Baltic States

Round Table
8 EU, Baltic States and CIS: triplex-export
9 Baltic States' trade deficit will be dissolved in the all-European market
11 Small and medium business in the globalisation process
12 The Latvian capital's developmental possibilities
14 Export of education in Baltic countries: illusions and chances
16 Labour market in the EU: social and economic factors
18 The Baltic's transit perspective
19 Russian-Baltic's relations and Northern European gas pipeline situation

Foreign Trade — Market Review
20 Latvia: furniture instead of round timber
21 Lithuania: trade with Russia is still important
22 Estonian exports continue to surprise

Logistics
28 Logistics development in Russia: trends and perspectives

Technology — Market Review
30 The demand for IT-service is still growing

Persons & Names
32 Janis Domburs — the man for all seasons

Commodities: Oil — Market Review
36 Market-sharing efforts are going on

Energy
42 Russian energy industry's development prospects

Forums
48 The US business mission to explore opportunities

Economic History
50 Investments with the American optimistic approach

European Union

Energy
54 The European Union: energy issues

CIS

Forums
56 Russian Davos in the new Russia

Figures & Facts
62 Statistics
New concept - Best Opportunities!!!

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Mrs. Larisa Bozian
This summer our two magazines celebrated 16-year jubilee, i.e. 10 years since the first issue of our Russian version and 6 years since the first Baltic Course issue were published. Our editors’ board would like to thank all those that took part in the celebration ceremony in Riga on the 22nd of July and those who shared with us all the troubles of being in the media market during these years.

In this occasion, we have published an interview with the first editor on the Russian version of the magazine, Mr. Janis Domburs. Energy issues attracted recently close politicians and businessmen attention in Europe. As a reaction to such interest the BC decided to reveal major stumbling blocks of the energy problem in a series of articles surrounding utilities’ problems in the EU and the Baltic States. In the present BC’s issue a first article is published. Besides, we publish BC’s interview with the Russian Ambassador in Latvia reflecting his opinion on Russian energy position in Europe and the world.

Since July up to the end of the year the Presidency in the EU has taken over by Finland — the Baltic States’ Northern neighbor. The six-month’s presidency program includes, as major items launching talks with Russia on forging closer political and economic ties with the EU. The move, to offer Moscow open access to the EU’s market would, in turn, force Russia to offer long-term guarantees of secure energy supplies for Western Europe. The new EU-Russia accord is expected for approval before year-end.

The BC has taken over another interesting project, i.e. to make an assessment of the early years of modern Baltic economic history. The BC editor-in-chief, Mrs. Olga Pavuk has written a first article in the series of publication on the issue.

Eugene Eteris,
The BC’s International Editor
RUSSIAN ORTHODOX CHURCH LEADER VISITS LATVIA

On May 27, his first day in Latvia, His Holiness Patriarch Alexii II of Moscow and All Russia held the Holy Liturgy in the main Orthodox Church in Riga — the Nativity of Christ Cathedral — which was attended by several thousand believers. Latvia’s top officials, i.e. Latvian President Vaira Vike-Freiberga, Prime Minister Aigars Kalvitis, Parliament speaker Ingrīda Udre were also present. The audience included also Russian Ambassador to Latvia, Viktor Kalyuzhny; representatives of the Latvian political parties; the head of the Latvian Roman Catholic Church, Cardinal Janis Pujats; the head of the Latvian Evangelical Lutheran Church, Archbishop Janis Vanags, and representatives of the local Muslim community.

His Holiness Patriarch Alexii II had talks with the Latvian president at his residence in the Riga Castle and Vike-Freiberga thanked him for his invaluable contribution to rebirth of spirituality, support to the role of the church and the Christian belief in Russia. She presented him the Order of the Three Stars, First-Class, in recognition of his spiritual contribution to revival of Orthodox belief. In return His Holiness presented the Latvian president with the Order of the St. Apostolic Grand Duchess Olga. Vike-Freiberga has become the first foreign head of state to receive this decoration.

THE ECONOMIST BUSINESS ENVIRONMENT RANKINGS

Estonia ranks 20th among the countries with the most attractive business environment in 2006-2008; the decision has been made by a group of The Economist’s experts. Denmark ranks first in the list, Latvia and Lithuania are in the 34th and the 35th places, respectively. The list includes 82 countries jointly accounting for 98% of the global gross domestic product. Russia ranks 48th, Ukraine 68th and China is in the 50th place.

KAZAKHSTAN’S INTEREST IN LATVIAN PORTS’ PRIVATIZATION

Kazakhstan President Nursultan Nazarbayev during his Latvian official visit in July and after meeting with Latvian President, expressed country’s willingness to acquire controlling stock of shares in Ventspils nafta JSC. Kazakhstan President confirmed that his country’s investors seriously consider participation in a tender on Ventspils nafta’s selling stocks, if such tender would take place. Presently preliminary negotiations are going on with the country’s oil companies’ shareholders, said the president.

At a press-conference devoted to the visit’s outcomes, President Nazarbayev underlined country’s interest in Latvian ports’ privatization. He acknowledged country’s intention to triple the present one million barrels per day of oil extraction; the country occupies today the 6-7th place in the world on oil extraction. Kazakhstan is rich in other important resources, e.g. coal, gas and uranium ore. The President underlined that his country is interested in Western export routes both for oil and dry cargoes through Latvian ports.

The two countries’ presidents in a common communiqué underlined their countries intentions to explore all possible means for mutual and fruitful cooperation.

ENERGY BRIDGES LATVIA AND POLAND

Latvian Prime Minister Aigars Kalvitis and Polish Senate Chairman Bogdan Borusewicz at the talks in Riga this May discussed energy security in the Baltic region. They spoke about building power supply “bridges” between Latvia and Poland, construction of the North-European gas pipeline, possibilities for more efficient use of the Latvian natural gas storage facilities as part of the European gas supply system. Kalvitis and Borusewicz noted common interests that Latvia and Poland had in energy and underlined the importance of environmental safety in energy supply as well as links with power grids of other EU member states. They agreed that member states should support each other in solving energy problems in the EU.

THE QUEEN’S HAT

Queen Beatrix of the Netherlands stands out among the European monarchs not only by playing an active role in her country’s political life but also by her wardrobe, or, to be more specific, one type of royal accessories, the hats. Residents of Riga were able to see some of those hats during Her Majesty’s visit to the Latvian capital.

Queen Beatrix had a very busy schedule during her visit to Latvia in May. She laid flowers at the Freedom Monument in the Riga center, had bilateral talks with Latvian President Vaira Vike-Freiberga, met with Latvian Parliament speaker Ingrīda Udre, visited the Occupation Museum, attended dinner in her honor that was hosted by the Latvian President in the Blackhead House in Riga. Queen Beatrix also met with representatives of the Dutch community in Latvia and visited the University of Latvia. On her third day in Latvia, the queen went to the south-western Latvian port city, Liepaja where she visited the Latvian Navy training center and listened to the local municipal leaders speaking about economic development of the city.

LITHUANIA OPENS CONSULATE IN MARSEILLES

A Lithuanian consulate was opened in Marseilles, France, in May. The consulate is headed by Lithuanian Honorary Consul Jacques Charles Gobert. The opening ceremony was attended by Lithuanian Ambassador to France, Giedrius Cekuolis, who presented Gobert with a consular credentials issued by the Lithuanian foreign minister. The honorary consul will be in charge of Provence-Alpes-Cote d’Azur region, Gard and Her Ault departments. The consulate in Marseilles is Lithuania’s fourth honorary consulate in France.
LITHUANIAN PARLIAMENT APPROVES SALE OF MAZEIKIU NAFTA

The Lithuanian parliament approved in June the sale of Mazeikiai nafta (Mazeikiai Oil) company to the Polish concern PKN Orlen. Under the agreement PKN Orlen would get on top of 31 per cent shares in Mazeikiai nafta that used to be held by the Lithuanian government 54 per cent of stakes controlled by the Russian oil company YUKOS through its Dutch-registered subsidiary Yukos International UK B.V.

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In addition to PKN Orlen, a number of other companies have bid for Mazeikiai nafta at one time or another, including Russian-British joint venture TNK-BP, Russian oil company LUKOIL in an alliance with Americans, Gazprombank and KazMunayGaz from Kazakhstan, reported RosBusinessConsulting.

DHL LOGISTICS CENTER OPENED IN RIGA

DHL logistics center opened in the Latvian capital Riga in early June. It is a one-stop logistics center that would help clients to solve all issues concerning dispatching or delivery of any kind of cargos (from express mail letters and packages to few pallets to truckloads and maritime containers). Here you can also order the full cycle of logistics services offered by DHL Latvia: delivery of import cargo, customs clearance (if necessary), warehousing, packaging (including consolidation) and delivery to the final consignee. Such range of services offered by a single company from one premises is a unique in nature in the modern Latvian market of logistics’ services.

AWARD AT 10th ST. PETERSBURG FORUM

The BC magazine was the only one among the Baltic mass media present at the 10th St. Petersburg International Economic Forum, the event which was covered by over 200 foreign journalists. The Russian deputy minister for economic development and trade, Kirill Androsov presented Olga Pavuk, editor-in-chief of Балтийский Курс/The Baltic Course magazine, with a diploma for informational support to the St. Petersburg forum. For details of the event in St. Petersburg, see p. 56-57.

ESTONIANS TO MAKE SPARE-PARTS FOR BRITISH CARS

The British-owned Engineering Estonia OU will be making parts for Jaguars, Land Rovers and Aston Martins at its plant in Juri, reported the Estonians newspaper Eesti Paevaleht. Workers and technicians will be sent to the United Kingdom for training. In the first year the company plans to hire 130 workers but later their number will grow to 200-250 people. The British owners said they had chosen Estonia for its good location and business climate.

LATVIAN BANKER ACQUIRED ENGLISH FOOTBALL CLUB

Latvian businessman Valery Belokon has officially become the president and the director of an English football club, Blackpool, The Gazette newspaper reported on its website. In the next three years Mr. Belokon plans to invest in the football club 5 million British pounds, the largest investment in the club’s history. “I have a plan how to drive the club into the Premier League,” Belokon was quoted as saying.

NEW BUSINESS PARK IN LATVIA

The first stage of a new industrial park, NP Jelgavas Biznesa parks, was presented at the central Latvian town of Jelgava. The business park is being developed in the territory of the former RAF minibus plant in Jelgava. It is planned that upon its completion NP Jelgavas Biznesa parks would be one of the largest and most advanced industrial parks in Latvia. Total investment in the industrial park is estimated around 200 mln euros.

FIRST NEW CHEESE PLANT BUILT IN LATVIA

The Latvian dairy Rigas piena kombinats has opened a new cheese factory. It is the first newly-built production facility in the Latvian dairy industry in the last 15 years after the country restored its independence. It took almost a year to build the plant that is intended to help the company to increase cheese export to the EU and the CIS countries. The construction was financed from the EU funds as well as other credit sources. The plant would produce 15–20 tons of cheese daily or about 5–6 thousand tons a year. For this purpose, Rigas piena kombinats will have to buy 45,000 tons of milk from farmers annually.

Dairy industry in Latvia has recently become one of the most profitable agriculture sectors. The new plant was officially opened on the 20th of June.

BALTIC TRADE UNIONS SET UP ITS COUNCIL

The Baltic Trade Union Coordinating Council was founded in Riga this June. The Council will be coordinating activities of the Secretariat of Public Services and the trade unions, which belong to the European Federation of Public Service Unions. It is planned that the Council will pay much attention to joint projects financed from the EU structural funds. The Baltic Trade Union Coordinating Council unites 9 trade union organizations from Lithuania, Latvia and Estonia.
Agricultural business goes well in Estonia, as witness by the constantly growing number of tractors. In 2003 there were 493 tractors but in 2005 their number had increased to 625. One-third of the tractors are made in Belarus, reported the Estonian newspaper Eesti Paevaleht. Farmers prefer Belarus tractors because of their low price, which is 2.5 times less than the price for tractors made in the West. A Belarus-made tractor costs about 300,000 kroons while the cheapest Western tractors cost 600–700 thousands kroons and the most expensive over one million kroons. Three years ago 250 new Belarus tractors were listed in the Estonian transport register, another 172 were registered in 2004 and 173 of them were registered in 2005. Valtra tractors are in the second place but there is half less of them than Belarus tractors.

SWEDEN’S HANDELSBANKEN ENTERS ESTONIA

The Swedish bank Handelsbanken, which so far did not have any branches in the Baltic States, opened in June its branch in Tallinn. The manager of the Tallinn office is Harri Tuohimaa, who was assisted in this venture by Bo Krag, former advisor to the Bank of Estonia and the Bank of Latvia in the early 1990s.

Mr. Krag told the BC that Handelsbanken will open a branch in Gdansk on June 21, and the bank’s existing subsidiary in Moscow will open an office in St. Petersburg by the end of the year. In addition, Handelsbanken plans to open an office in Mumbai (India) this October.

Handelsbanken has a wide network of branches (110) in Scandinavia and 30 branches in the United Kingdom. Handelsbanken has also announced its intention to privatize Latvijas Hipotēku un Zemes Banka (Latvian Mortgage and Land Bank) by submitting in June an offer to the Latvian Privatization Agency.

LARGEST HOTEL CENTER IN THE BALTICS

The largest hotel center in the Baltics formed on the basis of Reval Hotel Latvija has been opened in the Latvian capital Riga. The hotel’s conference center has 20 multifunctional rooms with the most advanced equipment, including the largest meeting hall in the Baltic States that can host 1,000 people with a floor space of up to 962 sq m. The new center has five conference rooms and three business offices. The total area of the center that can admit up to 3,000 people at a time reaches 3,700 sq m. Expansion of Reval Hotel Latvija that costed about EUR 24 million began at the end of 2004. After renovation the hotel acquired additional 205 modern suites which bring the total number of rooms up to 587. Soon res-

BALTIC STATES BUILD MORE

The Baltic States rated among top three among the EU member states as to the growth of the construction sector. According to Eurostat, Estonia showed the largest growth of production in construction by 23.8% in the first quarter of 2006 as compared to the same period last year. Lithuania was not far behind with a 22.2% growth and Latvia was in the third place with a 17% growth.

Eurostat pointed out that 14 EU member states have shown a constant year-on-year growth in construction in the first quarter of this year while construction output fell in six member states: Spain (-4.4%), Germany (-4.3%) and Portugal (-3.9%) have registered the most significant falls. Despite the great construction activity in the Baltic States, the growth rate in the construction sector fell by 1.3% in the EU-euro area and by 0.8% in the EU-25 in the first quarter of 2006, compared to the previous quarter.

WINE DAYS IN VILNIUS

In May this year Vilnius became the capital of wines for the second time as the international wine fair, Wine Days 2006 was held in the Modern Art Center in the Lithuanian capital. The participants of the fair included wine producers from France, Austria, Canada and Georgia as well as nine Lithuanian companies engaged in wine imports. A record-large number of wines — 1,500 brands from different world countries were represented at the fair.

Rasa Suziedeliene, director of the Lithuanian Wine Club, which organized the fair, said that its purpose had been to introduce people to the wine-making culture and to strengthen wine-drinking traditions in Lithuania.

RAILWAY COMPANY DONATIONS TO RIGA TECHNICAL UNIVERSITY

Latvijas dzelzceļs (Latvian Railway) board chairman Ugis Magonis and Riga Technical University Development Fund director, Atis Pakrastins signed in July an agreement about donation of 51,000 lats to the Railway Transport Institute of the Riga Technical University. The money will be used for improvements of the institute’s infrastructure and upgrading its laboratories in line with the EU requirements. The Railway Transport Institute has over 200 students, of which every fourth works at Latvijas dzelzceļs.

TALLINN TO BECOME EUROPEAN CAPITAL OF CULTURE

In 2011 Tallinn will be the European Capital of Culture together with a Finnish city. The Estonian capital was chosen by a special commission that had gathered in the Estonian Culture Ministry. The commission had to choose between Tallinn and Tartu, although initially there were two more cities on the list of candidates with Parnu and Rakvere participating in the first round.
Top level speakers for 2006 include:

Jan Terecczkuk, CEO and Chairman of the Board
PKP Regional Railways

Ing. Jan Kumárek
Director General
SZDC, s.r.o.

Tomáš Kozák
President CTO
MAV Cargo Ltd.

Johannes Ludewig
Executive Director
Community of European Railway and Infrastructure Companies

Marijan Klaric
Vice President of the Management Board
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EU, Baltic States and CIS: triplex-export

By Olga Pavuk, Dr. Oec, Baltic Russian Institute, professor

At the end of May the BC editorial board’s members, colleagues and friends gathered in the Baltic Russian Institute (BRI) in Riga together with the BRI’s professors at a round table to discuss EU, Baltic States and CIS’ triplex-export issues.

With Baltic States’ joining the European Union the whole attitude to the term “foreign trade and commerce” has changed. For the time being we continue using the terms “export” and “import” in official statistics for trade-relations with the EU and CIS, leaving out the fact that they are foreign commerce’s indicators. Meanwhile trade within the EU for the Baltic countries (as well as for all other Union member states) ceased to be “foreign.” Customs inside the Union have disappeared, so the term “foreign trade & commerce” can be used only in relation to countries that are outside the European Union. In a certain way we can use the export-import connotation until the single European currency, euro is introduced in the Baltic States; though already now about 80 per cent of all payments in trade are made in euros.

The round-table’s purpose was to discuss our countries’ the new situation and its advantages for economics and business, with the BC’s editor-in-chief as the round table’s moderator.

The following issues have been discussed: macro-economic aspects of the problem (Imant Kirtovskij), the questions of SMEs development in globalisation processes (Vladimir Gurov), perspectives and developments in the EU labour market (Eugene Eteris), the connections between the transit issues and export between the Baltics, CIS and the EU states (Raivo Vare), the problems of Russian-Baltic relations and situation around the North European gas pipeline (Nikolai Mezhevich), the problems of “education export” for the Baltic States (Stanislav Buka and Inga Buka), as well as a report about the future Riga’s development (Igors Graus).

The heated discussions went around the place of the Baltic State economics in European labour division, as well as whether Latvia, Lithuania and Estonia will define their role in the process, or will be destined to the EU’s provincial outskirts.

BRI’s professors — Vladimir Bagirov, Boris Heimanis, Ganna Reshina, Alexander Gaponenko, as well as Riga Stradins University’s professor Inna Dovladbekova, and the Baltic States’ financial expert, vice-president of Handelsbanken, Bo Krag took part in the discussion.

Reports and comments of the round table’s participants, as well as a review of the Baltic States’ trade with other regions are published in this magazine.

The experts and professors taking part in the round table have decided to create a special assessment group to discuss most urgent questions of economy and law. The theme of the next round-table discussion which will take place in September will be devoted to the labour market problems in the EU.
Baltic States’ trade deficit will be dissolved in the all-European market

By Imant Kirtovskij,
Baltic Russian Institute, professor

Latvia, Lithuania and Estonia, surviving deep recession of 1990s, have significantly reduced trade with Russia and CIS states. In the beginning of the 21st century Baltic countries’ foreign trade to a great extent has been reoriented towards the EU countries. The three Baltic States, as equitable EU member states have clarified their structure of imports and exports according to partner-countries. Today the main share of their external trade falls within European countries; this trade has noticeably surpassed that of the CIS’ states, as well as Russia.

Each of the Baltic States’ foreign trade orientations varied differently depending on their trading partners in the EU. Thus, Estonia orientates mostly on the Finnish market; together with the Swedish market it constitutes 40 per cent of the total Estonian export. Latvian foreign trade is mainly oriented towards Germany and Lithuania; in 2005 these two countries occupied equal share in Latvian import and export.

Lithuanian economy, in contrast to its neighbors, is more closely connected to Russia in her foreign trade activities where the main import items are crude oil and oil processing products. This group of items occupies leading positions both in country’s export (29.1%) and import (27.3%). As for the EU countries, Lithuania cooperates more actively with Latvia and Germany.

A PATH FOR EACH COUNTRY

It has happened that each of the three Baltic States has already chosen its own direction in foreign trade. Estonia is being integrated into the Finnish-Swedish economic territory and, in fact, has become practically a part of the EU economic province in the northern Baltics. Latvia and Lithuania are oriented towards creation of a common market with Germany. Lithuania, on another side, has sufficiently active trade on its southwest direction towards markets in Poland and France. These trends can clearly indicate that creation of a common regional market zone in the Baltics is quite a problematic issue as quite diverse aspects of foreign trade orientations are involved.

COMMON FEATURE — NEGATIVE BALANCE

Nevertheless, the balance of current budget payments is being negative in all three Baltic countries. This causes a lot of worries for economists and politicians. Usually the main suggestion for setting down negative trade balance is the development of export industries. Such an approach towards balancing of foreign trade does not take into account the structure of economics in the Baltic States, as services’ industry has for long become the main GDP producer.

Taking Latvia as an example, we can see that transportation services, which “service” transit export, have a positive trade balance and their input into the GDP is higher than that of the industrial sector. In modern time tourism is becoming a visible part of export services, as well. Therefore in the contemporary structure of Baltic States’ economy the issue of balanced export-import trade is to be regarded as a complex combination of goods and services’ production.
CURRENCY FLUCTUATION RISKS REDUCED TO ZERO

Latvia, Lithuania and Estonia joining the EU created the opportunities to transform foreign trade of these countries into domestic trade within the single European Union market. Foreign trade balance is to remain only with countries outside the EU; the share of the latter is only a quarter of import-export balance in the Baltic countries. Although these countries have not yet switched to euro-currency, they have paged their national currencies to euro. From that time on, the foreign trade deals concluded in euro escaped the currency risk caused by fluctuation of currency rates is reduced to zero.

TOWARDS A SINGLE EU BALANCE OF PAYMENT

As soon as the Baltic countries entirely switch to euro the trade deals with the EU partners are going to assume the status of regular domestic-type deals. With a perspective of forming a single EU monetary system, the very notion of foreign trade and balance of foreign payments for individual countries in the Union, will disappear. A single EU balance of payment will appear instead with the overall common import-export ration towards third countries. The EU member states will, in fact, become separate national economic provinces. Therefore, the Baltic countries’ economic development perspectives will be more exceedingly determined by big capital in Germany, France, Scandinavian countries and England. And, as a consequence, the economic politics of these states’ governments will become more and more influential.

LATVIA’S FOREIGN TRADE STRUCTURE, BY GROUPS OF STATES, 2005

Export — 4093.8 mln EUR
Import — 6892.99 mln EUR

Source: Central Statistical Bureau of Latvia.

LITHUANIA’S FOREIGN TRADE STRUCTURE, BY GROUPS OF STATES, 2005

Export — 9506.1 mln EUR
Import — 12246.3 mln EUR

Source: Central Statistical Bureau of Lithuania.

