	1.01	0.90	1.01	0.86	0.86	0.81
Rye bread	1.04	0.80	0.90	0.71	1.03	0.87
Wheat bread	1.11	0.97	1.08	0.88	1.13	0.91
Sugar	1.05	0.97	0.92	0.85	0.97	0.96
Potatoes	0.51	0.33	0.54	0.39	0.55	0.34
Vodka 40% alc. vol., 1l	8.58	8.45	7.68	7.27	9.07	8.47
Petrol A-95, 1l	0.88	0.87	0.92	0.96	0.86	0.89
Electricity, per 100 kWh	7.26	6.83	9.56	8.98	8.05	7.99

Source: Central Statistical Bureau of Latvia.

FOREIGN TRADE, MLN EUR

January-March 2007	Latvia	Lithuania	Estonia
Export (FOB)			
total	1255	2785	1877
to EU-25	956	1880	1254
% of total	76	68	67
Import (CIF)			
total	2499	3893	2624
from EU-25	1893	2658	1947
% of total	76	68	74
Balance of foreign trade	-1244	-1107	-747

Source: Central Statistical Bureau of Latvia.

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