Comment

By Boris Heimanis,
Dr. Oec, Baltic Russian Institute, professor

Speaking about particularies in the Latvian economy’s development, so to say, the way it follows, one cannot help putting an accent on economical-political problems of, so-called “Latvia 2006” model. Unfortunately, it is necessary to note, (although it is historically based), that many Latvian politicians, with quite a few exceptions, do not have enough experience, accumulated by generations of entrepreneurs. A whole set of politicians that joined the ruling elite in the beginning of 1990s have originated from the primitive “business-underground” of the 1980s. The type of work experience during last 10-15 years has “re-installed” in the minds of people a small retailer’ psychology, the cult of fast and cheap profits, and has led to a high level of corruption among state officials. The fact that has been verified by practically all international organizations’ experts that examined the functions or dysfunction of various state institutions. International experience, unfortunately, has known quite a lot examples of such behaviour of politicians, but, in analyzing the experience of social development during the last approx. 150 years, it is possible to say, that these types of politicians had always led their countries to failure, which is especially clearly seen in the history of Europe and Latin America of the 20th century.

What can we have in return? Only authoritarian regimes with their decision-making types to exert on the public the governing structures which would prevent the national economies from sliding into abuses. Therefore the main themes in discussing the issues like this would be the following: how not to allow the country’s economy to disintegrate, how to sustain the existing democratic processes, how to educate and train economically active political elites capable to govern national economy in a civilized way?
Small and medium business in the globalisation process

By Vladimir Gurov,
Dr. Oec, Baltic Russian Institute, professor, prorector on science issues

Globalisation for Latvian economy means first of all the process of euro-integration. Joining the EU in 2004 made this process more intense for Latvia. The share of the EU countries in the Latvian external economic activity has risen sharply during last years and in 2007 exceeded 70 per cent, while the export share of small and medium enterprises (SMEs) was only 61 per cent.

The SMEs short- and medium-term perspectives the economists, politicians and entrepreneurs see first of all in the context of euro-cooperation (as the synergy of the big market) and euro-competition in production of goods, services, capital and labour force.

In numerous medium-term government plans and programmes the task of speeding up economical growth based on innovations has been posed. Big role in these plans is given to the SMEs, as it is seen in the 1st draft of Latvian “National development plan for 2007-2013.

Meanwhile, it is hard to call the initial positions of Latvian SMEs in the global race brilliant. Average number of entrepreneurs for 1000 people in Latvia is 18 while in the EU developed countries this index is within 40-50. This index is also higher in Estonia and Lithuania. The structure of SMEs cannot be called optimal either, if we look from the position of GDP growth rate. Most of the SMEs are concentrated in the sphere of trade and low-tech services. According to Eurostat data, the number of innovative, i.e. technological and high-tech enterprises in the EU-25 reached 45 per cent in 2005. In Latvia, on average, this index equals to 18.6%, in manufacturing industry — 22%, and 15 per cent in services.

NEW CHALLENGES

SMEs faced a number of new challenges in 2004-2005: first of all, the competition on local markets has become stronger due to new “players” more intense introduction; the rate of profitable Latvian companies’ sales to foreign investors, with corresponding change in management, has risen noticeably, i.e. approximately doubled; the rate of price increase for resources and above all for labour force has been noticeable as well. The latter is very much connected with economical labour force migration, i.e. so-called “Dublin syndrome”.

In present Latvian SMEs (and these are mostly private Ltd-type companies) the average age of owners and top-managers, these positions usually coincide, is around 50 years; there are obvious signs of the crisis of “generational changes”. At the same time, as surveys show, younger generations in their intentions and aspirations prefer either government services, career in big international companies or “economic immigration”.

In these circumstances the main challenge Latvian private business is facing, is competition in production efficiency and quality of services. Such competitive advantages as cheap raw materials, resources and energy, cheap labour all that is already in the past. Such palliative measures as, for example, attracting cheap labour from Ukraine, would not solve the problem.

ECONOMIC LABORATORY

Management and business undertaking’s research laboratory had been organized in the Baltic Russian Institute last year. The central problems for research were: determination of the index of entrepreneurship’s trust (for sectors of economy and country’s regions) and investigation of the Latvian regions’ investment potentials (so-called passports of investment’s attractiveness).

The results of research reached in 2005 have helped to specify the concept of the potential Latvian SMEs growth. During the entrepreneurs’ survey (more than 1000 companies representing all Latvian regions were participated) about 60% claimed to have an intention to continue their enterprises’ activity, e.g. increase volumes of sales and market shares, to diversify production, etc.). However, the analyses of the potentials for growth (market niche, staff, technology, management, etc.) have indicated that in reality only 18-20% of SMEs have such opportunities. Among the main factors hindering growth the entrepreneurs named narrowness of the market niche, outdated technology, ineffective management and shortage of experienced work-force. The myth about the shortage of financial resources as the main obstacle for the SMEs’ development has been greatly exaggerated.

THE QUESTION IS “HOW”? 

In many documents and programmes aimed at supporting Latvian SME it is correctly defined what needs
The Baltic Course — Summer 2006

to be done: to use multi-million European structural funds, to provide the SMEs with state investment guarantees, to create business-incubators and centers for knowledge transfer, etc. However the central question presently is how to do this?

The last two years’ experience has indicated a strong inefficiency of state policy in the sphere of SMEs support. The roots of this inefficiency are well-known: closed and non-transparent decision making proceedings in the state, low qualification of the public officials, corruption, lobbying of group interests to the detriment of the national ones. Instability of political situation, short political “cycles” and changes in governments obviously do not favour investment thinking and Latvian entrepreneurs’ behaviour moving their interests into the zones of fast and “grey” enrichment.

VENTURE INVESTORS ARE ACTIVE

Venture investors have activated their work in 2005 which, on one side, can be an indication of potential economical growth and from the other, serve as catalysts of business activity. Different players are involved into the risk financial activity, e.g. venture funds or “business-angels”, so-called mezzanine crediting is becoming more active.

The pools among venture investors have confirmed a sufficient number of perspective investment projects in Latvia. Interestingly that in answering the question of what is the main factor impeding venture investment activity only 35% of investors have noted “inefficient and groundless business-projects”. In more than half of answers the investors have mentioned such negative factors as “lack of investment transparency in business environment”.

There is a time handicap of two-three years in Latvia to enable real and effective mechanisms of support for efficient and competitive SMEs. Will there be enough political will to implement such programmes? Or Latvia will finally turn from a “transit society” state to the position of “transit-service state”? •

Riga city municipality or the Riga City Council offers numerous opportunities for business development in the Latvian capital. We create investment and economic environment which permits the business to flourish.

Riga is located in a very dynamical and geopolitically very significant place. It has always been an economically developed city, and on the brake of XIX and XX centuries it was the third, after St. Petersburg and Warsaw, major city in the then Russian empire.

But in the beginning of the 1990s we have found ourselves in a much more complicated situation than our neighbors in Lithuania and Estonia. And there is no one to blame for, neither producers, nor anyone else. The answer is simple, i.e. Russia stopped buying goods that have been up to 100% aimed at their consumption. The situation appeared with the whole structure of Latvian industry wrecked completely; we found ourselves in a deep hole being forced to build a new economy from the scratch.

I do agree with prof. I. Kirtovskij, saying that it is senseless to build today industrial economy in Latvia. We cannot compete with other states with cheap labour force, e.g. China and India, and we do not have to do that. The West has already experienced that sort of things with the only difference that the process of industry’s dismantling was gradual, extended for several decades and therefore it was less painful.

By Igors Graurs,
Riga-city Development Department, deputy director

I do not share the pessimism of some round table’s speakers. For example, I do not agree with the notion that Latvia is destined to a certain development scenario according to which we have to repeat someone’s path and that we don’t have our own ways for development. In many respects finding the path depends on us; there are numerous examples in history when lagging behind countries made sudden progress. We know what economic wonders occurred in Ireland after the country entered the European Union. Another example to follow is that of Finland after the Second World War.

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Our own way

What is the present economic situation in Latvia? And why do I look at Riga’s future with optimism? Because I believe that Latvia can have its own development scenario as Latvian territory is located on an economic and cultural crossroad with a mixed population living here for a long time. Already from the times when Latvia joined the Hanseatic League it was a large and significant trade centre.

In fact, we are at the point presently where we would like to return this old status. Today we constantly talk about being on the brink of the EU borders. But I would rather want to see Latvia as a bridge between two big systems, i.e. the European Union and the CIS.

Brussels, historically, was chosen as the Communities’ headquarters simply because it was located on the cross-road between the biggest on the continent economies of that time, i.e. Germany,
France and England. Brussels could be regarded as a geographical
centre between the capitals of these three states too.

Today we have a unique situation when little Latvia, being
located between big cultures of Western Europe, Russia, former
Polish-Lithuanian Union and Scandinavia, is on a crossroad with
the most convenient places for exchanging information, goods and
services. If we can develop these advantages further on, we can create
firm and fast development.

NUMEROUS PLANS

Riga is a convenient centre by various parameters, e.g. Riga’s
port facilities are rapidly developing, though the structure of
freights has changed noticeably during the last 15 years, and avia-
tion transport is on the rise. The number of economically active
enterprises has risen from 18.6 th in 1998 to more than 30 th in 2006.
Foreign investments into enterprises in Riga, as to May 2006
reached 1.152 bln lats; main investors are Estonia, USA and Sweden.
By the latest data, the main foreign investor is Estonia exceeding
even the USA’s investments. Certainly, there are not only Estonian
firms in Estonian FDI, but Scandinavian enterprises’ investments as
well are coming through Estonia.

Greatest share in the capital’s sectoral structures is occu-
pied by commercial services, trade and transport. The city
budget increases by 10-15% each year. Tax structure in Latvia is
stable; taxes in the EU, generally, are lower only in Lithuania. In
1995 the food-stuffs’ share in the consumers’ basket has been at
the level of 53%, presently it is reduced to 25%. It means that
the people’s incomes are growing and more resources remain for
long-time investments.

This year Riga’s strategic development plan for the coming
20-25 years has been approved. Territorial plan for 12 years with the
very comprehensive conditions for construction is developed too.
The general GDP growth in Latvia was at the level of 10 per cent,
and in the construction sector it was more than 15 per cent.

As a result of the approval of the new development plan, even
higher growth rate in this sector is expected; by the number of con-
struction projects’ application we can expect presently a real con-
struction boom.

Comment

By Ganna Resina,
Dr. Oec, Baltic Russian Institute, professor

Indeed, con-
tribution of the
City of Riga’s
municipality into
Latvian economy
by all features is
really high. Riga
brings 65% of all
the investments
into national co-
hesion fund. And
at the same time,
it must be not-
ticed, that the
main source of
budget revenues
in all municipal-
ity sectors is per-
sonal income tax,
which makes up
to 51% of rev-
enues in munici-
pal consolidates
budget or 86% of all the tax collected in these budgets.
Besides the mentioned tax and an insignificant revenues
from the property tax, the remaining share of revenues in
the municipal budgets are that of the national budget allo-
cations in the form of grants and donations — 23.5% in
2006. The remaining part is accumulated additionally from
the national cohesion fund which is for the most part levied
in Riga, Jelgava and Jurmala. Another 56 self-sustained
municipalities in the country cover the rest. Other 441
municipalities survive on grants from this fund as well. And
only 59 municipalities in the country are completely self-
sufficient, they neither ask for support nor borrow from
other sources. Thus, the possibilities of the economic devel-
opment by collecting means for economic development in
local communities based on personal taxation (collected
due to this very development) are not at all feasible. It is
necessary, at last, to fundamentally complete administrative
and territorial structural reform in Latvian regions, thus cre-
ating necessary conditions for long-term sustainable territo-
rial development by using the EU structural funds.
It is necessary to distinguish between the two types of export-education; first is an export which consists in realization of educational programmes in other countries (with opening in this country a branch of a higher education institute, a filial or realization of an educational franchising), or implementation of programmes in another international educational field, i.e. e-learning or other form of distant learning. And the second type of export, i.e. educational activity in the very country of the residence of the higher education institute, in the place of its legal registration. In the second case export takes a form of a student “import” very much resembling that of the tourism services export, with the only difference of the length of the stay, living conditions of such a “tourist” and consequences (economical and social) for the host and origin sides.

EXPORT OR BARTER?

On one side, the middle-term and long-term students’ participation in the EU programmes and various international programmes from Latvia is most often considered (or presented) as educational export, while in fact it is a simple barter, or international exchange. It is because in fact there are more Latvian students that go abroad (“export”), than foreign students that arrive for studies (“import”); therefore Latvia is having a positive balance here. However, in reality, even in the framework of this pseudo-export-import exchange program, the real element in export are students that come to Latvia, because apart from exporting Latvian mage and it’s higher education facilities, students (even those studying for free in terms of the EU programs) spend money on living, food, entertainment, academic books, transport in Latvia and a lot more, which in itself constitutes export of goods and services.

WHEN EXPORT EXCEEDS IMPORT

Unusually exceeding export of Latvian students to the EU over the import from the EU countries can be explained by two main factors. First of all, it is the traditional support and financing of the new EU member states and striving to attract the best students to the “old” EU countries’ universities as a “fresh blood”; and as future holders of these universities’ images. Second, despite the fact, that Latvian higher education institutes are internationally recognized by the major universities in European countries, in reality, their esteem, prestige and status are on a low level for students from other European countries.

Third factor, which limits the inflow of “exchange” students, is a restricted number of programs that are offered in foreign languages (first of all in English, German and, perhaps, in French), and a naturally low esteem of these programs in Latvian.

This latter reason is behind one of the main ones that limit real education-export, not only from European countries, but also from other regions of the world. Those few examples of higher education institutions in the Baltic countries, where teaching is conducted in languages essential for foreign students, i.e. English and Russian, have shown the export potentials of this sort of higher
illusions and chances

education. At the same time, without understanding that participation of every Baltic country in export-import education is not only a necessity but a priority for the European Union as well as an element for strategic competition, we can envisage economic and political losses. Practically none of the Baltic courtiers has set a target to attract foreign students, search for perspective export-education markets, not even mentioning state support for that activity.

One of the indirect ways to broaden the export niche could be Latvian participation in modernization of legal, administrative as well as evaluation of quality control and adaptation of educational programmes in the countries, which have joined the Bologna process or wish to join the European Union. First of all, this could relate to Ukraine, Moldova, Georgia and Russia.

A serious problem on the way to increase education-export (or, by second type, of students’ import), in particular for students from countries outside the EU, is to work-out the mechanisms of visa controls and that of their movements inside the EU. Presently Latvia has chosen a method of harsh formalities for students entering Latvia from such states.

In most of European universities the percentage of those who study through the whole learning period, without considering those who participate in exchange programmes, varies from a few students to about 30-40%, with an average figure of 10 per cent. Apparently, we can say that if in a university there are about 5-10% of foreign students, it is an optimal outcome which reflects both an active export-education position of the country and its higher education institutions; economic results of education-export become noticeable for these higher education institutions and for their balance accounts. So, if we take 5% as a criterion for education-export, we can see that Baltic countries remain far behind.

TO SET THE EXPORT NICHES

Surprising though is something else. Why not European Union, nor it’s new members, especially taking into consideration the long process of their admission to the Union, couldn't formulate and denote those export niches in the field of education, that could interest EU in general and would be appealing for the newcomers. Especially, since regional export advantages for them already existed and still continue to exist.

It seems that both at the end of the 1990s and in the beginning of a new decade in the XXI century, countries and higher education institutions traditionally exporting education thought that they would simply have to start working in the Eastern European markets in the Eastern Europe, without waiting for the European Union to develop a united position in this region and, more than that, not considering possible export from the new EU countries including the Baltic States. At the same time the Baltic countries, oriented at that time on strengthening relations with European Union and other Western countries, believed that such export consists only of occasional students’ exchange trips or those for the whole studies’ period to the EU and USA, and that their system of higher education (not speaking of lower levels of education) did not have export potentials at all.

To a certain degree the Baltic countries themselves can be blamed for such

AS TO THE STATE SUPPORT

From the point of view of the state support for education-export, we have to acknowledge a lack of a single approach and education-export program in the European Union, a part of which is supposed to be the participation of Latvia and other Baltic countries in such export.
EU export which constitutes different countries’ approach. The following reasons can be mentioned: constant change of educational models chosen as reference samples, frequent changes in higher education legislation, lack of stability in legislative and quasi-legislative acts which changed almost every year; all that could not but just undermined the formation of the higher education image.

It is evident that one of the attractive elements for a potential enrollee choosing the higher education institution in another country is stability and predictability of training conditions for the whole period of education (i.e. minimum for 3–5 years), as well as a clear vision of education results.

It can be asserted that the simpler is the higher education system, the easier it is to compare it with other systems adopted around the world. The higher the level education institution’s autonomy that permits them to be independent from ongoing changes in political and governmental affairs, the more are the chances to make it more attractive for export-education.

**CONSIDERING REGIONAL ASPECT**

Considering that export-education potentials of each of the Baltic countries are quite limited, i.e. max 5–10 th students for each country, the regional aspect of export-education from some countries might be interesting. Many of the countries attractive for export-education are big countries with population of hundreds and dozens of millions of people, e.g. China, Russia and Ukraine, which permits to regard these countries as big independent export markets for Baltic countries. Export program’s realization in these regions would allow to avoid or to reduce the level of competition with other export-education countries, as it increases considerably the number of export niches having sufficient market potentials for any of the Baltic countries. Considering that many EU member states have the right independently develop international education contact and having pronounced ambitions both in export-education’s operations, concentrated advertising efforts and creating positive image of higher education institutions in the EU member states, the presentation of the higher education programmes can give sufficiently noticeable results if they are supported by regional authorities.

Labour market in the EU:

By Eugene Eteris, 
*European Integration Institute, Denmark*

Regardless of the fact that from May, 2006 the number of countries that opened their markets for labour force from the EU Eastern European member states has increased slightly, it is too early to say that the EU labour market is an entity where the free movement of workers is accomplished. Good news is that the process is developing in the right direction; the bad one is that the creation of a truly free labour market among about 450 mln inhabitants is still a long way to go. There are various economic and social obstacles to overcome in order to achieve the desired aim.

As is well-known, since the last EU enlargement to 25 members only 3 countries opened completely their labour markets for workers from other member states, i.e. Sweden, the UK and Ireland. General opinion is such that the economic effect of such “openness” was positive, rather than negative, though some social drawbacks could be noticed as well. Since May 2006 the list of “free” states for workers from other countries was enlarged by four — Spain, Portugal, Greece and Finland. But still the “club of free states” is less than half of the EU-25. And the most economically strong countries, e.g. Germany, France, Italy, Denmark, etc. retain restrictions to workers’ migration.

The major EU task is still the same — the truly free labor market on the whole EU territory, but contradictions on the way to the task’s practical implementation are numerous. Above all, the contradictions between the creation of a genuinely flexible labor market and the necessity to defend the workers’ rights could be mentioned. As to the latter, we have to keep in mind that the developers of the EU Draft Constitution, rejected last year by France and the Netherlands, introduced into the draft some guarantees in the “Charter of fundamental rights of the Union”. Therefore if the draft had been adopted these guarantees would have been “constitutional”. It has to be acknowledged that the attention to citizens’ rights in the draft is quite spectacular including freedom to conduct business (art. II-76), right of collective bargaining (art. II-88), fair and just working conditions (art. II-91), etc. Some notions have been inserted into the draft art. II-94 “Social security and social assistance” which were completely unacceptable to the EU main economic “motors” — France, Germany, Italy and others. Lithuanian ambassador to the EU, Ritis Martikonis was quite right saying, for example, that sooner or later the EU labour market would be genuinely free which would be favorable to all. But we need to work on the issue already to-day and the task is both urgent as well as complicated.

**EUROPEAN MODEL: INTENTIONS AND REALITIES**

If we can formulate the EU economic development model (if in fact such model exist and which would distinguish it from other global models), then its most important distinctive factor will be its social dimension. The EU Social Policy Committee in a 1994 “white book” described the “European social model — ESM” in general terms, such as democracy and individual freedoms, and specific terms, such as free collective bargaining agreements, equal opportunities and general wellbeing. Even at present the ESM’s “official” concept is based on the assumption that progressive economic and social development
constitutes two major and inseparable ingredients for European future. In this concept it is clearly underlined an important criteria, i.e. it is as well important to create good “social labour parameters” with high wages and guarantees. It is wellworth remembering that collective bargaining covered in the old EU-15 about 80 per cent of economically active citizens (although only 36 per cent in the UK, but much less in the USA — 15 per cent).

European Commission is trying hard to distinguish the European model from that of the rest of the world, in particular, that of the USA. Thus in the American “social” model based on private investments, about 40 per cent of the population do not have excess to basic medical assistance although per capita expenses on health care are higher than in Europe.

CONTRADICTIONS WITHIN THE “MODEL”

During a couple of last years it could be clearly seen that the ESM has faced tensions with the other aspects of socio-economic and political development among the EU member states. The contradiction has been instigated by the weak analytical work during accession process for the new member states’ integration in the EU. For the EU leaders the most important part in that integration was, of course, its political aspect. Due to that circumstance neither the workers’ migration models nor the dimensions of workers’ movement have been correctly assessed. It was, for example, incorrectly evaluated that the level of migration in Europe would follow the US pattern of about 15 per cent; in the old EU-15 the figure was much lower, about 8 per cent. A little bit higher was migration pattern in the new EU member states, which in fact caused great turbulence in the adoption of service directive.

SERVICE DIRECTIVE AND LABOUR MARKET

In May 2006 after about two years of discussion and drafting the EU Council agreed upon long-awaited amendments to Services Directive (only one EU country abstained, Lithuania). The “country of origin” principle was abolished in favour of “country of destination” principle, though some type of services were totally excluded from free movement of services, i.e. health care, social services, etc.

But the problems are still there as most countries do not have reciprocal acknowledgement of each others’ qualifications and practices. For example, a Latvian property agency’s workers have to meet certain requirements and obtain permit (certificate) for service’s provision in the country. But other member states do not at all oblige to take such certificates into consideration and might easily require additional documentation or practices.

The Directive’s provisions are quite flexible and give the member states chances for wide interpretation of the used terms and definitions. Therefore the European Court of Justice’s opinion is definitely awaited. Final Directive’s reading is expected in the EU decision-making procedures later in 2006.

Comment

By Bo Krag, Handelsbanken, vice-president Baltic countries’ financial expert

It is not a secret that starting from the re-establishment of sovereignty in the Baltic countries, especially in Latvia, a big part of banking sector has been connected with the activity aimed at attracting foreign capital, including that from Russia, i.e. what we can call as financial services’ export. This sphere
The Baltic’s transit perspective

By Raivo Vare, Eesti Raudtee, development director

Regarding the issues of Baltic transit perspectives, several aspects have to be taken into consideration, including tightening competition in this field.

Tough competition. In the 1990s when oil flows had been enormous, the demand for terminals was increasing and the supply could not tackle with the pace; the infrastructure was built to satisfy flow-supplies. In terminal-oil business the big flows of single-type cargos prevailed, e.g. crude oil, heavy oil (mazut), diesel and petrol. In order to guarantee processing efficiency, big depots, huge pipes and pumps, etc. were needed. Today this type of transit has been practically exhausted. Already now the flow of crude oil through the Primorsk oil terminal is so big that it is senseless to further develop such facilities. It is also out of any economic proportion to bring oil by the railway instead of the pipeline. The time has come to take again investment risks according to the markets’ trends without any guarantees that these investments will pay off.

The situation around oil products is becoming more complicated. The biggest amount of Russian diesel products goes through Latvia. Then the question arises, whether Russian supplier, Transneftprodukt will bring a parallel pipeline to Primorsk terminal? Most certain, it will. This pipeline could take up to 20 mln t of export share. Taking into account that the overall amount of export is slightly bigger than 29 mln t, this pipeline will dry up all the small streamlets of transit diesel fuel that went through Latvian, Estonian and Russian terminals before. This pipeline will “consume” the whole diesel oil load and Primorsk terminal will take over again, as it already happened before with the crude oil. This can evoke a situation when the terminals which traded with diesel will look for other groups of oil products to deal with, which will only enforce competition.

Structural changes. Structural changes on the light fuel market’s segment have led to a situation when a new type of business-blending is becoming popular, i.e. making various fuel-blending in order to increase its quality, providing extra values. The specifics of supply changes as well, e.g. small supply amounts dominate, many additional vessels for blending needed, different type of logistics, single group-deliveries by railway, complicated delivery routes. That means that technological efficiency is reduced on top of the terminal structure discrepancy under conditions of modified business specifics.

Certain displacement of product groups towards Russian ports is presently a recognized fact. As we once took away a share of cargos from Finns, now Russians take them away from us (bulk goods, wood products, round timber). These are the items where the main criterion is the price for a unit, for example for a ton, and not quality. In this process Russian ports can win, and even leveling up in 2009 the railway fees between the countries will not break the trend.

The sea depth could become a limitation factor for freight flows, e.g. the excess to Russian ports, especially in the St. Petersburg’s corner, is limited by the sea-depth. International transport development heads towards long-way deliveries where the main factors are volumes and distances; containers become bigger, container vessels are more spacious (container vessel of 9 th TEU is already built in China). Here Baltic ports can win as St. Petersburg’s port cannot receive container vessel with 6 th TEU, but Tallinn and Ventspils ports can.

Directions' diversification. The directions of Russian export are changing: its main directions are: northern — through Murmansk, eastern — to Asia and southern — through Novorossiysk. Strange enough it may seem, but the Russian container flow through the Baltic Sea (measured in unit weights) is decreasing in spite of an actual total growth of 34%. The reason is simple, i.e. other export directions are developing faster. Russian Railway Company (RZD) has finished recently electrification of all the railways on northern direction. So now a Russian locomotive can “pull out” 100 compartments at a time, which we can afford only with our American diesel-engines, but not German locomotives. As soon as Murmansk is a deep-water port and geographically it’s closer to the USA East Coast, the geographical aspects will play a role here, which Russia will not hesitate to use. All it needs is to create adequate conditions. The railway has already increased its capacity, so the port terminals will follow. There is no alternative to railways.

Russia becomes more and more important exporting country. If before it was “hungry” and one could take anything and anyhow from there because they needed money, sometimes even with negative balance, presently the Russian suppliers have grown up and dictate their conditions of trade. We need therefore to elaborate technological flexibility. I do not think that we in the Baltics and in Finland are quite ready for the new conditions. We still live with the memories of the first days in transit developments.

Environment. It is also important to have a look at correlations between business and environment. The West has already done with it, e.g. the ports are often taken out of city limits. This theme is currently important both in Riga and Tallinn; the issue starts developing in Klaipeda with the same problem in St. Petersburg. And this subject can start defining the issues of competitive advantages. As those who are trapped in the city limits are going to spend more.

Containerization. There is a clear trend towards containerization in the world which permits to transport goods to any distances and in any direction. Already now fertilizers and even coal are transported in containers. Containerization is the key word for business, which covers both Russian export and import. We have to attract the attention of big containerists and even coal are transported in containers. Containerization is the key word for business, which covers both Russian export and import. We have to attract the attention of big containerists and even coal are transported in containers. Containerization is the key word for business, which covers both Russian export and import. We have to attract the attention of big containerists and even coal are transported in containers. Containerization is the key word for business, which covers both Russian export and import. We have to attract the attention of big containerists and even coal are transported in containers. Containerization is the key word for business, which covers both Russian export and import. We have to attract the attention of big containerists and even coal are transported in containers. Containerization is the key word for business, which covers both Russian export and import. We have to attract the attention of big containerists and even coal are transported in containers. Containerization is the key word for business, which covers both Russian export and import. We have to attract the attention of big containerists and even coal are transported in containers. Containerization is the key word for business, which covers both Russian export and import. We have to attract the attention of big containerists and even coal are transported in containers. Containerization is the key word for business, which covers both Russian export and import. We have to attract the attention of big containerists and even coal are transported in containers. Containerization is the key word for business, which covers both Russian export and import. We have to attract the attention of big containerists and even coal are transported in containers. Containerization is the key word for business, which covers both Russian export and import. We have to attract the attention of big containerists and even coal are transported in containers.
Russian-Baltic’s relations and Northern European gas pipeline situation

By Nikolai Mezhevik,
Dr. Oec, St. Petersburg State University, International Relations Faculty, professor, Transboundary research centre, director

The construction of the North European gas pipeline project (NEG) is undoubtedly a turning point in Russian economic policy. However, political dimension of the project is evident, too. Through discussions of the project, the analysis of politicians and experts’ positions one can come to the conclusion that for the first time since 1991 Russia managed to achieve significant success in Russian-Baltic relationships. The cause of this victory is predetermined by the actions’ strategy. For the first time Russia is planning to implement a joined project with a leading European country and with support from the EU institutions. Thus, regardless of any possible final economical outcomes of the project there already are certain political achievements.

The gas pipeline construction planned “around” the territories of the Baltic States and Poland can be regarded as Russian asymmetrical political answer to the politics of these countries towards Russian Federation. It might be that this was not the projects’ primary aim but the results seemed obvious. In autumn 2005 statements of the Baltic countries’ politicians were often emotional and not always coherent, both regarding Germany and the EU. Exactly in this way one shall approach the suggestions to change the territorial waters’ delimitation lines between Estonia and Finland, thereby “closing-up” existing neutral waters’ corridor for Russian-German gas pipeline. Calls from a number of Latvian officials to build the “Amber line” (to direct the pipeline through the territories of the Baltic countries) rather than the NEG, were not heard neither in Moscow nor in Europe. The Finnish-Estonian gas pipeline project, the “Baltic Connector” has been perceived critically, as well.

NOT ONLY ECONOMICS

It is obvious that not only economic reasons lay behind quite negative attitude of Baltic States’ officials and politicians towards the NEG project. The then Baltic countries’ accession to the EU presupposed a kind of automatic approval from Brussels of all the Baltic steps in relations with Russia. However, later on the European Commission has acknowledged Russia’s rank as the “most important energy supplier” to the European Union and called for creation of a new long-term partnership with Russia in the energy field. This position occupies a central place in the special Energy Report prepared by European Commission. The report having the status of a “Green book” was made public on the 8th of March and went was sent for consideration by the EU member states. In fact, the report signifies the elaboration of a new common European Union’s policy on energy.

The position of EU’s energy commissioner, Andris Piebalgs is quite remarkable in this regard, who already in autumn 2005 distanced himself from the harsh statements of the leading Latvian politicians which denounced the NEG’s construction.

As far as I know, it is already noted in the Baltic countries that Gazprom does not plan to change its previous obligations regarding gas supply for the Baltic States; the reference is made to the Gazprom’ head, Mr. A. B. Miller made on the 20th of March, 2006: “All the Baltic region’s countries can present their suggestions as to the constructions of pipe-bends from North European gas pipeline”. In the program-article “Energy egoism – a path to the impasse”, Russian president noticed: “The instability on the hydrocarbon markets presents a real threat to the global energy supply... In order to “straight-up” the situation in this field a coordinated work of the international community is needed.” It is evident that this thesis is valid for the Baltic direction of Russia’s energy policy as well.

WHAT ARE THE PERSPECTIVES?

The expert opinion as to the spring 2006 (more in Lithuania and Estonia, slightly less in Latvia) suggested that some goodwill demonstrations from the side of the Baltic States towards Russia would not in any way harm these states’ independence. Choosing the Western development vector in their policies during 1990s was a sign of objective reality. However pragmatism could possibly suggest our neighbors that contemporary Russia can easily survive without active contacts with the Baltics; equally the Baltic States can as well exist without Russia. So, we tried to prove each other these simple truths! So, what’s next?

Obviously, two development scenarios are possible. In the first, the so-called “pragmatisation” of Russian-Baltics relations will begin, integrating their relations into the general context of Russian relations with the EU and NATO.

In the second, the objective mutual interests between Russia and European states in the energy field and other spheres can lead to recreation of traditional political regulation mechanisms in the Baltics during the critical period, at least theoretically. Of course, a “conservation” of the status-quo is also possible, which will hamper the objective mutual interest of both sides in the economic development and cooperation.

To my mind, the Baltic States and Russia’s business-elites mutual interests can overcome the created parameters of political relations. The only thing is important — all that can not happen too late, e.g. at the moment when the Baltic direction for Russia and the Russian direction for the Baltic countries ceased to present an important development priority.
Latvia: furniture instead of round timber

By Olga Pavuk, Alexander Fedotov,
Latvia

In 2005 Latvia exported goods worth 4.88 bln euros, which was a 29.6% growth from the year before. Main export industries are wood- and metal-processing, manufacturing, mechanical engineering and light industry. Latvia’s main foreign trade partners are Lithuania, Estonia and Germany. Wood-processing products are becoming the leading export product.

In recent years export of unprocessed timber is being replaced by export of products with high added value, mostly furniture as well veneer and sawn timber. According to the Latvian Agriculture Ministry Department of Forest Resources, Latvian furniture producers have sold abroad 77735 mln lats worth of the products. Wood-processing is the main export industry in Latvia, exporting over 70% of the total output, and the EU member states are the main sales markets for those products.

In 2005 the industry had 1,791 companies employing over 250 people. The leading furniture maker is Amber Furniture (about 10 million lats in 2005 sales). Daitrade koks with annual sales of 9.1 mln lats is in the second place, and the Top 3 is closed by Maleks (cabinet furniture) and Rondeks (chairs), making about 8 mln lats in annual sales each. All in all, about 300 companies produce chairs, couches, different rawers and stools.

Yet, the undisputed leader of the Latvian wood-processing industry is Latvijas Finieris’ veneer producer that employs 3,080 people. Sawn timber is also supplied by Nells (1,049 employees). Kometa safety matches production with a staff of 394 people should also be mentioned.

METAL AND TEXTILES

Metalworking products account for 13.2% of total exports. Those products are bought mostly by Lithuania, Estonia, Germany and Russia. The industry leaders are Liepajas metalurgs, which is based in the Liepaja Special Economic Zone in southwestern Latvia, and Severstallat. The latter has doubled its turnover in the last five years to 85 mln lats in 2005. As to Liepajas metalurgs, about 90% of its output is exported — to Sweden, Switzerland, Germany, the Netherlands, Guatemala, etc.

Last year Latvian textile and sewing companies exported products worth a total of 240 mln lats, up 76% from 2004. While deliveries to the EU member states are decreasing (-6.5%), sales of Latvian goods are rising steeply in Russia and the CIS countries.

Foreign buyers in the light industry keep making use of Latvian labor, which is still presently quite cheap.

At the same time, some manufacturers move production to provinces, where labor is cheaper than in the capital city. The more recent example is a knitwear plant that Hagiteks has opened in the Bene village, county of Dobele in central Latvia. Flax production, which had been undeservedly forgotten in recent years, has started developing. After all, European consumers give increasing preference to sewn articles made of natural materials.

THE PRODUCT OF THE YEAR

To provide an incentive to exporters, Latvian Economics Ministry in cooperation with Latvian Investment and Development Agency organized a contest “Export Award of 2005”. One of the award categories was the New Export Product & Service. The Best Export Product 2005 award went to Grindeks pharmaceutical company for the creation of the drug called Mildronate which was developed by Latvian specialists and is used for treatment of vascular diseases. In Ukraine and Belarus Mildronate ranks third among drugs with analogous functions.

Grindeks JSC’s commercial director acknowledged that in 2005 the company exported 33.96 per cent of its output to Russia and 12.83 per cent to Ukraine.

Even though food industry is not among leading export industries at the moment, this is the industry that can offer some original products.
Gulbe, the director of the Agriculture Market Promotion Center, said that last year Latvian food companies exported 336.4 mln lats worth of products. Canned fish, grain and vodka are heading the list of the main export items.

Latvia has also become a supplier of rape-seeds, which once used to be an exotic plant species here. Rape-seed exports to Denmark have tripled and reached 8.4 mln lats. Alongside traditional canned sprats and Stolichnaya vodka, Latvian producers can offer such exclusive products as canned cod tongues or Riga Black Balsam liquor.

**EXPORT GEOGRAPHY**

Latvia’s five largest trade partners in 2005 were Lithuania (10.8% of the total), Estonia (10.8%), Germany (10.3%), the United Kingdom (10.1%) and Russia (8%). But more than 80% of all exports are sent to the EU member states, and this figure is growing with every year (it was 62% in 2004).

In October 2004 the Latvian Cabinet of Ministers approved a special program for 2005-2009 to create further incentives for local companies. The program provides for the state support to promote Latvian goods through the country’s diplomatic representations abroad, compensations for participation in international fairs and concept development for into world markets.

By Denisas Ivanovas, Verslo Labirintas, Lithuania

According to the 2005 figures from the country’s Statistics Department, Lithuania’s exports and imports place Russia high on the list of foreign trade partners. Experts think that this is due to several factors, acknowledged Gitanas Nausėda, advisor to the president of SEB Vilniaus Bankas. Moreover, Russians tend to show increasing interest in Lithuania. The trade with Russia is expected to remain important in future, too.

Most of Lithuanian exports in 2005 went to Russia (10.4% of the total), Latvia (10.3%), Germany (9.4%) and France (7%). Russia was in the lead also by imports (278%), followed by Germany (15.2%), Poland (8.3%) and Latvia (3.9%).

Exports to the EU accounted for 65.4% of all Lithuanian exports last year and imports from the EU member states made up to 59.1%. In respect of the CIS countries, exports stood at 17.7% of the total and imports at 31.3%.

Lithuania exports mostly mineral products (27.5%), machinery and electromechanical equipment (12.4%) and textiles (9.2%). Mineral products prevail also among imports (25.6%) alongside machinery and electromechanical equipment (17.9%), transport means and equipment (11.7%).

**TWO MAIN REASONS**

Gitanas Nausėda, advisor to the president of SEB Vilniaus Bankas, said that the trade with Russia should not be politicized.

“Some people may think it is inappropriate to have Russia as the main export partner after Lithuania’s EU accession. But there are eight other EU member states on the list of trade partners after Russia. If their export figures are combined, Russia’s importance diminishes visibly,” says G. Nausėda.

**DIRTY MONEY WON’T GET THROUGH**

It is recognized that Latvian banks are quite actively working in the eastern direction. Parex banka, Lateko banka, Multibanka, etc. have representation offices in Russia. Hansabanka group owns Russia’s Kvest Bank, and Nordea bank has increased its share in another Russian bank. SEB group, the owner of SEB Unibanka in Latvia, was the last (by time rather than importance) to decide on strengthening its position on the Russian market. An agreement has already been signed about purchase of Petronero Bank in St. Petersburg. Parex banka spokesman Sergej Bardovskij said that Parex banka is now considering an option of acquiring a bank in Russia as for many clients it would be more convenient to receive services where they do business.”

The noise kicked up last year over allegations that Latvian banks were involved in attempted legalization of illegal proceeds which had an adverse effect on the exports of financial services. Latvian Commercial Banks’ Association President, Teodors Tverijons said that the share of non-resident’s accounts in Latvian banks had fallen to 42.9% in 2005 from 53.4% in 2004. It means that the fuss has upset clients, who had transferred their capital to more peaceful locations. On the other hand, now everyone around the world knows that Latvia can’t be used as a place to laundry money.

Yet, Riga still is an unofficial banking capital among the Baltic States. Latvia also ranks 5th among the new EU member states by the amount of USD transfers, serving as a financial bridge between Russia and other CIS countries, on one side, and the Western world, on the other. 

**Lithuania: trade with Russia is still important**

By Denisas Ivanovas, Verslo Labirintas, Lithuania

**DIRTY MONEY WON’T GET THROUGH**

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“Some people may think it is inappropriate to have Russia as the main export partner after Lithuania’s EU accession. But there are eight other EU member states on the list of trade partners after Russia. If their export figures are combined, Russia’s importance diminishes visibly,” says G. Nausėda.
Nauseda thinks there are two reasons for the active Lithuanian-Russian trade in recent years. First, there is still significant difference between inflation growth in Russia and Lithuania. It enables businesses to sell their products in Russia at higher prices. The other reason that made the Russian market more attractive last year was the growth of the US Dollar against the Lithuanian litas.

“All payments are done in the USD in that country. Even though the USD rate against litas has weakened this year, the situation was just the opposite last year,” said Nauseda.

RISK IS STILL THERE

Yet, the Russian market is still quite unpredictable. “Russian economy is booming this year. Wages grow as well as social payments due to the budget surplus, therefore stores are being swept clean, people buy everything they can,” said Nauseda.

But some political uncertainties still remain. Nauseda notes that Russia’s international policy has been several times quite contradictory. “The market is offering growing opportunities, but the risks are there to stay”, he said.

RUSSIA’S INTEREST IN LITHUANIA IS GROWING

“We have helped, Russians can expand into the West because Lithuanians have trade experience with the West. Therefore one should think about Lithuania not as a springboard from the West to the East, but as a springboard from the East to the West,” said Nauseda. He thinks that Lithuania is a window to the West for Russians. It is difficult to say how Russian companies would use this opportunity: it could be investments in Lithuania, foundation of new companies or trade operations through Lithuanian companies.

Nauseda said that the real estate market already signaled about Russian investments not only in Vilnius but also in other towns. Russians buy residential houses, look for prestigious buildings. It has been heard that they are buying land as well. “Russians don’t count money — they have good financial capacities,” said Nauseda.

Lauras Gaisrys, deputy director general of ICC Lietuva, the Lithuanian national committee of the International Chamber of Commerce (ICC), said that the trade with Russia has now moved to a different level. The market is becoming interested for investors; many Lithuanian companies have subsidiaries there or represent Russian producers in Lithuania.

Moreover, the importance of raw materials supplied from Russia must be taken into consideration as well. Gaisrys said that nothing would replace them in the coming years. It is vital to know the language, to understand the mentality and previous relationship. In addition, Lithuania is halfway between Russia and its Baltic enclave, the Kaliningrad region.

EXPORTERS DON’T RELY ON STATE SUPPORT

In March the Lithuanian government approved a program for expanding and developing exports of goods to the EU and third countries in 2006-2008. Business people confirmed that they were using the state support but it does not have any significant impact on export results. Yet, the state institutions claim just the opposite.

Lina Vaitkevičiune, director of International Trade Development Department, the Lithuanian Development Agency, said that “no magic tricks can be invented here. Around the globe a search for the market begins with trade missions and fairs.”

Romualdas Mazylis, Press Officer of Linas Nordic, the largest producer of flax fabrics and home textiles in the Baltic States, said that the company exported over 90% of its output every year.

Linas Nordic has received more than once state support for organizing shows and fairs. Nevertheless, the amount of this support has been insignificant in relation to own funds that the company has spent for those purposes and it makes up to 0.5% of the total costs. Mazylis said that it was a paradoxical situation: the company receives support for export but in fact does not feel it as the support being so minimal.

Darius Norkus, the director of sales and marketing in Rokiskio Suris dairy company, also doubts the efficiency of this kind of assistance in promoting exports. “Those who have decided to go to an exhibition or a fair would go there anyway, and assistance of few thousands of litas won’t change anything;” he said.

“The state assistance fails to provide incentives for finding new markets.”

“Everybody has to work perfectly well, e.g. the government has to secure the law and order in the country and business has to find markets for sale of its products. If would be better if the government ensure equal and transparent business conditions and their continuity. The business people will do the rest themselves,” said Norkus.

**Estonian exports continue to surprise**

By Dmitry Kulikov,
Deloviye Vedomosti, Estonia

Russia has moved ahead of Germany in the list of countries for Estonian exports. Steep growth of foreign trade continued in Estonia in 2005. Exports grew more than one-third faster than imports, said the Estonian Economic Ministry. The reasons behind such successful growth are the external market situation and increased competitiveness of Estonian goods on foreign markets.

Foreign trade deficit in 2005 remained on the same level as in 2004. Despite worsening of the global economic climate, Estonia managed to increase foreign demand for its goods due to its constant trade partners, i.e. Finland, Sweden, Latvia, Russia and Lithuania, sustainable economic growth and better economic situation in the US.

The EU accession provided a serious impetus for fast growth of Estonian exports, resulting in significant expansion of export opportunities by Estonian companies; competitiveness of Estonian goods increased both within the EU and in third countries.

Total trade turnover in 2005 increased almost by one quarter to 224.4 bln Estonian kroons. Exports made up 43% of the total foreign trade and imports accounted for 57%. Trade deficit last year was 30.8 bln kroons or just 2% more than in 2004. The biggest deficit was observed in machinery and equipment (–12.1 bln kroons) with the growing by one-fifth in this category. The reason for
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this was huge investment and inflow of foreign capital. The trade deficit for the means of transport reduced further (~6.6 bln kroons). Growth of wood-processing products, log houses and furniture also can be added to the positive trends.

**EXPECTATIONS FAILED TO COME TRUE**

The expectations of improvements in foreign trade balance have been hanging in the air for quite a long time but have failed to become true, so far. Experts in the Estonian Institute of Economic Research being divided over further development; specialists are still inclined to think that export figures would improve in the second half of 2006. The necessary precondition was that the quality of goods should increase greatly.

Exports of timber and wood-processing products have grown in the second quarter of last year, rising 11.5% on a year-by-year basis. Sawn timber still makes up a quarter of exports in this sector, building materials account for 15% and round timber and firewood for some 10%. Round timber exports have decreased because, in the opinion of experts, this product is being increasingly used on the domestic market. Moreover, it is much more profitable to export wood-processing products with added value.

Textile exports have reduced as it is quite difficult to compete with cheap Chinese products flowing into the EU after the quotas were lifted. At the same time, the price of raw materials from third countries has also increased.

**TRADE SLOWLY PROCEEDS**

Export growth increased significantly last year to 29.7%, rising 10% from 2004. Growth in the first quarter was close to 30% (26%), in other periods the growth rate was around 30%.

It should be said that exports have improved almost in all sectors, e.g. exports of machine-tools and equipment have increased nearly by one-third. There is a great demand for mobile telecommunications devices in Europe and the rest of the world, and this enabled Tallinn-based company Elcoteq Tallinn (telephones and spare-parts) to improve its results significantly. The same applies also to other companies specializing in information technology and electronics.

“It is very difficult to determine whether it counts as export or not when semi-finished products are brought here and a telephone is assembled from those parts. Telecommunication devices and equipment make up almost one-third of exports,” said Ahti Kuningas, head of Economics Development Department at the Estonian Economic Ministry. “If we import cars, for example, and then re-sell them, such business is also considered as exports,” he added.

Chemical industry and mineral products have achieved good results due to raw material processing and providing added value. For example, Estonia imports only low-octane fuel, let’s say 92-octane gasoline, which is mixed with required additives and sent on its way with characteristics of higher quality fuel. Output in this industry has doubled, reaching 8% of exports.

**RUSSIA BEATS GERMANY**

As to foreign sales of furniture industry, the growth slowed down last year. Chinese companies being able to offer better quality at a lower price stay behind. For example, Estonia imports only low-octane fuel, let’s say 92-octane gasoline, which is mixed with required additives and sent on its way with characteristics of higher quality fuel. Output in this industry has doubled, reaching 8% of exports.

Starting with the new period (of allocating the EU subsidies — Ed.), we want to change the principles of their distribution. Earlier we took into account export experience, but now we want to turn to those, who want to make their first entry to foreign markets,” it was said in the Estonian Economic Ministry. Such approach is necessary because companies, which work on the domestic market, not always can find the required contacts and fulfill their intentions on the external market. Public authorities would like to re-orient state support in order to provide opportunities for several business companies on a foreign market; so that at a time wide-ranging services would be offered to foreign consumers. It will also make it easier to carry out various projects. “We will give you the money, if you work together,” the official said, putting it short.

In terms of proportion shares up to half of the businessmen’s project cost can be financed by the government. Three-fourths are provided by the EU through various structural funds, and the state contributes 25% of the half of the required amount. It means that, if a project costs 2 mln kroons, the support would be one million kroons and the same amount has to be invested by the business itself. “It is a kind of incentive,” said Kuningas. •
Severstallat — European quality from Latvia

Severstallat is one of the leading steel products’ suppliers in the Baltic States. For the last five years company has been developing its production division. Professional personnel and management guarantee European quality and optimal customer service. Company’s sales director, Timur Yudichev told the BC about the company's development prospects.

TIMUR YUDICHEV: Having become a serious manufacturer, we retained the approach to customers typical for a service center, but not for a producer.

“We started our business in 1992 performing forwarding services for Russian metalurgical plant Severstal — cargos had been exported via rail and the Baltic ports, said Mr. T. Yudichev. In 1999 it was clear that the company had tapped carrying market completely, especially when railway tariff’s policy of Russia became less favourable. By that time Severstallat was already dealing with steel trade and it was decided to develop this line of business further on. But in order to survive the market competition a Steel service center was opened, offering services of coils’ slitting and cutting to length. In this way our clients could receive steel, already prepared for use in further production process. From 2004 we also produce thin-wall welded tubes”, added Mr. T. Yudichev.

RELIABLE PARTNER

“Severstallat is a well-known company and first of all as a reliable and experienced supplier of steel products, said Mr. T. Yudichev. We offer products manufactured by leading steelmakers from Russia and other CIS countries, from Western and Eastern European states, as well as from India and China. In fact the main supplier is Cherepovets Metallurgical Plant Severstal.

We have established close cooperation with Arcelor, Corus, Mittal, Nizhniy Tagil Iron and Steel Works (NTMK), Uralskaya Stal steel plant and other producers. Today the list of our suppliers includes more than 80 companies. Besides, products of our own production are being sold quite well.”

In September 2005 Severstallat has taken over a metal trading company Latvijas Metals, which owns a huge territory in Riga, designed as a special base for metal wholesale. Now Severstallat uses this new territory for stockholding. It should be emphasized that not a single employee was fired during the acquisition process from Latvijas metals — if they wanted, they could continue working for Severstallat. The takeover helped to combine positive experience of two leading Latvian metal dealers. As a result, clients have received additional advantages. The range of products is doubled and now it is possible to buy almost the full assortment of metal products from a single supplier and at one place.

OUR OWN PRODUCTION

Severstallat Steel service center was opened five years ago in order to provide services of steel coils’ slitting and cutting to length. In 2004 it became the first facility in the Baltic States to install a welded-tube production line. Now there are six production lines — two for making welded tubes, two for slitting coiled steel, one for shearing coils and one for making reinforcing profiles for plastic constructions.

“For many producers it is more convenient to use steel products that has already undergone primary processing; therefore we offer these services for our clients. Currently there is a good demand for various tubes both on the Baltic and European markets. We offer a wide range of welded tubes that can be used in different spheres, e.g. in furniture making, construction, etc.” said Mr. T. Yudichev. “Our main competitive advantage is that, having become a serious manufacturer, we retained the approach to clients typical for a service center, not a production plant. We work according to clients’ orders, taking into account each individual customer’s specific requirements which means that our Steel service center makes exactly the thing that the client wants to get.”

Severstallat Steel service center uses modern production technologies and satisfies requirements of international standards. The turnover of the company’s production division is growing steadily: it was 12.8 mln lats in 2004 and reached 18.9 mln lats in 2005.

“We never sought to make products that could be sold at dumping prices, underlined Mr. T. Yudichev. Thanks to advanced equipment and highly qualified personnel, our products meet all European standards. Our production is sold in the Baltic States, Poland, Germany, the Czech Republic and Scandinavia. This year we plan to strengthen our positions on those markets, in particular in Nordic countries.”

BUSINESS PHILOSOPHY

The company management pays special attention to personnel development. After all, the quality of the end product, whether in sales, production or services, depends on the interest that every employee takes in his or her position. Severstallat employs a total of 333 people, and the average age of the staff is 37 years. Everyone has a chance to upgrade its qualification, continue education at universities in Latvia and abroad with the expenses covered by the company.

Clear business strategy, quality products and professional staff — all that is a solid guarantee for a dynamic growth of the company. Sales are rising constantly, and consolidated turnover of the company reached 972 mln lats last year.

Additional information about Severstallat can be found in the Internet at www.ssl.lv •
Brivais vilnis — traditional recipes

The largest Baltic fish-processing company, Brivais vilnis based in Latvia, is the leader in exports. The company specializes in exclusive canned fish products, and one of its top brands is “Rigas Sprotes Ella” (Riga Sprats in Oil). Brivais vilnis board chairman, Arnolds Babris has told the BC about the market trends and new opportunities for customers.

Brivais vilnis is based in Salacgriva some 100 kilometers north from the Latvian capital Riga. The company was founded in 1949. After restoration of Latvia’s independence and beginning of the economic reforms it was transformed into a joint-stock company. In a short while Brivais vilnis became one of the largest and most economically stable fish processing companies in the Baltic States. The company’s turnover reached 8 million lats in 2005.

Brivais vilnis is a member of the association Rigas sprotes (Riga Sprats), an independent organization of Latvian fish-processing companies producing “Riga Sprats in Oil”. The association controls product’s quality as well as prepares recommendations for quality improvement and holds the patent for making sprats.

INDUSTRY’S LEADER

Brivais vilnis was the first of Baltic companies to get confirmed its compliance with the requirements of the EU directive EC 91/493/EEC, enabling it to export products to the EU member states. It is also one of a few fish-processing companies in the Baltics that has been certified for exports to Russia.

Brivais vilnis is the first and so far the only company in the Baltic States and the CIS countries, which makes exclusive canned fish products. For this purpose the company bought special fish sorting equipment that ensures full control of products and guarantees constant quality. There is nothing of that kind in any other Baltic States’ fish-processing company.

Brivais vilnis was the pioneer-industry in using easy-to-open lithographed cans like “Hansa” (190 g) and “Dingley” (100 g) for fish products, too. Only now, when the market has accepted this type of packaging and design, other Baltic fish-processing companies started to invest money in such production lines.

Presently Brivais vilnis employs about 800 people. The company is the largest employer in the Limbazi County in north-eastern Latvia. Moreover, it employs mostly women over 40 years of age, a segment of the Latvian labor force most vulnerable to unemployment risks. The company management pays great attention to personnel’s social security. The competitiveness of the end product depends on the mood of each employee, after all.

The company’s product range includes more than 70 items; besides, Brivais vilnis produces 4 million cans of fish products monthly. There are the following leading groups of products: sprats in oil (Exclusive and Premium groups), delicacy sardines, herring, mackerel in oil or/and tomato sauce, fish croquettes and fish balls in tomato sauce, fried anchovies in tomato sauce or oil — natural or with various additives (chili, vegetables, paprika, etc.), fried herring and mackerel in oil or tomato sauce, sardines, sardinellas, herring and mackerel in natural juice with oil added, and in tomato sauce.

The company experts constantly work on new original recipes. Recently an experimental line in the factory began producing smoking sole, salmon and sablefish. In the near future Brivais vilnis plans to start making canned products from those fish species.

RIGA SPRATS

AS COMPANY’S CALLING CARD

High quality Brivais vilnis’ products have been recognized by numerous awards and prizes both in Latvia and abroad. The most important of them are silver medals that “Riga Sprats in Oil” received at the Baltic food fair Riga Food 2002 and the World Food 2002 fair in Moscow. “Riga Sprats in Oil” also took a gold medal at ProdExpo 2003 and won the same prize again in 2005.

BC: What is the secret behind the success of your products?

A.B.: Quality sprats can be made only from Baltic sprats. Moreover, the fish has to be hauled during winter time when they do not feed and have empty bellies. We use only that kind of source raw materials. The production technology is very complicated. Actually sprats are one of the most labor-intensive products. Fresh sprats have to be sorted and then impaled by hand. The process cannot be mechanized as consumers want to see the fish in one piece when opening a can. Afterwards the fish are smoked. We follow an old recipe and use for this purpose only grey alder. It should be said that some producers economize, using coniferous wood for smoking. But in that case sprats acquire a bitterest off-flavor which has a negative effect on the product quality. Once the smoking process is completed, the fish processing begins: the heads are being removed and, in case of exclusive products, their tails are cut off as well. Then they are manually put into cans.

ARNOLDS BABRIS: Brivais vilnis is one of a few fish-processing companies in the Baltics that has been certified for exports to Russia.
It should be said that sprats and other canned products by Brivais vilnis are 100-percent ecologically safe as we do not use any synthetic preservatives. The recipe includes blended oil (a mix of natural oils according to a special recipe), salt and thermal sterilization afterwards. The shelf life of the canned products is 2.5 years at the temperature between 0 and +25°C degrees. In fact the products can stand heat up to +50°C degrees.

We offer products that have won the trust of consumers over many years by retaining their high quality and excellent taste, for example, “Riga Sprats in Oil” available in different-sized containers. There are also entirely new, both attractive and exclusive canned fish products like “Czar Sprats in Delicacy Oil”, “Czar Pate”, “Riga Sprats in Oil” with different supplement ingredients. As a special tribute to the World Ice-hockey Championship that recently took place in Riga, a new design reminding of an ice-hockey field was created for “Riga Sprats in Oil” (in 100 g packaging).

AIMED BOTH TO EAST AND WEST

As many as 90% of the Brivais vilnis’ output is export oriented. The company works both with traditional markets for sprat group canned products, e.g. Russia, Ukraine, Moldova, Georgia, Kazakhstan, Armenia and other former Soviet republics as well as with Western partners — Finland, Norway, Sweden, Israel, the United States, the Republic of South Africa, Australia.

A.B.: A distinguishing feature of consumers from Nordic countries is their preference for lightly-smoked fish floating in tomato sauce that we make by their recipes, said. In general we are ready to make products on specific orders, taking into accounts demands of a specific world region, e.g. recently we started delivering our products to Mexico. Also, a certification procedure has been completed in China, and now we are negotiating deliveries to that country. Our partners are large companies specializing in food sales and retail networks.

I would like to underline that in recent years experts of our company have worked hard on changing the idea of consumers about canned fish products. Step by step, creating new products, we have proved the public that canned fish products by their taste qualities can be equal to exclusive delicacies.

Additional information about the product range of the company is available on its website: www.brivaisvilnis.lv or by phone +371 4000210 or fax +371 4071331.
Logistics development in Russia: trends and perspectives

By Olga Pavuk

Among most outstanding presentations at the international conference “Eastern Europe: New Logistics Resources”, which took place in Riga at the end of May, were two logistics department professors’ reports, Mr. Viktor Sergeev and Mrs. Valentina Dybskaya. Moscow State University’s High School of Economics in Moscow. BC presents most interesting extracts from their presentations.

The conference was organized within the framework of the annual International Federation of Warehousing Logistics Associations’ congress (IFWLA).

FACTORS AND TRENDS

Contemporary state of Russian logistics services’ market is characterized by the fast growth of companies having in their organizational structures specific logistic-management departments. A clear trend can be observed in the direction of logistics outsourcing development (3PL market), logistics infrastructure for industrial and trade companies, and international transport corridors’ logistics. A growing interest develops among top-management companies towards introduction of supply-chain-management concepts (SCM). At the same time, intensive application of informational systems and programming in support of logistics and SCM is taking place. Based on the integration processes, logistics management systems in companies are improving.

PROBLEMS AND THREATS

Professor V. Sergeev mentioned some problems necessary to resolve on the way of logistics and SCM’s development in Russia:

- lack of investments (foreign, as well) into logistics infrastructure of firms and international transport companies (ITC),
- outdated transport and warehouse infrastructure (worn out morally and physically),
- absence of a developed 3PLs market
- insufficient level of company’s personnel qualification,
- insufficient level of regulations.

The lack of functioning logistics services’ certification system, including that based on the ISO’s procedures could be considered as a barrier for a more dynamic development of logistics in Russia, as well as insufficient popularization of logistics and SCM in mass media.

Professor V. Dybskaya addressed the following main threats connected to the development of the logistics market in Russia:

- growth of competition and, as a consequence, possible reduction of profits,
- lowering of rental rates and service tariffs,
- insufficient use of modern warehouses’ technologies,
- reduction of resources for quality logistics projects’ development, in particular, in the technological part of the warehouses’ projects;
- lack of qualified contractors and construction organizations with experience in building warehouses of international level;
- appearance on the market of foreign companies with solid experience in logistics and sophisticated freight processing organization, with modern technological solutions and high reputation (for Russian operators).

PERSPECTIVES

Russian transport-logistics services’ market, in Mr. V. Sergeev’s opinion, is at the level of formation lagging behind Western countries in quality and service’s complexity.

High rates of Russia’s transport and logistics market development during 2003-2004 (double the average European’s rate) were mostly due to increasing amount of cargo transportation, as well as reviving warehouses’ services market.

Average annual transport and logistics market growth in 2004-2010 is expected at the level of 6-7 per cent. The market capacity, i.e. profit of companies providing mentioned services, can grow by 1.4 times — from 24.2 bln dollars to 43.4 bln.

In the market structure some changes are expected that are connected to uneven development of certain sectoral spheres, first of all, those with growing supply of warehousing and management services.

Perspectives for logistics development to a great extent will depend on growing complexity and quality rendered services, growing investment attraction and transport and logistics infrastructure development, as well as on re-direction of capital flow from other sectors of economy.

One of the most attractive segments in the logistics’ market for investors is container traffic, which in 2001-2004 has been determined by growing Russian export and import, as well as growing ports’ capacities to operate the cargos.

Competitive environment on the Russian market of transport and logistics services is first of all set by the actions of Russian companies. The highest level of competition is noticed in the transport-expediting service’s segment, which is connected to a growing number of companies working in the sphere of organizing cargo traffic; a relative balance between demand and supply in the market has been reached.

THE WAYS AHEAD

Professor V. Dybskaya acknowledged that for dynamical development of the logistics market in Russia the following things have to be achieved: to form regional warehouse networks; to increase investments into construction of international level’s warehouses; to widen the scale of logistics activity and services; to use modern technologies and technical equipment in construction, cargo processing and in information systems. It is at the same time necessary to renovate existing warehouses using leading western and national companies’ experience, to organize personnel’s training. It is also feasible to create and strengthen logistics’ unions.

Statistics of the logistics market development in Russia: on the BC’s p. 63.

RENAL RATE ON THE WAREHOUSE MARKET IN EUROPE, USD/M²

<table>
<thead>
<tr>
<th>City</th>
<th>Rental Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amsterdam</td>
<td>45</td>
</tr>
<tr>
<td>Paris</td>
<td>60</td>
</tr>
<tr>
<td>Berlin</td>
<td>62</td>
</tr>
<tr>
<td>Warsaw</td>
<td>72</td>
</tr>
<tr>
<td>Prague</td>
<td>73</td>
</tr>
<tr>
<td>Budapest</td>
<td>77</td>
</tr>
<tr>
<td>Madrid</td>
<td>81</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>86</td>
</tr>
<tr>
<td>Moscow</td>
<td>145</td>
</tr>
<tr>
<td>London</td>
<td>225</td>
</tr>
</tbody>
</table>

AVE TRANS GROUP

Logistic operator rendering a unique complex of services

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

Our policy and purpose:
• Complex service is more efficient and less expensive

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

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:
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Fax: +371 7097970
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The demand for IT-service is still growing

By Martynas Visockas, Vilma Lisauskaite, 
Prime Investment, Lithuania

Baltic IT companies feel the continuing growth in demand for IT services. In 2005, TOP-20 Baltic IT services companies for the second year in a row recorded a total growth above 20% in revenues from IT services. The fact that the growth in IT services revenues exceeded the growth in total revenues (24.8% and 16.4%, respectively) confirms the tendencies identified in previous reports (see BC No. 18, BC No. 20).

The Baltic companies have already developed competitive IT infrastructure from the technical point of view; thus, now they increasingly concentrate investments on business application solutions, which should allow to effectively explore the advantages of IT infrastructure and increase the security of their IT systems.

**MicroLink Group**, the leader of our rankings during the last several years, has undergone the change in its ownership followed by a considerable restructuring during which it divested some of its business units while the Group was split into separate companies: **MicroLink Eesti**, **MicroLink Lietuva** and **Lattelecom Technology** (former **MicroLink Latvia**). The latter one did not provide data for this issue.

As a result, **Exigen Group** secured the 1st place in TOP-20 rankings of IT services companies. The 2nd position was taken by Lithuanian **SoneX Group**, which is currently restructuring and changing its brand to **SoneX Technologies**. SoneX showed a 44% growth in revenue from IT services sales, which is the largest increase in monetary terms among all Baltic players. **SoneX Group** companies that develop business management, security and electronic identification solutions showed the fastest growth.

Two new entrants into TOP-20 are **Baltic Data Center** and **Santa Monica Networks** (SMN). Baltic Data Center (owned by **TEO LT**, formerly **Lietuvos Telekomas**) provides outsourcing services in system management, customer support and billing operations services. Another newcomer, **SMN** group of companies, operating in the field of IT networks and security solutions in all 3 Baltic States, demonstrated the 2nd largest growth of 114% in IT services revenues in the region. **SMN** benefited from the increased demand for security solutions, its accumulated experience in the field and investments into service quality. **SMN’s** affiliate in Latvia showed the largest growth.

**Regio** of Estonia produced the most impressive growth figure of 322% owing to its success on international markets, where Regio uses the brand name of Reach-U. The company provides mostly location-based services (LBS) on GSM networks. Regio has a contract with Ericsson as a partner for LBS.

A number of established players have also shown significant growth in revenue from IT services: **Webmedia Group** increased its IT service sales by 78% while **Blue Bridge** and **Helmes** grew by 76% and 67% respectively. The acquisition of **Trigger Software** last year positively influenced the growth of Helmes, one of Estonia’s largest software development and consulting firms. **Webmedia** continued its rapid expansion via acquisitions. The number of employees in **Webmedia Group** currently comprises

<table>
<thead>
<tr>
<th>TOP-20 BALTIM IT SERVICES COMPANIES IN 2005, THOU EUR</th>
<th>2005</th>
<th>2004</th>
<th>Growth, %/year</th>
<th>% of total</th>
<th>Total revenue, %/year</th>
<th>Growth, %/year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Exigen Group (Latvia)</td>
<td>19994</td>
<td>17585</td>
<td>14%</td>
<td>100%</td>
<td>19994</td>
<td>17585</td>
</tr>
<tr>
<td>2. Sonex Group (Lithuania)</td>
<td>15639</td>
<td>10861</td>
<td>44%</td>
<td>20%</td>
<td>79066</td>
<td>66902</td>
</tr>
<tr>
<td>3. MicroLink Eesti (Estonia)</td>
<td>8115</td>
<td>7412</td>
<td>9%</td>
<td>62%</td>
<td>13163</td>
<td>12013</td>
</tr>
<tr>
<td>4. Alna Group (Lithuania)</td>
<td>7768</td>
<td>7697</td>
<td>1%</td>
<td>38%</td>
<td>20361</td>
<td>17016</td>
</tr>
<tr>
<td>5. Elsis Group (Lithuania)</td>
<td>4300</td>
<td>3840</td>
<td>12%</td>
<td>25%</td>
<td>17450</td>
<td>13707</td>
</tr>
<tr>
<td>6. Baltic Data Center (Lithuania)</td>
<td>4021</td>
<td>3615</td>
<td>11%</td>
<td>100%</td>
<td>4021</td>
<td>3615</td>
</tr>
<tr>
<td>7. MicroLink Lietuva (Lithuania)</td>
<td>4018</td>
<td>2823</td>
<td>42%</td>
<td>87%</td>
<td>4630</td>
<td>2887</td>
</tr>
<tr>
<td>8. Helmes (Estonia)</td>
<td>3727</td>
<td>2234</td>
<td>67%</td>
<td>56%</td>
<td>6599</td>
<td>5946</td>
</tr>
<tr>
<td>9. Webmedia (Estonia)</td>
<td>3712</td>
<td>2083</td>
<td>78%</td>
<td>92%</td>
<td>4032</td>
<td>2313</td>
</tr>
<tr>
<td>10. Blue Bridge (Lithuania)</td>
<td>3539</td>
<td>2007</td>
<td>76%</td>
<td>15%</td>
<td>23712</td>
<td>19811</td>
</tr>
<tr>
<td>11. Sintagma Group (Lithuania)</td>
<td>2882</td>
<td>2491</td>
<td>16%</td>
<td>39%</td>
<td>7436</td>
<td>7878</td>
</tr>
<tr>
<td>12. Tilde SIA (Latvia)</td>
<td>2636</td>
<td>2260</td>
<td>17%</td>
<td>100%</td>
<td>2636</td>
<td>2260</td>
</tr>
<tr>
<td>13. New Vision Baltija Group (Lithuania)</td>
<td>2143</td>
<td>2027</td>
<td>6%</td>
<td>20%</td>
<td>10832</td>
<td>8515</td>
</tr>
<tr>
<td>14. Regio (Estonia)</td>
<td>2097</td>
<td>496</td>
<td>322%</td>
<td>89%</td>
<td>2347</td>
<td>648</td>
</tr>
<tr>
<td>15. Algoritmu sistemos (Lithuania)</td>
<td>1722</td>
<td>1970</td>
<td>-13%</td>
<td>75%</td>
<td>2308</td>
<td>2041</td>
</tr>
<tr>
<td>16. HNIT-Baltic Geoinfoservisas (Lithuania)</td>
<td>1702</td>
<td>1183</td>
<td>44%</td>
<td>54%</td>
<td>3131</td>
<td>2318</td>
</tr>
<tr>
<td>17. Baltic Amadeus (Lithuania)</td>
<td>1561</td>
<td>1277</td>
<td>22%</td>
<td>22%</td>
<td>7180</td>
<td>10641</td>
</tr>
<tr>
<td>18. Prototechnika (Lithuania)</td>
<td>1334</td>
<td>1300</td>
<td>3%</td>
<td>90%</td>
<td>1485</td>
<td>1481</td>
</tr>
<tr>
<td>19. Santa Monica Networks (Estonia)</td>
<td>1248</td>
<td>582</td>
<td>114%</td>
<td>16%</td>
<td>7849</td>
<td>7090</td>
</tr>
<tr>
<td>20. Edrana (Lithuania)</td>
<td>1206</td>
<td>1056</td>
<td>14%</td>
<td>95%</td>
<td>1265</td>
<td>1103</td>
</tr>
<tr>
<td>Average</td>
<td>-</td>
<td>-</td>
<td>24.8%</td>
<td>39.0%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Prime Investment.
The market drive towards increased IT security and management information systems also influenced the growth of Blue Bridge as the largest portion of growth came from information security solutions and IT processes management.

**KNOCKING AT TOP-20 DOOR**

Of the companies that came close to squeezing into our TOP-20 list, Estonian Uptime (software development and business application solutions) was the closest having grown its IT service revenues by 35% to 971 thousand euro. The company also showed a significant growth of 41% in value added per employee rankings.

Baltic Software Solutions (hereafter, BSS) is another noteworthy IT services provider with a good potential to hit our list in a short while. Its IT service revenues grew by 47% in 2005 and reached 755 thousand euro. The company has also started offering ERP solutions. BSS plans to expand its Western European market coverage and if it succeeds the company is likely to be one of the new entrants into our list.

Document and process management solutions provider Sekasoft may have a strong showing in our next ranking as it may well accelerate its revenue growth this year after the acquisition of document management systems unit from Microlink Lietuva several months ago. In 2005, the company’s revenues from IT services were 369 thousand euro.

Unfortunately, the integration of Baltic IT companies into the internationally listed IT groups resulted in some of the formerly strong ranking performers being taken out of the list. This year Lithuanian Informacines Technologijos Group (IT service sales of 11 million euro in 2005) and Latvian IT Alise (currently, TietoEnator Alise; net sales of 7 million euro in 2005) could not provide data separately from their listed parent companies: AffectoGenimap and TietoEnator.

**THE REVENUE GROW, PERFORMANCE EFFICIENCY DON’T INCREASE**

We also graded companies by performance efficiency measured as value added per employee. Companies, which provided data, added 15.8% more value last year comparing to 2004. However, this growth was supported not by higher efficiency but by the increased number of employees (by 10.6% in our sample). As a result, value added per employee in 2005 remained almost at the same level as in 2004. Helmes retained its leading position in the rankings with 53.1 thousand euro value added per employee.

In comparison, UK software and computer services’ companies enjoyed the average value added per employee of 79 thousand euro in 2004 (data estimates based on the Value Added Scoreboard report, published by UK Department of Trade and Industry). Finland’s TietoEnator’s measure of productivity was 81.8 thousand euro in 2004 according to the same report.

Of course, we can only draw reserved conclusions from this comparison, because companies in the UK DTI’s rankings are significantly larger than the ones in our rankings. Moreover, we have not been able to collect data from some companies, which we believe would have placed well in the rankings.

### BALTIC IT COMPANIES BY ADDED VALUE IN 2005, THOU EUR

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Added value per employee</th>
<th>Added value</th>
<th>Av. number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Helmes (Estonia)</td>
<td>53.1</td>
<td>53.2</td>
<td>0%</td>
</tr>
<tr>
<td>2. Compservis atvrosios sistemų (Lithuania)</td>
<td>43.7</td>
<td>37.5</td>
<td>17%</td>
</tr>
<tr>
<td>3. Compservis (Lithuania)</td>
<td>35.6</td>
<td>29.2</td>
<td>22%</td>
</tr>
<tr>
<td>4. MicroLink Eesti (Estonia)</td>
<td>27.7</td>
<td>23.7</td>
<td>17%</td>
</tr>
<tr>
<td>5. HNIT-Baltic Geoinfoservisas (Lithuania)</td>
<td>26.9</td>
<td>32.4</td>
<td>-17%</td>
</tr>
<tr>
<td>6. NRD (Lithuania)</td>
<td>24.4</td>
<td>26.0</td>
<td>-6%</td>
</tr>
<tr>
<td>7. Etronika (Lithuania)</td>
<td>24.0</td>
<td>17.5</td>
<td>37%</td>
</tr>
<tr>
<td>8. Tilde SIA (Latvia)</td>
<td>23.8</td>
<td>23.8</td>
<td>0%</td>
</tr>
<tr>
<td>9. BCS Itera (Estonia)</td>
<td>22.8</td>
<td>23.5</td>
<td>-3%</td>
</tr>
<tr>
<td>10. Webmedia (Estonia)</td>
<td>22.5</td>
<td>33.3</td>
<td>-33%</td>
</tr>
<tr>
<td>11. Exigen Group (Latvia)</td>
<td>22.1</td>
<td>19.1</td>
<td>16%</td>
</tr>
<tr>
<td>12. Algoritmu sistemas (Lithuania)</td>
<td>21.8</td>
<td>30.4</td>
<td>-28%</td>
</tr>
<tr>
<td>13. Sintagma Group (Lithuania)</td>
<td>19.4</td>
<td>21.1</td>
<td>-8%</td>
</tr>
<tr>
<td>14. Baltic Software Solutions (Lithuania)</td>
<td>16.7</td>
<td>24.7</td>
<td>-32%</td>
</tr>
<tr>
<td>15. Elosis Group (Lithuania)</td>
<td>14.9</td>
<td>14.3</td>
<td>5%</td>
</tr>
<tr>
<td>16. Uptime (Estonia)</td>
<td>13.4</td>
<td>9.4</td>
<td>41%</td>
</tr>
<tr>
<td>17. Alna Group (Lithuania)</td>
<td>13.3</td>
<td>12.5</td>
<td>7%</td>
</tr>
<tr>
<td>18. Protechnika Group (Lithuania)</td>
<td>9.5</td>
<td>7.0</td>
<td>36%</td>
</tr>
<tr>
<td>19. Check IT (Latvia)</td>
<td>8.1</td>
<td>4.6</td>
<td>76%</td>
</tr>
<tr>
<td>20. Edrana (Lithuania)</td>
<td>7.3</td>
<td>6.3</td>
<td>16%</td>
</tr>
<tr>
<td>21. Sekasoft (Lithuania)</td>
<td>6.9</td>
<td>7.0</td>
<td>-1%</td>
</tr>
<tr>
<td>Average</td>
<td>21.8</td>
<td>21.7</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

**Source:** Prime Investment.

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. Value added is calculated as EBITDA plus personnel cost.
O.P.: Janis, looking way back to June 1996 when we first met at the magazine’s presentation in Rīdzene Hotel. I’d like to ask you, how come that such an idea of creating a magazine in Russian, then in English languages entered the mind of a young Latvian journalist. What was then the purpose of such a move?

J.D.: I think that first of all we have to pay tribute to Mr. Juris Visockis (then and now the head of Jumava publishing house, Ed.). The whole idea of the magazine as a business-project belonged to him. Juris contacted me about the idea; he knew that as a journalist I had at that time a media-bureau (NIP birojs involved in journalist’s investigations, Ed.). After discussing the details we agreed to share the burden in the following way: Juris as a professional publisher would take care of the publishing and distribution and I would do the editorial work.

Baltic course and the Baltic dimension — all that sounds rather banal; something of that kind has been already in the market: daily paper Business&Baltija, the title in the latter, by the way, did not really reflect the contents. Information on Latvian issues was dominating in it as compared to that from Lithuania and Estonia.

My first ambition had been to create a magazine which would adequately reflect the developments in the three Baltic States. The states that were actively exploring the Western world, on one side, and due to previous connections and new developments were still closely connected to the East, on the other side; so to say, it was a situation of “not really forgotten past in a new context!”. At the same time, Russian language has been the most common means of communication among the three Baltic States than any other language. Our aim was to look, objectively, and compare the business development processes in the region based mainly on the opinion of the people involved. After some years a necessity aroused to provide such information in English and that was reflected in the publishing the magazine’s English version.

O.P.: Our magazine provides adequate view on economic and business development in the three Baltic States. Presently, one of the magazine’s strongest points is the use of outsourcing methods in our relations with local, foreign journalists and other partners, the mode that could significantly reduce production costs. But where did you find the very first journalists to work in your magazine?

J.D.: A couple of things are well worth mentioning here which goes from the expression “think globally — act locally”. The first thing that was clear to me from the beginning was that a small state did not have enough resources, neither human nor informative, to create something global and international. But still from the very start
we wanted to cherish our ambition, i.e. create an international magazine. We just could not think about anything else. And therefore we had to learn how to succeed with each practical step.

Another thing, so-called “distant association” has come to my mind: I mean The Economist group which at the moment created their magazine The Business Central Europe. Not all was smooth at the time in that magazine, it must be admitted, as there were some materials written by not very competent journalists. But still a good thing was that this magazine provided some ideas on business development in the newly created states in Central and Eastern Europe. Our region around the Baltic Sea includes, besides the Baltic States, such countries as Finland, Russia, Poland, Germany, etc. Why could not we write, I thought, about the events in this important part of Europe!

As to the journalists, I tried to find those who could think globally putting the events in a broader context. At the same time it was interesting to me whether Latvians could make something valuable in Russian.

O.P.: It has to be mentioned that Janis has always had the ability to attract young and talented journalist ready to work round-the-clock. For example, Inese Gaiks was much better than anybody else in local press as to transport and energy issues. Continuing her education in France she graduated with two misters’ degree and wished to return to Latvia. Another example, Ingus Berzins who was involved in privatization issues in NIP birojs; presently he is editor-in-chief of the popular portal DELFI. Our magazine has been approached by journalists from other European states. Thus, after I joined the magazine in 1998 several journalists from Sweden, Finland, Germany and other countries started to cooperate with us. Last three years Mr. Eugene Eteris from Denmark is working as the BC’s international editor.

O.P.: Which publications in the magazine do you remember most?

J.D.: I think that we can be both pride of and be satisfied with the fact that we started to publish sectoral reviews, such as “Transport and Energy”, for example. To make such reviews needs certain competence and will to travel to Klaipeda, Gdansk and Ust-Luga in Russia... Then, another aspect has appeared, e.g. sectoral reviews on some urgent and burning issues, such as textile market development, pharmacy, financial market, to name a few. All that has become possible only under your, Mrs. Pavuk guidance in the magazine; these reviews have been regarded as criteria points for the readers interested in business development.

O.P: What would you say about our magazine to-day? I have to admit that I still miss your advises when you were the magazine’s editor.

J.D.: I would say that more active cooperation with the members of the board is needed. They have to be constantly consulted about the plans and future magazine’s issues. Then, there are some other things to be mentioned, e.g. activity division on regional and subject lines. For example, in mid-90s when we started the Russian version, the idea was to examine Baltic development and the states’ ways forward. An English version, in its turn, was a sign of tackling with international audience. I mean the EBRD’s meeting in Riga, public interest in the Baltics towards West in general and Europe in the first place. It was a must for us to follow these lines in order to secure the balance on both fronts.

Then there is the third issue concerning magazine’s future. We have to make more prognostic analysis, try to model various situations along the far reaching prospects, i.e. as a minimum for 20-25 years ahead. Thus, recently I’ve read in one of the first “new Latvia’s” premier, Mr. Godmanis’ reports an attempt to examine Estonian economic boom, compared to that of Latvia. Last 10-15 years is enough to make prognosis in two directions, i.e. as to the way we are developing, and in which way to proceed further.

We can take another example, the use of the EU funds where the Baltic States try to overrun Poland. Why can not we instead ask ourselves, how can we reach Scandinavian countries which are mentally much closer to us and which joined the EU in the last 15-30 years? We do not have to look all the time to the far distant Ireland blossoming under the shadow of British welfare state. Though, there is a lot to learn too.

Then I have another wish — we have to search constantly for new names and new achievements. According to futurologists, for example, various industrial ideas of ’30s during last century can be easily implemented presently. At that time one could become a micro-monopolist for years to come. Later on when the information exchange developed quicker the “monopoly” could hold for months or a year. Now these processes are developing during very short periods but it still could be enough to start business and acquire goodwill.

O.P: During last ‘90s when working in the NIP birojs you have been involved in various journalist investigations. I can mention just one which had led to the dismissal of the Latvian Property Agency head, Mr. Motte. The case was taken to court and you won on several charges including that of personal honesty protection. Why did you stop this activity?

J.D.: In order to go on with the journalistic investigations one has to think about the form in which such investigations could be documented and presented. Thus, after the NIP was closed in 2001 I started to make a talk-show on TV. If one has no a team to work with, which I do not have any at the moment, one can only gather the materials. And if there is not a TV-show, one can’t show it anywhere. In the discussion format at my TV show I can deliver various issues which are of interest to the public. As to the officials in the state sector, it’s easier both here and in the West to work through already prepared press-relies, information notes and press-secretaries. It happens sometimes that some questions prepared for a press-conference but never voiced have been forgotten at all.

You ask me why don’t I proceed with my previous work? Just because even a man for all seasons like me can not do that alone. During last 5 years I have conducted more than 200 TV talk-shows and for each of it we have made some mini-research which quite often can become voluminous. These are such themes as Latvian-Russian border limitation agreement, petrol prices or nuclear energy problems which we have discussed during last weeks. I can cover only a few aspects of these themes, as I have to move further on all the time.

Of course, it’s a pity that I have to work that way, but so far I just do not feel of establishing anything of a private business. It all depends on the chances to use the TV channels’ oppor-
tunities. It’s too difficult to arrange a new show or a program on TV, as you know. Certainly, it’s possible to work both on TV and in the press, but then one has to organise oneself. I would not say I did not want to do that. I still think that I’d rather do not do anything at all than make anything half-way. Sometimes it seems good that you can follow during a short period of time most of the events happening in the country. This way one can clearly see close connections among seemingly distant events. So, I can say, that I’m involved in investigation journalism for my “internal consumption”.  

O.P.: How can you assess the present situation in Latvian business journalism?  

J.D.: The situation is pretty bad, because most of the journalists have a very “short memory”. They don’t remember how commercial banks were created, how privatization went on, how Russian economic default affected Latvian economy, etc. When I say that, I do not mean those 20-years-old journalists who, in fact, do not understand how capitalist economy really functions. The problem is that next to them there are no journalists, quite young as well, that remember the initial steps of Latvian new economic history.  

All over the world business journalism is facing with the reality that businessmen are difficult to reach and the former are often satisfied with sketchy information. Talking about our country, there are already people who can discuss Latvia’s first years in business development.  

As to the journalism’s international aspects there are some ideological issues. For example, European Union, is it a market or socially oriented entity? Or how can business develop in Russia, in the country with very low level of democracy? Then there are questions of the role of state in economy or work-force from the third countries, etc.  

O.P.: Is it possible that an international magazine can sustain a critical position towards its own country?  

J.D.: I think it can, but there has to be a “critical mass” in such a position like it was in Berlusconi affair. So to say, critics in details will not help. On the other hand, some spheres of economy underwent cardinal changes, such as Baltic ports; in this case we need deep analysis and constructive criticism. At the same time critics for the pure sense of “making critics” is useless either. Here a balance is needed. But all mass-media shall hold a critical stance, regardless of the publication sizes.  

O.P.: What’s the mass-media’s role in the modern market economy and how can it influence the power structures?  

J.D.: Mass-media can definitely influence power and public structures but it can’t affect economic matters, as mass-media generally explore populism. For example, most “populist items” are those concerning real estate deals and taxation burden. When the system of mortgage credits started to develop in the country it pushed taxes down; to-day the situation has changed. It has to be admitted that presently when business pursue interests through lobbying activity, e.g. taxation, credits, migration, etc. these efforts, in general, do not affect national economy drastically.  

O.P.: Is it good or bad?  

J.D.: It’s always bad when we do not hold balance. For example, we lack companies with 10 thousand or more workers as it is generally in most European countries. Neither have we those sectors of economy that can attract clever brains. Actually, it depends on mass-media’s position if the power structures can acquire competent opinion on these complicated issues.  

O.P.: You are meeting almost every day prominent politicians, scientists and businessmen. How many among them, to your mind, are people really worried about country’s economic development?  

J.D.: I can say that there are many really honest people, though quite a few of them are competent. Neither political opposition nor public opinion provides solid ground for competition and analysis which we are lacking, really. Often public figures just use PR methods to influence their ratings. Sometimes I do not feel that I can take out of a discussion any valuable ideas. Living aside corruption issues, it could be partly issues or fighting for additional resources for a ministry, as well. The same happens in the parliament: the MPs know that competition is low and therefore something slowly is going on but without real enthusiasm. And only less than once a year something really interesting takes place.  

O.P.: What’s your attitude towards constant talks about combating corruption in Latvia, how efficient are these efforts?  

J.D.: First thing that comes to my mind — all corruption scandals in the three Baltic States seem look quite alike! Important here is the direction in which the combat proceeds. There are some cynics in Latvia that derisively say about a new “Berlusconi-like” model of corruption with “several heads” composed of a few influential public figures. I can’t say I heard anything of that kind in Lithuania or Estonia; it’s something new and specific for Latvia.  

The situation to change would take at least about 10 years, although I believe in lucky occasion. As there could be some people to uncover the worst corruption cases and all things would follow completely different route. If not, then we’d have some new “structures” such as Schroeder’s employment in a Russian company, the thing completely unacceptable from the Western democracy standpoint. Then we would face an issue of different political traditions and public officers’ responsibility. Would it be Scandinavian-type openness which will be most suitable for our mentality, or the Slavic mentality will dominate where personal corporate connections will take over the principal openness and freedom? So far the prospects for development are quite varied.  

O.P.: In one of your recent interviews you said something about the motto “without the past there is no future” that it should be left back in ‘90s of the last century. Why did you think so?  

J.D.: We have explored that notion in the connection with the event around the ‘40s of the last century as the situation in all our three countries was quite similar, e.g. peaceful agreements after the Second World War, occupation and Sovetization, bolshevism. To my mind we have lost a balance between our “two pasts”, i.e. the distant past and the recent past (dated from the start of ‘90s in the last century). It is obviously a fundamental issue which has to be solved at a governmental level.  

But to-day we have several other important questions to resolve. We have not yet factual and moral outcomes concerning our modern history. For example, it would be quite well if we could put an end to the wild capitalism development in the ‘90s. We can not put all the people behind the bars, but we can make an assessment of what has happened. At the same time we can not raise all successful businessmen into the rank of “new elite” and permit them to deal with the state management affairs. This is the question that is above economy, above all the rest. This is the question of what sort of elite would strengthen the essential background of our country’s development.
Market-sharing efforts are going on

By Olga Pavuk, Alexander Fedotov, Latvia
Segei Sergeyev, Verslo Labirintas, Lithuania
Dmitry Kulikov, Deloviye Vedomosti, Estonia

Regardless of the steady rising price for motor fuel people in the Baltic States have not reduced driving cars. That means that commodities’ traders still have a stable sales market. The process of the entire oil product sales market being concentrated in the hands of few big foreign companies continues in the three Baltic States. Rumors are circulating in the press about takeovers of local fuel companies by foreigners while the former deny the allegations. On the contrary, some local firms try to expand their gas filling chains by buying gas stations from smaller companies. The number of gas stations is slowly reducing as unprofitable stations, mostly located in rural areas, are being closed down. Growth of gasoline prices so far has failed to slow down fuel consumption.

Estonian company Alexela Oil, which belongs to Russian holding Severstaltrans, recently bought from Hydro Texaco 58 gas stations operating in the Baltic States under the Uno X brand name. Alexela Oil that owns 5 gas stations in Latvia has announced plans to increase its share of the fuel retail market to 5% from just about 1% presently. Two new gas stations will be built in Riga this summer. In Lithuania, Alexela Oil owns 24 gas stations or about 5% of the market.

As another example of fuel companies showing active growth Latvian company with 100-percent local capital, Ziemelu nafta can be mentioned. In 2004 Ziemelu nafta sold 48,000 tons of fuel and already 63,000 tons in 2005. The company’s net turnover increased nearly 1.5 times over the year from 19.5 mln tons in 2004 to 28.6 mln tons in 2005. The company strives to invest all earnings in development, i.e. upgrading and expansion of its gas station chain.

LATVIA: DEFENDING NATIONAL INTERESTS

The Latvian Fuel Traders Association (LDTA) has 11 members. Association board chairman, Ulidis Sakne told the BC that among the association members there are top three market leaders. They are Latvija Statoil with 56 full-service gas stations and 6 fully automated gas stations, Neste Latvija with 35 full-service stations and 2 unmanned stations and LUKoil Baltija R with 33 gas stations. In addition, some local Latvian companies could be mentioned, such as the only state-owned fuel trader, Latvijas nafta with 26 stations, Virsi-A (24 stations), Viada (21 stations), Astarite-nafta (16 stations), Trest Oil (14 stations plus one unmanned station), Ziemelu nafta (12 stations) and Sumata (9 stations).

Smaller companies are not pleased with the market leaders’ activities in particular by Latvija Statoil and Neste Latvija, which together occupy about 40 per cent of the market. Small commodities operators organized within the Union of Fuel Traders and Producers (DTRS) and in March this year tried to initiate an investigation into allegedly coordinated pricing policy and a conspiracy between the two market leaders to push smaller businesses out of the market. A probe conducted by the Latvian Competition Council failed to confirm the allegations. The re-distribution of the market with its subsequent monopolization continues. Some gas stations are sold, some are closed down. Meanwhile the three largest companies keep strengthening their leading positions.

As on March 31, 2006, there were 548 gas stations in Latvia selling liquid fuel (644 in 1999, see the BK-Russian issue No. 13) and 151 LPG stations. Of the latter, many operate in the same premises with stations selling gasoline. In a year’s time, 22 gas stations have been closed down for purely economic reasons. But their number in Latvia is still excessive, for example, there are 8 stations in Madona, a small town in north-western Latvia with about 10,000 inhabitants.

One of the reasons that forces small gas-station operators to sell their businesses is a significant reduction in fuel smuggling which took place two years ago with Latvia’s accession to the EU; before that illegal fuel was brought into the country in large quantities. Nevertheless, fuel is still carried out across Russian-Latvian border in tank-trucks. The great reduction in fuel smuggling is due to electronic processing of customs documents.
Professionals in liquid bulk logistics

Location of the terminal: Port of Muuga
Total volume: 305 000 m³
Number of tanks: 33
Capacity of tanks: 1 500, 6 000, 10 000 m³ and 15 000 m³
41% of the tank capacities is heated and equipped with heating coils

Railway infrastructure: 9 km
Railway services: our own dispatching service, 3 locomotives
Platforms for unloading railway tanks: for a total of 102 railway tanks
Jetties: 3
Draft: 7, 11 and 14 m
Ship batch size: up to 110 000 tons
Access: by sea/railway/highway
Storable products: crude oil, fuel oil, jet fuel, gas oil and other oil products
that greatly complicates passage of illegal oil products across the borders.

Sergei Zmitrovich pointed out to the BC at another problem which affected mostly local fuel companies, i.e. compliance with the EU directive requiring oil product traders to keep sufficient fuel stocks in case of an energy crisis. The minimum 36-day fuel stock deposit requirements take effect on July 1, causing already enough trouble for small operators as it entails both extra warehousing facilities and expenses. Non-compliance with this directive may result in sanctions by supervising authorities. At the same time, it is almost impossible for small fuel companies to get a bank loan with the aim of establishing required fuel stock-deposits.

According to Mr. Zmitrovich, the solution to this situation lies in organization of a Latvian national fuel company partly with the state capital and that of the private companies. Running operations of the national fuel company could be split in several segments, i.e. fuel wholesale, fuel retail through gas stations and warehousing of the national fuel stocks that would guarantee country’s energy independence and security.

There are not very many fuel traders willing to give up the business but many seem likely to uphold the idea. Still, the initiative and the main decision have to be taken by the state. One does not have to go far in order to find examples, e.g. Swedish state-owned company Statoil and the Finnish state-owned company Neste both have operations in Latvia.

Mr. Zmitrovich said that creating the national fuel company would have the following advantages. First, fuel would be bought under direct contracts between the national company and oil refineries that would help to get fuel supplies at better prices. Secondly, state-owned companies, and there are quite many of them in Latvia, would buy fuel and fill up their vehicles at gas stations owned by the state rather than foreign entities. In this way the national interest would be practically protected; and there would be a minimum number of players on the petrol market. If such national company is created, it would be possible to speak about a normal competition environment on the Latvian fuel market, said Mr. Zmitrovich.

There are no more steep jumps in fuel prices as had been the picture two years ago. Yet, rumors are regularly circulating in the media about gasoline prices likely to jump up to one lat per liter in Latvia soon. For now analysts expect 95-octane gasoline to cost 0.65-0.70 lats per liter at gas fuel stations in the coming months, provided that oil prices kept growing at the current rate.

SERGEI ZMITROVICH: The optimal solution in this situation would be organizing a national commodities company in Latvia.

Oil product sales in Latvia in 2005 reached about 900,000 tons or 551 mln lats. More than 70% of fuel was supplied by the Lithuanian oil refinery Mazeikiai nafta. Now Mazeikiai nafta, which can refine about 12 mln tons of crude a year, is cutting its deliveries to the Baltic States. Part of fuel deliveries from Lithuania to Latvia would have reduced in line with the growth of fuel deliveries from Norway. In the first quarter of this year gasoline from Norway covered 52 per cent of the Latvian market (76.2 mln liters) as compared to 9 per cent of the market share the year before. So far there is no reason to believe that instead of Norwegian fuel Latvian cars would be frequently filled up with fuel made by the Lithuanian oil refinery Mazeikiai nafta, wrote the Business&Baltija newspaper recently.

In addition to Norwegian fuel, tankers bring to Latvia oil products from Finland which actually also have been made from Russia oil. As to deliveries from Russia itself, gasoline is mostly brought to Latvia on a semi-legal basis, i.e. by “shuttle operators.” Only diesel fuel, carried by rail from Belarus, is imported in amounts sufficient to be taken into consideration. After all, no custom duties are levied on this kind of fuel while gasoline imports to the EU from third countries are subject to 4.7% import tax.

In a year or two Belarus will start producing Euro 3 gasoline, Mikhail Osipenko, the acting deputy head of Belneftekhim oil and chemistry concern said at a news conference this May. He said that the new type of gasoline would be made at the Mozyr Oil Refinery and Naftan JSC. Latvian Fuel Traders Association president Ojars Karcevskis told the Latvian Russian-language daily Telegraf that some unofficial reports suggested that Belarus would be ready to produce EU-type gasoline much earlier, already this September. He said that this would only increase competition among fuel suppliers and both consumers and the market as a whole would benefit from it. “It is better to choose from three options than just one,” said Karcevskis.

During last two years gasoline consumption in Latvia has been shrinking by 3-5% a year. At the same time, diesel fuel consumption is growing fast: by 10-15% a year. This is due to use of diesel fuel in commercial operations, i.e. the entire freight and passengers’ vehicle fleet had been switched to diesel fuel; only passenger cars use gasoline. As to the commodity price, there was time when diesel fuel costed more than gasoline. Now the situation has changed. Last year 320,000 tons of gasoline and 580,000 tons of diesel fuel were sold in Latvia.

Only rough estimates exist as to the amounts of oil products smuggled into the country or stolen from oil pipelines. Owners of gas stations in the eastern Latvian region of Latgale bordering with Russia, claim that about 40% of fuel sold in the region is a contraband fuel. Almost every farm in Daugavpils, Ludza or Kraslava counties in eastern Latvia can offer cheap Russian diesel fuel and gasoline. It is impossible to eliminate the business of “shuttle operators” crossing the border regularly to bring over cheap fuel. There was an attempt to introduce a
It is no wonder that, having failed to agree with Mazeikiu nafta on an acceptable price level, LUKoil Lithuanian branch LUKoil Baltija decided to import gasoline from Finland. Already in January 4,000 tons of 95-octane gasoline arrived to Klaipeda port. Annual deliveries could reach 50,000 tons.

The given situation has led to an unprecedented contraband boom in Lithuania. Experts have estimated that about one-third of diesel fuel on sale in the country has been imported illegally. Moreover, the smuggling is done by tank trucks. About 170,000 tons of diesel fuel a year is brought into Lithuania that way. Meanwhile official gas stations in Lithuania sell some 340-350 thousand tons of diesel fuel annually. A great number of illegal filling stations operate in Kaunas and western Lithuania as well as along the Via Baltica international highway. The Lithuanian Economic Police is of course combating contraband fuel but does not deny the fact that illegal fuel trade has become a mass phenomenon in Lithuania, taking over about one-third of the total fuel market.

Leading fuel traders in Lithuania are the same as in Latvia. But Lithuania has the only oil refinery in the Baltic States — Mazeikiu nafta. And the Lithuanian Competition Council has proved that the oil concern had used its dominant position in the market to doctor agreements with customers. As a result, fuel prices in Lithuania were higher than in Latvia and Estonia. Thus, in mid-May this year 95-octane gasoline in Lithuania was 3.1-3.2 litas (0.64 lats) per liter. According to the BC’s information, Lithuanian fuel traders had bought in the Latvian town of Madona tankloads of fuel imported to Latvia from Belarus and later on transported it to Lithuania. Mazeikiu nafta was imposed a fine of 32 mln litas.

According to the Customs Crimes Administration’s official statistics and Revenue Service, oil products smuggled into the country account for about 5% of the total fuel market. Smugglers and law violating officers are being found quickly, thus, violating officers are being found quickly. Revenue Service, oil products smuggled into the country account for about 5% of the total fuel market. Smugglers and law violating officers are being found quickly. Furthermore, about 100 cases of such theft from the oil pipeline had been detected during 2005.

According to the Customs Crimes Administration’s director Andrej Januska, a former employee of the customs warehouse Stalkers, who had let through the borders 102 oil tanks allegedly transit-passing from Belarus through Latvia to Ukraine were actually sold in Latvia, was sentenced to two years in jail by the Daugavpils county court. But the Latgale Regional Court later on appeal softened the sentence, replacing imprisonment with a fine in the amount of 40 minimum monthly wages (about 3,600 lats) though the former customs officer had caused the state two million lats damage.

Customs Crimes Administration director Vladimir Vaskevic said that the customs authority was constantly improving work with information, including measures for excise tax administration. “Smuggling of oil products in Latvia is no longer done on a large scale,” he assured the BC.

LITHUANIA HAS ITS OWN MONOPOLY

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Contrary to neighbors where leading positions in the oil products’ market have been acquired by the Western companies, in Lithuania the Russian capital leads the market being represented by LUKoil Baltija (115 gas filling stations, except five filling stations operating under a franchise). At the end of last year LUKoil announced that by mid-2006 all its gas stations would be selling also LPG. This year the company started importing fuel from Finland. “Our decision to bring fuel from Scandinavia was inspired by the very inflexible price policy of Mazeikiu nafta concern as well as unacceptable contract terms for retailers. Seeking to protect Lithuanian consumers against price dictation and conditions by the only producer, we found an alternative, i.e. imports of quality Scandinavian fuel, said LUKoil Baltija head Ivan Paleichik.

Statoil with 59 full-service stations and 6 automatic stations occupies the second place in the country, followed by Ventus gas station chain consisting of 36 stations operated by Ventus-nafta, a subsidiary of Mazeikiu nafta. Of those gas stations, 27 are under full ownership and 9 are run under a franchise.

The top ten operators in Lithuania include also Baltic Petroleum (33 gas stations), Neste Lietuva (31 stations), Alexela/Uno-X (24 stations), Saurida (21 stations), Luktarna (16 stations), Emsi (12 stations), Ervin (7 stations). Saurida is one of the largest companies in Lithuania with local capital, has demonstrated the fastest growth among the competitors. Its turnover growth in 2005 was 73% (as compared with 2004) and in 2004 the sales rose by 50% (as compared with 2003). On June 5, 2006 the acting economic minister Kestutis Dauksys at the Lithuanian government meeting was given the authority to sign a deal on selling 30.66% shares belonging to the state in Mazeikiu nafta concern to the Polish company PKN Orlen.

CHANGES ARE EXPECTED ON ESTONIAN OIL MARKET

Amounts of fuel transported through Estonia were quite large last year. About 25.7 mln tons of oil products and 2.5 mln tons of crude oil were carried by railway in nine months of 2005. While statistics bear evidences to the growing trend in transportation so far, experts talk about the decline and change of profile in deliveries. In 2003 oil product transportation by railway was 20.7 mln tons, and in 2004 this figure rose to 2.3 mln tons. Transit of fuel and crude oil through Estonia was around 38 mln tons last year. Most of...
those products (24 mln tons) were shipped through terminals at the Muuga port, which handles about 65 tons of oil daily. But not all fuel shipments are transported through the Muuga port; the terminal at Paldiski is also in the race as well as the Sillamae port, which began reloading cargos recently.

In general, oil product reloading is falling as suggested by the statement made by Rene Varek, marketing director of the Estonian railway company Eesti Raudtee. “April last year was the best month by transportation results and the cargo amounts have been falling since then which will affect also our cargo turnover in future,” said Varek. Cargos carried by Eesti Raudtee amounted to 63% of the total cargo turnover in April this year but have dropped by 6.2% or 1.44 mln tons from the same period in 2005 to 9.26 million tons. The reason for this is the reduction in crude oil shipments while the trend for oil products is just the opposite. “For example, crude fuel oil transportation has increased by 24% and diesel petrol by almost 50%,” Varek told the Estonian daily Aripaev.

Recently the Estonian press has published a growing number of articles about the Russian capital taking over fuel transit in Estonia. Russian companies already own several terminals and railway operators. But opinion differs on the subject: thus, the Security Police (KaPo) has published a report, suggesting that influx of Russian capital into strategically important branches of economy might pose a threat to Estonia sovereignty although the business circles are of a different opinion.

Oleg Ossinovski, the board chairman and co-owner of Spacecom railway company, does not understand why Russian capital is regarded so badly for Estonia. According to his opinion, published in the same daily, entry of large companies can bring to Estonia new supplies. “Competition is quite high in local oil transit business and nobody would be able to dictate anything here. Local terminals now offer almost the lowest prices and their profitability is rather low,” said Ossinovski.

Aadu Luukas also shares this opinion; he wanted to sell his shares in Pakterminal to Russia’s Severstaltrans group but other shareholders of the terminal bought it, exercising their right of internal advantage. Luukas told the newspaper Eesti Ekspress that the Russian holding company had purely economic interests in Estonia and any politics were just out of the question.

Spacecom last year that cargo turnover had dropped by 40% due to high excise tax on fuel. The Tallinn port explained the reduction in shipments by growing demand on the Russian domestic market, oil price growth in the Russian Federation, construction of new terminals, increased output in oil refining, higher excise taxes in Russia and preference for pipelines in oil transportation.

Despite constantly rising prices on fuel the consumption of motor fuel is growing. The most important event in global gas station issues was not the price increase on the world market nor expansion of the product range (biofuel), but acquisition of Hydro Texaco gas station chain UnoX by Alexela, as well as an increase in the stock capital of Skinest Grupp owned by Ossinovski which bought about 40% shares in Alexela Oil.

“IT is all about business, and if a person regards himself a businessman he must make money,” said Ossinovski, answering a question of why he need a low-profit business. Following the takeover of the Hydro Texaco gas station chain, Alexela already ranks third by fuel sales. Now about 18-20% of the market can be attributed to Alexela Oil AS. Only Statoil and Neste have larger market shares: 25% and 30%, respectively. Another 10% of the market belongs to LUKoil Eesti. The rest is divided between small companies such as Olerex, Favora and Saare Kutus. One of Alexela Oil shareholders, Heiti Haal said that in future the company should increase its market share to 22%.

Now Alexela Oil AS system includes 58 gas stations, Statoil has 51 stations, Neste 36 stations and LUKoil Eesti 30 stations; totally, there are 517 gas stations registered in Estonia but the giants definitively have taken over the market.

Mr. Haal compared Estonian domestic market with the Latvian one where in the national structure a new oil-trading company, on average, has also about 5 gas stations. “Companies have not yet managed to consolidate on the Latvian market, as it has happened here. They have many companies with 5-10 gas stations there,” he said, adding that there were hardly any small gas station chains left on the Estonian market.

Alexela has already announced its plans for the future. The gas station chain founded with the Estonian capital and still held by it intends to strengthen its positions not only in Estonia, but also in the other two Baltic countries.

Mr. Ossinovski thinks that no new players would enter the fuel retail market in Estonia. “Shell has left, Hydro Texaco has left. Everyone intends to expand but a low-profit market is unlikely to attract anyone,” he said. Estonian Oil Association executive director Toomas Saks also agrees that the market has stabilized. In his estimate diesel consumption reached 500,000 tons last year and gasoline consumption was at the level of 400,000 tons. “Last year, as you know, was rather complicated; it was quite difficult to sell fuel in view of continuously growing oil prices, but this year a record-large number of cars were registered, giving us hope for a better year,” said Saks.

As to illegal fuel delivery, in the first quarter of this year customs officers checked 187 gas stations in Estonia and detected 33 cases when low-quality fuel was used. Customs authorities seized about 100,000 liters of low-quality fuel.
15th Kazakhstan International Oil & Gas Exhibition & Conference

2–5 October 2007
Almaty, Kazakhstan

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Russian energy industry’s development prospects
An address to the Baltic Russian Institute audience in Riga

By Viktor Kalyuzhny,
Russian Ambassador to Latvia

No doubt that today’s energy issue is an important factor in both social, economic development and human progress and has a direct influence on the global population’s welfare. Energy is a key sector of world economy; yet, it is developing extremely unevenly, being subject to serious risks, e.g. political as well as economic and environmental. Apparently this is the reason that the problems of global energy security have gained presently an ultimate importance.

Some figures can illustrate the situation in the energy industry: Russia occupies the first place in the world by natural gas export and the second place by export of oil and oil products.

Last year oil and gas production in Russia slowed down a little but it is still growing generally. In 2005 we achieved record-high production level since 1991 at 470.196 mln tons of oil. Natural gas production also hit a record of 640.63 bln cubic meters. Gas exports in 2005 reached 152.4 bln cubic meters, up by 8% from 2004, and oil exports increased by 2.4% from the year before. Electric power generation is growing steadily. Liquefied gas market is also developing very fast. I am not talking only about increasing production and Russian export of energy resources — today our country is ready and willing to contribute to introduction of latest technologies in resources exploration as well as energy- and resources-efficiency.

In the near future the Russian State Duma will discuss, it is expected it will adopt, some very important bills concerning taxation of mineral deposits’ extraction, as well as new regulations for use of the underground deposits, including conditions for foreign capital’s participation. These bills are intended to ensure maximum convenience, transparency and predictability of the conditions for running energy business in Russia.

It is principally important, to my mind, to develop today a common vision of threats to global energy security and, based on this, to determine the most efficient approaches towards overcoming the existing problems. Russia supports pooling of
efforts by the entire international community for joint solution of a number of problems. This is in particular one of the aims of Russia’s G-8 presidency this year.

**PRIORITY ISSUES**

First of all, the world economy needs reliable supplies of traditional types of fuel on terms acceptable to both producing countries and consumers. In this regard combating energy poverty is an important issue as well.

Secondly, diversification and security of energy supplies, including counteractions to terrorist threats, as well as nuclear energy development, energy saving, search for breakthrough energy-technologies and prospective environmentally-clean energy sources.

Russian leadership in global energy supply is a strong factor in our relations with partners on different continents and also in the general development of global economy issues. Therefore it is important that future actions would also ensure that unique energy resources would bring us tangible profits, that Russia would keep the reputation of a reliable and responsible partner in the energy resources markets. It is to this end that we are stepping up our efforts towards export routes’ diversification.

At the same time, serious concerns exist as to the latest trend of politicizing everything that is related to energy. Allegations are distributed broadly about Russia’s using its energy resources for exerting political pressure on its neighbors. Some people even go as far as saying that Moscow would use its gigantic energy sources as “a new weapon” to intimidate other countries and make them more cooperative.

**LEAVING SOVIET PRACTICES BEHIND**

As strange as it may seem, the reason behind such accusations was Russia’s decision to leave behind the Soviet practice of selling natural gas at extremely low prices and to switch to a new pricing mechanism based on market economy principles. Certain Western mass media, politicians and experts rushed to declare this move as politically motivated, even though any objective observer would see that it was just the opposite, i.e. it was the old gas sales arrangements, costing us billions of dollars annually, which were based on political reasons.

During last 15 years the CIS countries received natural gas on certain delivery terms that were different from those applied to other European consumers. The special pricing system used in respect to those countries was based on the historically evolved interdependence between former Soviet republics and in the hope of increasing integration with Russia. In fact, it was a policy adequate to a transitional period intended to provide economic support to “comrades of the former common house” at initial developmental stages. To continue such practice of supplying those countries with energy resources at bargain prices in present conditions would not just be against common reason but would mean subsidizing several industrial sectors in sovereign countries, as well, the fact consequent detrimental to the interests of our energy companies’ shareholders.

Now, when the Russian government is switching to the generally accepted pricing mechanism based on market principles, and this is exactly the essence of the recent agreement on natural gas deliveries that has caused so many disputes, we are being accused of politicizing the energy issues.

Russia’s attempts to diversify the routes for natural gas transportation to Europe, namely, the construction of the North-European gas pipeline along the bottom of the Baltic Sea, are sometimes perceived as certain political games designed to hurt out neighbors. The true motive, however, is to ensure predictable and uninterrupted deliveries to both the Western Europe and our neighboring countries on terms equal to all consumers.

Thus, oil and gas, as we see it, is neither a stick nor a carrot but rather a strategic direction for mutually fruitful cooperation oriented towards stable developmental prospects and based not on short-term political conjuncture but on universally recognized and adopted market background.

**COUNTING ON PARTNERS’ UNDERSTANDING**

Naturally, we count on our partners’ similar approach in these issues, as well as on their readiness to take into account Russia’s interests as the largest energy supplier, primarily to Europe. Specifically it would mean first of all making it easier for operators of our fuel and energy complex to gain access to foreign hydrocarbon sale’s markets and refineries, including a widespread international practice of core assets’ exchange. It is one of the tools for ensuring steady optimization of the global energy supply. We are working in this direction together with our German partners (the largest German oil and gas company Wintershall, a subsidiary of the BASF concern, and the E.ON concern; the latter owns, in fact, the largest share of the European gas transportation and distribution infrastructure). We are open to similar cooperation with representatives of energy companies from other countries.

Mutual strengthening of energy security would also benefit from introduction of such a legal framework in our relationships with the foreign countries, which would take adequate account of the long-term nature of investments into oil and gas development projects and, accordingly, the long periods of economic returns in such projects. In other words, measures aimed at making deliveries secure should be complemented by measures for securing the demand. It means that here we also suggest acting according to the rules of the market.

It would seem that this would be the best action from the perspective of harmonizing interests of all energy market players, including suppliers, transit operators and consumers. In such an approach the required preconditions will be created for coordinated efforts towards expanding exploration and development of new hydrocarbon deposits, both inland and offshore.

**TO DIVERSIFY INFRASTRUCTURE**

We fully understand the consumer-countries’ intentions to diversify sources of imported energy resources in order to protect themselves in a certain way against turmoil in political or economic situation in suppliers’ states, and/or unexpected breakdowns. Russia as a producer country also seeks to diversify its energy infrastructure. Russian companies are already implementing steps that would have strategic importance for real strengthening of the global energy security. It would be enough to mention such major projects as construction of the North-European gas pipeline and formation of the East Siberia — Pacific Ocean oil pipeline system. If the former is important for Europe, first of all in reduction of transit risks, the latter would lessen dependence of Asian-Pacific region nations on supplies from the Middle East where risks remain rather high.

A landmark event in this respect was the signing of memoranda during the recent visit of Russian President Vladimir Putin to China concerning preparation of long-term contracts for delivery of Russian natural gas and construction of two gas pipelines in China that would increase the combined annual throughput capacity to 60-80 bln cubic meters.

In order to improve investment climate, it is important to find compatible working standards for foreign companies on the markets of the countries that are con-
connected by energy flows. Non-discriminatory access to information about energy consumers and energy consumption, about plans and forecasts in the industry should be ensured. Openness and predictability of the supplies should be equal to openness and predictability of the energy demand. This formula establishes responsible interdependence to the benefit of all.

SECURITY AND ECOLOGY

This approach is not contradictory to our main thesis: energy security is based first of all on efficient functioning of global and regional energy markets. The market itself will determine the correlation between various forms of agreements and contracts. The state may interfere only if dominance of one particular form offsets efficient functioning of the market.

Of course, the role of the state is not restricted to this. The state must respond to extraordinary circumstances on the energy market and we think that it should also cooperate closely in formation of the technological background for future energy sources, for example, nuclear energy. Naturally, those objectives cannot be implemented efficiently without appropriate regulation by both international organizations and measures on the national level.

At the first glance, the situation on the world energy market seems to be quite favorable for Russia. At the same time we, in line with energy-consuming countries, cannot help being worried about continued instability of prices for energy resources. In our country it results in growing inflation and deepening distortions in the economic structures; the Russian economists have always voiced their concern. We do not feel safe either from the possibility of steeply falling prices for hydrocarbons, although it looks rather unlikely at the moment. Therefore one of our priorities in the dialogue with foreign partners is the discussion and commonly developed measures that can stabilize prices for energy resources.

Experts have estimated that by 2030 up to 80 per cent of the global energy demand would still be satisfied by hydrocarbons, although it looks rather unlikely at the moment. In this respect the priorities are not just about intensifying extraction and transportation of energy resources but also about producing energy from non-conventional hydrocarbon sources in an environmentally safe manner. In order to achieve that, we have to make hydrocarbon energy industry more efficient, innovative and environmentally responsible.

Ecology is an important aspect of energy security. We all know well that expansive “consumerist” approach to nature leads to an impasse. The problem of providing developing countries with reliable and economically accessible energy services should occupy a serious place in our joint actions. The G-8 summits are dealing constantly with those issues. And in this regard we cannot avoid talking about development problems concerning energy security and energy policy. Of course, the energy industry itself won’t solve the poverty problems. And energy deficit significantly hinders economic growth; irrational use of energy resources may result in environmental disaster of a global rather than local dimension.

We are capable of offering the developing countries real assistance in introducing efficient and accessible energy technologies, including those based on renewable energy sources.

Today we have a unique opportunity to open a new era in global energy history; its aim lies in transition from separate projects, from bilateral talks to a global energy partnership.

The speech has been abridged for present publication.
5th International Conference

Investment in the Baltic Metropolitan Regions

24 - 25 August, 2006

International Conference
24 August, 2006

Mayors Meeting
24 August, 2006

Youth Conference
25 August, 2006

The Baltic Challenge Award 2006
24 - 25 August, 2006
In the middle of the last summer, the largest bank in Northern Germany, “Norddeutsche Landesbank (NORD/LB)” signed an agreement with the largest financial services group in Norway “DnB NOR” on the creation of a joint enterprise — bank “DnB NORD”. This new bank has already commenced its activities in all Northern European countries, and now the bank “NORD/LB Latvija” has also joined this financial services group.

What the bank “DnB NORD” is all about, and what new opportunities will be offered to the current and potential customers — BK addresses these questions to the President of DnB NORD Banka Andris Ozolins.

Surveys show that Latvia is confidently entering the markets of the Baltic Sea region. As is well known, the bank “NORD/LB Latvija” was an element of the banking network in all the countries at the Baltic Sea. Could you specify, what are the basic trends from your point of view?

As a matter of fact, the ties of Latvia and the other Baltic States with Northern European markets strengthen every year — the activity of our companies in these markets is increasing, followed by an increase of the activities of Baltic investors in Latvia. Exchange of experience and know-how has also become much more active. Since the bank “NORD/LB Latvija” has been an important element in the network of the “Norddeutsche Landesbank” subsidiaries, branches and representative offices in the Baltic Sea region already from the year 2000, we have eye-witnessed this development for five years and now we can say that Latvia has entered the markets of Northern Europe and is here to stay. In the recent years we were pleased to see Latvia feeling itself more and more confident in the free European Union market in terms of its competitiveness, and we would like to support our country in this competitive struggle by providing more favorable terms of financing as well as all the necessary consultations. And I am convinced that the experience and the resources of our new shareholder — “DnB NOR”, the largest financial services group in Norway — can offer our current and potential customers more and more new opportunities in the markets of the Baltic sea region!

In what way will the presence of another strong shareholder influence the development of your company?

The bank “NORD/LB Latvija” was among the fastest-growing banks in Latvia: a steady increase in assets, credit portfolio and deposits has been maintained already for many years, and this growth was much faster than the average growth in the banking sector.

Over the last years, the increase in the number of the bank’s customers has also been very impressive. Surveys show that the bank’s customers have had confidence in “NORD/LB” — and they have had all the reasons to! We are really willing to maintain this fast development, and we are very pleased to point out that the bank “NORD/LB Latvija”, together with its strategic partner, the largest bank in Northern Germany, “Norddeutsche Landesbank” — has gained another very strong shareholder. In the middle of year 2005, the subsidiary of “Norddeutsche Landesbank”; the bank “NORD/LB Latvija”, signed an agreement with “DnB NOR”, the largest financial services
group in Norway, on the creation of a joint enterprise — DnB NORD Banka. At the end of the year 2005 the creation of the new joint enterprise was successfully completed. Thus, indirectly DnB NORD Banka is owned by the most powerful banks in Germany and Norway.

People in Latvia are not very familiar with the bank “DnB NOR”. Could you, please, tell, what this bank is all about?

DnB NOR is the largest financial group in Norway and an outstanding player in the financial markets of the Scandinavian region. In Norway, the bank “DnB NOR” is an undoubted market leader in the field of credits and deposits, funds, asset management, insurance and pension funds, payments and financial services, real estate business transactions, as well as in the field of services related to money and capital markets.

Usually the role of an enterprise in the market is characterized by its volume of transactions, and, generally, the market share of its activities. Could you provide us any specific figures, just for the purpose of illustration?

Yes, I will provide some of the corresponding figures in order to help you understand the current situation. For example, the services of the bank “DnB NOR”, as a “principal bank”, are used by approximately 60% of 300 largest enterprises of Norway. “DnB NOR” has claimed a market share of over 30% of services provided to individuals in Norway. This bank provides its services to more than 2,1 million customers and has established the largest network of bank branches. In addition to the aforementioned, the financial group “DnB NOR” also includes the largest life insurance company in Norway, the largest asset and market management company in the country, as well as the largest Norwegian company in the field of real estate business transactions. The joint total asset volume of these financial groups is as high as EUR 182 billion. These figures make evident that our bank and all its current and potential customers have gained a strong partner to cooperate with — a joint enterprise formed by the most powerful bank of Northern Germany and the largest financial group in Norway — the DnB NORD Banka.

What kind of changes will the customers of the DnB NORD Banka face in the near future?

The bank “DnB NORD” commenced its activities in last January and now, as the saying goes, “is picking up its speed”. The Head Office of “DnB NORD” is located in Copenhagen, and in May of this year all the subsidiary enterprises of the bank “DnB NORD” in Latvia, Lithuania, Finland, Denmark and Poland have changed their names. In Latvia, we have also changed the name to “DnB NORD” — thus we have made clear to all our customers that our development continues and that we have gained another reliable shareholder.

What new services will be offered by the DnB NORD Banka to its current and potential customers?

I am convinced that the bank “DnB NORD” in Latvia will provide to all its customers the opportunity to make use of the additional knowledge and experience in the crediting of small and medium enterprises as well as in the field of capital flow management, and to make use of the advantages provided by the large banking network and the benefits from more favorable financing. Our partners in Northern Europe believe that the bank “NORD/LB Latvija” represents a unique example in the history of development of companies — four years ago this bank was the 14th in the banking sector of Latvia in terms of asset volume, but today our bank has already reached the 4th place. But I believe that within the framework of the new cooperation the development of our bank will be even more dynamic, fast and stable and will benefit the bank’s customers in Latvia as well as in other countries!

Toll-free phone number: +371 8008005 •
The US business mission to explore opportunities

By Eugene Eteris, from Riga

Although the official title of the even was a “mission”, it seemed in fact more like a business-forum. About 50 US business investment and trade officials have come to explore opportunities and develop cooperation contacts with the partners in the three Baltic States. Major “theoretical discussions” occurred in Riga, Latvian capital, but the US “missioners” visited the two other Baltic States in order to witness some practical US-Baltic business cooperation efforts. At the same time the Baltic States could assess their strong and weak potentials in cooperation with the US.

NATURAL ALLIANCE’S BRIDGE

In Latvian President’s address to the forum Vaira Vike-Freiberga underlined that “the Baltic States are good both for doing business with and good doing it from” stressing the important geographical advantage of these countries as “a natural bridge” between East and West in Europe. Economy ministers from the three states emphasized the competitive advantages of their countries. Thus, Estonian minister, Edgar Savisaar explored the country’s opportunities in new information technologies (ITs), including world-famous “skype-technology” invented in Estonia, IT application in public administration (ID cards and e-government) and flat tax in personal taxation as a tax revolution in the EU. The latter is 23% regardless of the income’s size.

Lithuanian minister, Kestutis Dauksys underlined that out of the three countries in Eastern Baltics, Lithuania is the most developed one, i.e. it provides about half of the region’s GDP (Latvian share is 29% and Estonian — 24%). IMF in its recent report praised the country as a good place to run business. About half out of 40 best IT companies in the Baltics work from Lithuania. Besides, the country produces about half of the world lasers.

Latvian minister, Aigars Stokenbergs stressed generally favorable business and tax environment for corporate activities, stable economic development (about 10% GDP growth in 2005) and growing foreign investments, which presently reached about a third of Latvian GDP. This favorable business climate was the main reason behind the US Chamber of Commerce membership’s growth in Latvia from 30 to 130 during the last decade only. About 15 hundred companies with the US capital are actively involved in Latvia. It was regarded as important that Latvian foreign trade balance with the US has been positive for second year reaching presently 144 mln USD. Although generally foreign trade in the Baltic States has been constantly negative: 2.8 bln USD in Latvia, 2.7 in Lithuania and 2.0 in Estonia in 2005.

THREE ROUND-TABLES

The discussions proceeded along three main directions organized in round tables. The first one was dedicated to investment issues, such as insurance markets in the Baltics and risk management (Kim Knaup, Aon Internat.), credit weaknesses, inflation rates and securitization (Yaron Ernest, Structural Finance Group), as well as real estate trends in the Baltics (Peter Gage Morris, Ober-Haus Real Estate). Specifically interesting for the forum’s participants was information concerning favorable tax climate in the Baltics, e.g. low corporate tax (15% in Latvia and Lithuania and zero in Estonia for in-house profit investments, the US tax-range is more than double). Both business leaders from the Baltics and various economic sectors’ representatives underlined their favorable investment climate. Some big US companies have already entered the market and due to these advantages experienced high returns, i.e. Boeing, General Electric, McDonald, etc.

The second issue for discussion was investments’ industrial opportunities in the Baltic States. Of particular importance have been investment options in high-tech industry (Karlis Cerbuls, New Century Holding), IT technology (Sandis Kolomenskis, Microsoft Latvia), biotechnology (Andis Sluitas, Syntagon Baltic, Ltd) and transport and logistics (Roman Baumanis, PBN Company Baltics).

The third sphere of discussions has been devoted to least developed in the Baltic theme of public-private sectors’ cooperation, although highly attractive in the West though it is barely a decade old. It was noted that business could have bigger role in public services, the issue for the round table on “public-private-partnership — PPP”. In this sphere Estonia is just at the starting point, Latvia is “in the middle” (with only 14 projects in operation) and Lithuania as the most active. The EU structural funds are available for the purpose of transposing public functions to more efficient private management.

STRONG BELIEF

It has been commonly accepted at the forum that the US was the Baltic States’ strongest political supporter. Some officials even voiced the idea that in spiritual and political influence the Baltic States were more “American” than “European”. It seemed that everybody agreed with the positive US role in the Baltics efforts to join NATO and the EU in 2004. Although the politics and economy must be sooner or later divided, better sooner. The US is still too far away though the Baltic States are the EU members, which is a compelling fact.
2 October 2006
WORLD TRADE CENTER - 2, Moscow, Russia

3rd International Convention for Meetings Incentives Conferences and Events
Investments with the American optimistic approach

By Olga Pavuk

The article with the same title appeared in 1994 in the daily Business&Baltija (B&B) describing the investment fund New Century Holding’s (NCH) initial steps on the emerging market in Latvia in the start of 1990s. Today we can assess the American investors’ activity in Latvia showing the scheme of venture capital installment into almost all spheres of national economic development, taking NCH as an example, and “creaming off” a very risky — and therefore highly profitable — market.

It is somehow interesting to note that now it’s impossible to find any reliable information about NCH, not even through the net, except a small reference to the fund with the same title placed on a Bulgarian site working on Bulgarian property market since 1993. Therefore, all information used in the present article is based on author’s personal notes and accounts of the meetings with the NCH’s holding representatives in Latvia.

A FEW WORDS ABOUT THE NCH’S HISTORY

The NCH’s history goes way back to the early 1960s when among the Stanford University staff (the latter is well known for creating the Silicon Valley concept) one of the first US venture capital funds has been born. Alongside attracting funds for quickly developing global electronics’ industry, these funds have been actively involved in investments into the Latin American developing economies. This valuable experience has pawed the way for Americans into quick entrance on the new post-Soviet market territories.

The NCH has been specifically created for the purpose of investments into the former USSR republics and Eastern European states. General NCH’s operating assets in November 1996 were set at 750 mln dollars with the investment period limited by 2006. Most of the funds — about 550 mln dollars — were invested in Russia, although some resources were used in Ukraine, Kazakhstan, Bulgaria, Rumania and the Baltic States. According to Russian press, this American fund acquired (often through affiliated companies) formidable assets in Eastern companies; i.e. 40% shares in Northern-Western Shipping Company, 25% shares in St. Petersburg’s telephone network and 40% shares in Eastern Trans-Shipping company, to name a few.

As precisely to Latvia, the NCH’s two funds invested 310 mln dollars into its economic development.

Already in 1995 the NCH signed an agreement with the US government OPIC-fund (Overseas Private Investment Corporation) in which the latter provided investments’ security at the level of 75% to initial investment sums. In return, the OPIC received a specified share of the NCH’s profits. Thus, OPIC has taken the role of an insurance agent for the NCH’s investment funds; the fact that greatly reduced in general the latter’s incurred investment risks.

Generally speaking, as to November 1996 the NCH already created nine investment funds with various investment portfolios and activity directions, which have been united into a holding for the sake of simplified management. The NCH’s founders and investors represented big US banks and financial corporations, as well as some of the US universities, e.g. Harvard Endowment Fund, with the total actives exceeding 5 bln dollars. Operating liquidity and security of the NCH’s participants from the US were at the level of billions of dollars, therefore the participants’ direct overseas investments constituted a small fraction of their resources used in the NCH. None of the participants invested more that 3 per cent of their operational assets; the single investment’s share never reached more than 10 per cent of assets.

As to the NCH’s assets’ management, none of the investors took any part in it; all decisions have been taken by the fund’s administration team. For the taxation “optimization” schemes most of NCH’s daughter companies were registered in off-shore jurisdictions. Needless to say that NCH itself has been registered in an off-shore zone in Bermuda Islands. The NCH’s head office was situated in New York, where all the important decision making concerning funds’ proceeding have been taken.

Initially the NCH’s interests in the Baltics, including Lithuania and Latvia, have been represented by a Riga citizen — Grigorij Levin, well known from the Soviet time to all jazz-fans. And somewhere in 1994 the initial information about the American fund has crippled into the Latvian media. Thus in 1994 Mr. G. Levin told to the article’s author about the NCH’s very first steps: according to Levin, the fund “entered
the Baltics together with the so-called Baltics’ song-revolution under the wings of an international religious organization. For the following three years the fund’s activity has never been the focus of attention in media. Today we know perfectly well that such companies are very cautious in relation to press, being at the same time quite professional in using mass-media to forward its investment aims.

But all that we know today... Way back to the start of 1990s we only started to approach the basic rules of the market economy development. And the experience gained can give us the chance of explaining step-by-step efforts of risk-investors trying to conquer our economy.

**FIRST PROFITS CAME FROM BANKS**

In the beginning of 1990s the NCH has been co-founder of several Latvian commercial banks, including Depozitu banka and Sakaru banka. Thus from the start the NCH could acquire quite solid annual profits. It has to be mentioned that at that time interests in the bank were at the level of 60 per cent, and more. Good profits could be made from the bank’s deposits, interests on which have been fantastic: from 36% in Sakaru banka to 90% in Banka Baltija. The latter was a good source for profit; at least up to 1995, when the Banka Baltija collapsed, alongside some other companies which activities have been based on borrowing residents’ liquidity. Several banks, including those mentioned above, went bust and the NCH was forced to find another ways of investments.

**ON RUSSIA’S SECURITY MARKET**

After Latvian financial crisis in 1995, the NCH moved to other commercial banks, including Riga Commercial bank, successfully proceeding to earn profits at quite fashionable at that time for foreign investors’ manner, i.e. investing in Russian securities papers. Most of the Latvian banks have been involved in these operations too, up to the middle of 1998 when the next financial crisis occurred, that time as a consequence of Russian default in payments. Several banks, including Riga Commercial which invested in Russian securities a major share of their assets were forced into bankruptcy. Something to remember: the NCH’s interests in Riga Commercial at that time were represented by Mr. Karlis Cerbulis, the person we’ll talk about later.

**MAJOR PLAYER ON THE INVESTMENT CERTIFICATES’ MARKET**

Another step in development, though quite logic for the NCH, was to take part in privatization processes — first in Russia, then in the Baltics. We could suggest that it was the main aim of the NCH’s fund, as well as that of several other funds entering the ex-USSR territory, to take part in state property privatization processes, assisted by quite profitable deals with vouchers and other privatization papers alike.

It was exactly in the year 1994 that in the B&B daily a reference to another Mr. Levin appeared, that time named Mr. N. i.e. Vladimir, happened to be the abovementioned Mr. G. Levin’s brother. From various source we could get information on Vladimir’s actions in acquiring investment certificates (ICs) in enormous amounts through a deposit system in one of the Riga’s banks. It could be asserted that NCH at that time with the help of various contact persons had become the major operator on the ICs market in Latvia. With the ICs face value in 1994 of 2 lats, they could be bought from people at the price of 50 santims up to 5-6 lats. At the moment there were more that 350 firms involved in acquiring ICs in Latvia. As soon as in 1995 the ICs value increased drastically, a critical situation occurred when faked ICs in the amount of 1 mln lats appeared in the market; that information was released first in Latvian media by the author.

After the fake ICs case their value had reduced to 1-2 lats and for several years to come it had stayed at the same level. The criminal investigation concerning fake ICs has never disclosed any criminal persons behind the case, and the light on all the particulars of the case had never been thrown upon. What was definitely sure that several intermediary firms have been involved, including prominent Russian Sberbank.

**ENTERING STOCK EXCHANGE**

Above mentioned Mr. K. Cerbulis, Latvian citizen with the American descent, published in 1988 a first travel guide in the Baltic States in English. Before that, in 1993 having the counsel position to the Depozitu banka’s president (it was precisely at that moment in his carrier that we first got acquainted), he was heading an expert group aimed at creating the security market concept in Latvia. According to this concept, it appeared that the only stock exchange that could work in Latvia was Rigas Fondu birza (RFb). This concept asserted as well that in the beginning the only securities that could only be traded at RFb were shares of the companies which had been privatized with the use of the ICs.

Precisely in that year (1993) Mr. K. Cerbulis had become the first Rigas Fondu birza’s president; first trading shares appeared at RFb in summer 1995. During several years the NCH had acquired shares in all more or less important Latvian companies listed at RFb through ICs’ public offers, for example in Valmieras stikla skiedras rupnica, Rigas transporta flote and Ventspils nafta, etc. This acquisition has allowed the NCH to take acquire valuable part in the so-called minority share holders’ position. As a reminding evidence of that period’s events the author has retained a thankful letter signed by Mr. Cerbulis to acknowledge the author’s publication defending the minority shareholders’ rights which had been deprived of their rights in companies’ management.

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**Real estate transactions**

**Legal services**

**Apartment rentals**

**Lending**

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The final point in the privatization deals has been the acquisition by Levin's brothers and their spouses of about 8 per cent shares in Latvijas Unibanka, later on for a certain period transferred to the NCH. During that period, trading Unibanka shares had taken about 90% of RFb's activity until in 1998 the bank had found a new owner — Swedish bank SEB. As soon as the Unibanka left the stock exchange, it ceased for a certain period to attract investors' attention.

It could be specifically mentioned the most successful NCH's deal, i.e. acquiring major stock shares in Sidrabe's company; the NCH invested into the company about 1.5 mln dollars after which the company assets increased ten-fold. Sidrabe is one of the rare Latvian companies producing high-tech equipment (vacuum components) for export which volumes reached several millions of dollars.

At the same time, among NCH's failures could be mentioned involvement in such deals as participation in privatization of the following companies: sweets' production at Staburadze, Ventspils transporta ekspedicija, Latvijas kugneciba and Preses nams.

In 2001 the NCH and JSC Bastions ZS sold their shares (73.5%) in Latvian insurance company Balta to Danish insurance company Codan. In 2004 financial company NCH-Development Partners L.P. sold all its 2.024 million shares (84.7%) in Valmieras stikla skiedras rupnica.

CLOSING THE CIRCUIT

In February 1996 the Rigas Fondu birza changed its president; Mr. Uldis Cerps has become the new RFb president (he presently is heading national Financial and Capital Commission, country’s main securities supervising body).

Mr. K. Cerbulis announced his decision to stay off of the elections for the next RFb’s presidential post and told journalists at a press conference about his intentions to reside in Latvia and represent in the country the group of American funds connected to the New Century Holding. It is to be noted that up to that moment he always denied any connections to the American fund.

Presently Mr. Cerbulis is a member of the governing boards in several Latvian companies, e.g. Domuss, Nokte, Nadas, etc. where he represents the NCH’s interests. Latvian business community is still awaiting privatization of several big industrial “objects”, as well as about one million hectare of land; there are still out of use more that 7 mln privatization certificates, including about 3.5 mln certificates (as to April 2006) that have been registered on the accounts of various firms and companies. The certificates’ value increased two-fold in 2005 and for the first time since their start-up the prices reached the PCs’ face value.

PROPERTY DEALS ARE STILL ATTRACTIVE

There was another sphere which could not slip from the NCH’s attention, i.e. property market with its ever growing prices. The American fund got hold of the market at its early stages when in the start of 1990s the de-nationalization of residential dwellings had begun. During that period most of the owners of Latvian property market that lost everything during 1940s and settled abroad, retained their property and most often wanted to sell their unexpected assets to anyone offering a reasonable price. At the moment the new Latvian government has sold some of the state property, as well.

The NCH acquisition of property went through certain stages, as a rule, according to simple scheme disclosed by the Latvian Telegraf daily. Thus, in the middle of 1990s Mr. V. Levin first concluded land-leasing agreements and afterwards made privatization deals both for the houses and the adjacent land. In a couple of years the new owner, Mr. V. Levin sold the property to company specifically created to administer the property; that company was a legal owner while the property administration was carried by another company, Domuss. According to Latvian Company House’s statistics, Domuss is owned by NCH’s administrative “structures”, i.e. Development Capital Corporation (97.34% of shares) and Vista Capital Corporation LLC (2.66% of shares).

At a later time, at the end of 1990s Mr. V. Levin left the property acquiring scheme; the houses and the land have been registered directly on the name of the Domuss company. Such a change, most probably, have occurred due to the fact that up to May 1997 the Land Reform Law (art. 20) allowed only Latvian citizens the right of land acquisition to physical persons. Therefore, foreigners and aliens in Latvia could acquire land only through intermediaries; Mr. V. Levin was one of them in the middle of 1990s.

Through this scheme the NCH has acquired most attractive property objects in the Riga’s city center; the property administration and management has been performed by the NCH’s firm, i.e. Domuss. Up to 2005 the NCH has acquired more than 40 houses and 30 plots of land. This American company has been acquiring the houses in the most fashionable regions in “the old city” where during the time of the First Latvian Republic most wealthy citizens resided, or in the city’s downtown. The acquired houses were, as a rule, renovated later on according to European housing standards and then rented out on highest in the city price levels. Sometimes the NCH sells some of the houses, but again through very high price level.

Thus, one of the most spectacular NCH’s acquisitions is the building on Valdemara Street 7, where in the Soviet time the headquarters of the Baltic Military Command (or something of that sort) was situated, according to rumors. The house's acquisition history is quite typical to the period of property de-nationalization in the Latvian capital. Far back to the spring of 1940 the building owners managed to get a 400 thousand lats security on the house mortgage. In modern time, in the beginning of 1990s, according to the Law on Property Restitution, the building has been returned to their former owners, i.e. G.E. Graude and A.R. Lieb, the US citizens. The property at that time has been evaluated at the sum of 2452. 25 lats.

Already in 1994 the new American owners mortgaged the house in Sakaru banka at 1.2 mln lats with the subsequent rights to rent the building out as well as administer the house; as we remember, one of
The Baltic Course — Summer 2006

Economic History

**Venteure investors unite their efforts**

In 2003 Latvian risk capital association was organized gathering under its roof venture capital investors. Among the new members there were, besides the NCH Advisors Inc the following companies, e.g. Baltic Management Latvia, EKO Investors, Hanseatic Capital Latvia, Small Enterprise Assistance Funds, etc. These companies render financial resources for such projects’ implementation which are risky and experimental in nature but quite promising in future returns. Venture capital’s working scheme is quite simple, e.g. a venture fund invests into the research company initial capital of about hundred thousand lats and becomes the company’s co-owner. If the company successfully allocates given resources, it can expect additional several thousand lats financing next year. “Sponsor” can get profit together with the company, then after 3-8 years it can leave the company and sell its shares to other co-owners, strategic investor or bigger venture fund.

It is expected that in such a way Latvian SMEs can acquire for their perspective projects during 2006-2008 about 21.8 mln lats. Latvian entrepreneurship guarantee’s agency signed a contract for these funds’ distribution with the three financial companies which were selected through special tenders: TechVentures Fondo Vadibas Kompanija, Zalas gaismas investicijas and EKO investors.

Abovementioned funds Latvia has acquired from the EU program on “State support for venture capital arrangements for SMEs”.

In February 2006 Latvian Council of Ministers adopted privatization scheme for the state JSC Uzņemejdarības valsts atbalsta fonds. This fund has been the first local venture investment company in Latvia providing security for SMEs initial capital registered in the country in return for co-ownership in the SMEs. Somehow the Council of Ministers has been generally quite reluctant towards state support for business activity and do not want in this way sustain competition with private companies.

As to the mentioned NCH fund, during last several years it has become a member of a respectable organization, i.e. Foreign Investors Council, which was established by solid investors with the aim of conducting active dialogue with Latvian government concerning facilitating business environment. Thus, it takes about 10 years for the “venture capital” to become an integral part of Latvian investment policy.

**Disgrace in a noble family**

Despite the NCH’s very accurate mode in relations to media, scandals could not be avoided, anyway. Thus, for several years, up to 2002, Mr. Kalvis Bricis has been Domuss’s director; he moved then to the general director’s position in State Property Agency. Due to internal intrigues in the Agency he was first fired, then restored in his position and then again lost it under a plausible pretext of the Agency’s re-organization, which turned into JSC Valsts nekustamie ipasumi.
The European Union: energy issues

By Eugene Eteris,
European Integration Institute, Denmark

In our magazine’s previous issues we have already addressed some aspects of energy problems in the EU. But the magnitude of these problems and urgent steps required for their solutions needs more eloquent approach. With this in mind, the BC has decided to make a series of articles depicting the background of the problem and the ways for its expected resolution. The first one appears in the present BC issue.

DEPENDECE IS USUALLY BAD

European region has been always sensitive to energy import: presently more that half of region’s requirements in oil and gas is covered by import from third countries, mostly from Russia. It is generally accepted that without cardinal measures to confront the situation such dependence can increase to about 70 per cent in a couple of decades.

Energy dependence is far from being a simple political issue, it most directly affects consumers. Thus in 2005 only the prices for gas increased in Europe by an average of 8 per cent. In the Baltic States the growth was relatively small, i.e. 4-5 per cent, while about 7-12% in the UK and France to 15% in Germany and Holland, to 22% in Sweden and 27% in Denmark. In the EU-25 an average increase reached 12 per cent, which is both sensitive for consumers and disturbing for politicians.

It has to be acknowledged that there are no EU member states “completely independent” in energy context, except the UK and Denmark: the former is by 6% in the positive balance, the latter — by 39 per cent. In the old EU-15 energy dependence had been at the level of 52 per cent; the new EU-25 is by half dependent on import of energy resources.

Global oil markets are interconnected, and the oil prices are set internationally. The simple truth is that supply disruption in any of the oil producing countries will have almost immediate impact on gasoline prices in Europe. It seems that the term “energy independence” shall be dropped from both political and economic lexicon. Instead, we have to focus on curbing oil consumption, i.e. as the amount of oil to produce a thousand euro GDP unit.

THE UTILITIES’ GIANT-SIX

It’s well known that energy sufficiency is a major factor in any national economic development. Much less is known about the fact that energy market in Europe is dominated by the energy giants. The present situation among the giant-six in Europe is seen in the following table:

<table>
<thead>
<tr>
<th>Country</th>
<th>Capitalisation (billion euros)</th>
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<tbody>
<tr>
<td>Gaz de France (France)</td>
<td>32.1</td>
</tr>
<tr>
<td>Electrabel (Belgium)</td>
<td>27.7</td>
</tr>
<tr>
<td>Centrica (the UK)</td>
<td>18.0</td>
</tr>
<tr>
<td>E.ON-Endesa (Italy-France)</td>
<td>18.5</td>
</tr>
<tr>
<td>(Italian)</td>
<td>(French)</td>
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</table>

The giant-six’ existence is the result of historic utilities development in Western Europe; important to mention here that these “giants” are both ardent further utilities’ concentration supporters (the recent merger between the German and Spanish utility networks E.ON-Endesa, or Italian-French utilities can be mentioned) and adherent defenders of existing market structures (without any
further changes). In the EU countries the giants managed to hold monopoly in the market during last several decades; some modest steps to liberalisation are envisaged here only in 2007-08. Another negative aspect of giants’ presence in the sector is the stable growing prices for energy. All consolidations that took place in the recent past have been taking place without consumers’ association involvement.

The EU leaders have constantly reminded of the necessity to increase competition in the market and reduce prices. So far without great avail.

ENERGY SECURITY

The EU “green paper” published in late February 2006 revealed Union’s growing dependence on external energy supply; it was acknowledged that both internal and external policy actions were needed. Several commissioners have been involved in the problem’s resolution. Thus, Benita Ferrero-Waldner, EU commissioner for external relations and neighborhood policy argued that “we have to use our internal and external policy to bring about safe, affordable and sustainable energy supply for EU citizens and industry. This is not about choosing one partner rather than another; it’s about maintaining diversity of energy supply”.

Neelie Kroes, EU competition commissioner promised to step up actions in order to rid the EU electricity and gas market of “real market distortions”.

Andris Piebalgs, energy commissioner promised to take a number of member states’ government to the EU court for failing to comply with the Union’s legislation on open energy market and increasing its efficiency. He intends to suggest further legislation if already existing directives proved not enough to free up the energy market.

Russian, Norway and Algeria cover about half of the EU’s gas needs; this dependence is expected to increase. The “green paper” suggested 600 bln euro investments in the next 20 years to reduce Union’s energy dependency and increase sectoral security.

As to Russians, officials in the Commission said that the EU missed an opportunity to influence changes when in 2004 the EU asked only for minor reforms in Russian gas sector in return for backing Russia’s bid to join the WTO. Energy security is the central theme of Russia’s presidency term during the G8 meetings. Alexei Kudrin, Russia’s finance minister said this June that to find unity on energy security energy producers needed “the security of demand” while energy consumers — “the security of supply”.

HOW TO REDUCE THE PRESSURE

According to experts (e.g. Financial Times, 28.06.06, p.12), the annual global energy output from burning fossil fuels since 1900 alone has risen 16-fold; it has doubled since the late 1960s. Some suggest that the demand for commercial energy might rise 5-fold throughout this century. So, to reduce global energy consumption and that of the EU would be a nice dream.

European Commission as the main EU energy regulator has constantly reminded about three main aspects in the contemporary EU energy policy:

• to secure the stability of energy supply into the EU-25;
• supporting competitive energy price system in the region;
• taking into consideration environmental aspects of energy production.

The energy’s pressure relief has another important aspect, i.e. providing incentives for the EU member states to create “balanced mix” of energy resource consumed, including transfer of the traditional resources such as coal into clean forms or other renewable resources (wind, sun, etc.). There is a clear sign of coal usage renewal on lines along its clean production and consumption.

At the same time the EU is, in principle, against the nuclear energy; although it is primary the decision of the member states themselves that settle the case.

THE WAY FORWARD

Present energy situation in Europe has coped with strong concern about the lack of competition in the EU energy markets; possible threats to the security of supply and the rising cost of fuel; the latter jumped to the highest since the oil crisis in early 1970s. In the European Union Report on Energy adopted this June, the EU officials and member states’ ministers for the first time ever recognized the necessity to split off transmission systems such as pipe lines and grids that the utilities’ companies control. The document said that network operators “should only operate as market facilitators, not market participants’ Such co-ordination requires that transmission system operators are effectively separated from competitive electricity and gas supplies.

Under the EU law, energy companies which at the same time own transmission grids are merely required “legally” to unbundle their operations, which means running them as separate divisions with separate accounts.

The report also proposed changes to the EU’s emissions trading schemes calling on member states to give different industries different quantities of emission credits so as to better reflect industrial sectors’ competitive pressures.

Without exaggeration it could be assumed that without extraordinary actions, future of present civilization lies with oil, gas and, probably, “old king coal”; the fuel that was at the heart of initial global industrial revolution. A recent OECD survey suggested that demand for commercial energy might double by 2050.

The best solution for governments and the EU is diversity of sources, open and flexible world energy market. The world can afford quite expensive energy; the only real trouble is whether the environment we live in can cope with the energy effect on climate change.
Russian Davos in the new Russia

By Olga Pavuk, BC’s special report from St. Petersburg

About 5 thousand political and business circles’ representatives from 46 world countries participated in the 10th International Economic Forum in St. Petersburg, which took place in June 13-15 in the “Lenexpo” international trade & exhibition complex. Alongside the forum a big exhibition has been organised. The biggest exposition was dedicated to energy issues. Various export production items from Belarus and Poland has been placed under one roof. In a separate pavilion investment projects from the Russian regions have been shown. The Baltic Course was the only media representative from the Baltic countries to witness the great event. During the whole Forum’s first day about 5 thousand political and business circles’ representatives from 46 world countries participated in the 10th International Economic Forum in St. Petersburg, which took place in June 13-15 in the “Lenexpo” international trade & exhibition complex. Alongside the forum a big exhibition has been organised. The biggest exposition was dedicated to energy issues. Various export production items from Belarus and Poland has been placed under one roof. In a separate pavilion investment projects from the Russian regions have been shown. The Baltic Course was the only media representative from the Baltic countries to witness the great event.

The the idea of Forum was born way back in Yeltsin’s time in Swiss Davos. Then, it moved during the first years of the present president’s in office to London where it was positioned as a forum to discuss the problems of Russian economic development. It has gradually turned into a noticeable event in international life where important issues are discussed and decisions are taken. A decade old Forum in St. Petersburg is the whole world unofficially called “Russian Davos” in the new Russia.

PUTIN SUCCESS REPORTS

During the whole Forum’s first day Russian president, Vladimir Putin spent in “Lenexpo”: no wonder the extreme protective measures have been taken to secure participants’ safety. President V. Putin has reported the Forum’s participants major Russian economy’s achievements and expressed his vision on some urgent national and global issues.

“Russian gold reserves have exceeded the amount of the country’s consolidated external dept. Russia does not need anymore external borrowings,” the president stated. The Russian leader has also reminded that the accumulated investments in Russia have reached 112 bln dollars, and that in 2005 for the first time in modern Russian history private capital inflow exceeded the outflow.

At the same time President Putin has acknowledged some “system problems” in Russian economy, e.g. relatively high inflation, monopolisation of a number of economy sectors, bureaucratic redtape and corruption.

PRACTICAL STEPS

The 10th Economic Forum in St. Petersburg, which was held in a renewed format, differentiated from previous events in its practical orientations. As Russian Minister for economic development and trade, German Gref put it, about ten big international deals have been concluded at the Forum with the total amount of 1 bln dollars. For example, an agreement with the Nissan car factory has been concluded for construction in St. Petersburg a General Motors car-assembling factory.

It could be clearly seen the government’s lobbying efforts to promote the Krasnodar Regional territory projects. The regional territory’s governor, Alexandr Tkachev almost by the hand led president Putin and minister Gref through region’s exhibition investment projects; the whole procedure was accompanied by Cossack chorus. The move was highly justified, as in the IOC’s decision which occurred just after the Forum, the regional city Sochi has been included in the list of the three final candidates for hosting the winter 2014 Olympic Games.

BALTIC TRACK

Fifteen minutes’ long conversation between Latvian prime-minister Aigars Kalvitis and V. Putin could be considered a big breakthrough in the countries’ relationships. Local experts have assessed the meeting between the two leaders as a sign of goodwill on the eve of G8 meeting. In his speech at the Forum’s opening ceremony, alongside presidents of Finland and Slovenia, Mr. A. Kalvitis noted that he “arrived at St. Petersburg with a special mood, recognizing that during last several hundred years many well-known Latvian artists, scientists, painters and sailors have been educated in this city. The first newspaper in Latvian language was published in St. Petersburg.” Latvian premier A. Kalvitis especially underlined the necessity to resolve energy issues through dialogue and consultations on all levels.

ST. PETERSBURG’ INVESTMENT OPPORTUNITIES

The Forum host city’s investment projects have attracted great attention by the VIPs people too. President Putin and minister Gref visited the city’s exposition stand. Within the Forum’s framework large city projects with total investment volume of more than 8 bln dollars have been presented. The City’s governor, Mrs. Valentina Matvienko has underlined that all the projects shown at the Forum are already being in the process of implementation; there could be seen several Russian and foreign investors next to each of the projects’ stands. “It is important that during the Forum we have started negotiations with a number of companies ready to invest into our city’s economy”, said governor Matvienko.
The most ambitious project

The new Marine Passenger Terminal construction project in the western part of the Vasilievsky Island presented at the 10th St. Petersburg’s International Economic Forum was called the most ambitious project in 2005. And that is really so, as there isn’t anything alike it neither in St. Petersburg itself, nor in the whole Russia.

It is expected, according to the project that already in 2008 three berths capable of receiving cruise-liners of up to 300 m of length will be built on a newly formed land territory. The construction of the new passenger terminal is planned for completion in 2011. Seven newly built berths will be capable of hosting up to seven passenger- and ferry-liners.

According to calculations, the passenger terminal will be able to host about 12 th tourists a day during high seasons, which, as is estimated, will bring about 56 mln dollars yearly to St. Petersburg’s budget and about 69 mln dollars to the federal budget.

General management and performance coordination for the two interconnected projects, i.e. further development of the western part of Vasilievsky Island on a newly formed territory, and construction of the new Marine Passenger Terminal is entrusted to Management Company “Marine Facade” Ltd. Another company — PCA Perspectiva Ltd., forming a part of a group of companies entitled to implement the project, is nominated by the St. Petersburg’ City administration as a strategic investor.

The right for the integrated territory development was finalized during an open tender carried out by the city administration and it belongs to CJSC Terra Nova, which is a part of the holding too.

ABOUT THE IDEA

First signs of the idea to build a new passenger port in the western part of Vasilievsky Island appeared in 2002; although the need for such a port appeared much earlier. Presently, up to 65 per cent of all passengers arriving by waterway at St. Petersburg proceed to the city through the berths of the commercial port, 18 per cent through the existing marine passenger terminal and the rest of ships harbor in Neva river creek. Marine passenger terminal on Vasilievsky Island and berths on Angliyskaya embankment and Lieutenant Schmidt embankment cannot receive ships that are more than 200 meters long and with deep draft.

Several options have been discussed for the new Marine Passenger Terminal location, e.g. in Kronshadt, Lomonosov and Peterhof. But, according to the globally accepted service standards, cruise liners must harbor in the place from which tourists independently, by foot or by municipal transport, can reach the museums, theatres and simply the city centre. Moreover, in this part of the gulf, i.e. near Smolkena River there is already a system of marine navigation — radar stations and other navigation-marking signs. Therefore, first of all, the works will be carried out concerning the reconstruction of the existing Petrovsky waterway; there is no need to start the construction from the scratch.

PROJECT’S ASSESSMENT

At the end of 2004 the Russian federal authorities received feasibility study concerning the new land formation by the alluvial method, and the construction project for a new port; 18 special institutions and organizations took part in project preparations. The project description contained 37 volumes of documentation. The project was discussed in details at the various St. Petersburg’s government meetings and afterwards it was sent for approval to more than 30 Russian Federation ministries and state departments.

On the 30th of March 2006, after three months of consideration, the project was finally approved by the State Expert Committee (Glavgosekspertiza) attached to the Russian Federation State Committee on Construction and Housing. The unique hydrographical survey was performed with the creating a computer model of the gulf’s bottom with marking of each and every hillock and cavity on it, the necessary streams’ models was simulated, as well. On the basis of reached Glavgosekspertiza’s conclusion a decision has been taken by the Federal Marine and River Transport Agency to approve finally the feasibility study project.

DEVELOPERS AND CONSULTANTS

From the Russian Federation side, the developer for the access duct channel reconstruction is the State Unitary Enterprise Rosmorport. Dredging and land formation works are entrusted to the companies’ consortium consisting of six leading companies in that field, i.e. Van Oord Dredging and Marine Contractors BV, CJSC Engineering corporation “Transstroy”, CJSC Baltdraga, PTPS Corporation Ltd, CJSC Port Fleet and CJSC Baltic Dredging Company.

The new port construction model presented to the forum was made by the specialists from ARHIS architect’s office according to drafts prepared by the American company Gensler, the international consultant within the bounds of the new territory planning.

Right after the International Economic Forum on the 19th of June in St. Petersburg a seminar dedicated to the project’s first stages, i.e. encased piles fixing to form the quay walls for berths nr. 4, 5, 6 and 7 of Marine Passenger terminal on Vasilievsky Island was held. According to the head of the Arcelor’s Russian representative office, Mr. Vladimir Cukrov (the company won the tender competition), the piles’ fixing procedure within the Marine Facade project signifies an extremely important period for the company. Until the end of the year about seven thousand piles and rabbits will be delivered. After that the new tenders will be held for equipment deliveries and for the materials necessary for the subsequent stages of construction works.
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Express Pasts: it is quick, reliable and profitable with us

The state joint-stock company Latvijas Pasts is the leader in the Latvian post-delivery service market; it has presently introduced a new express-delivery service. The company’s main business criterion is a quick delivery on top of the deals’ security. Mr. Miks Sturitis, Latvijas Pasts’ member of the board and its marketing director explains the range of new opportunities for customers.

The main contemporary business’ concept is a dynamic performance and complete maintenance guarantee concerning the terms of the deals. Since a company’s activities often stretches far beyond the city limits, or even that of the country, it is important that a customer could receive the goods, raw materials, etc. in due time. Some years ago companies and firms dealt with various deliveries by their own. However, this type of activity becomes unprofitable, taking into consideration such modern market trends as ever expensive gasoline, additional costs to run company’s own car-section, losses incurred in cars’ standstill, etc. It is much safer to entrust this activity to professionals. As the practice has shown, overhead expenses can be reduced considerably and at the same time a company can have a hundred percent guarantee as to the terms of the deal’s fulfillment.

State joint-stock company (SJSC) Latvijas Pasts is one of the oldest enterprises in Latvia which is specifically involved in post-deliveries. Besides traditional post items’ delivery, Latvijas Pasts can offer today a new modern service, i.e. Express Pasts.

DOOR-TO-DOOR DELIVERY

“It would be fair to mention that Latvijas Pasts started offering express-services already at the end of the 1980s, explains Mr. M. Sturitis. At that time, of course, the company fulfilled only state orders, delivering so-called confidential parcels. Nowadays among our clients there are biggest national banks, telecommunication’s operators, trade centres, car-service centres, and, of course, state enterprises. Our main principle of work is door-to-door delivery and a direct delivery into the client’s hands.

Nowadays SJSC Latvijas Pasts provides urgent door-to-door service delivery in Latvia and in other Baltic States; we have become partners in the Express Mail Service (EMS). The latter is the most well-known postal service in the world which performs all kind of express-post packages’ and receiving-delivery services around the world on the door-to-door concept. EMS is a cooperation product of global posts’ administrations, which was created as a counterpart to other expensive international carrier service’s deliveries. Using the EMS’ network, the customer pays only for service he really needs.

Using the broad Latvijas Pasts’ network we are able quickly and safely deliver all the parcels and packages. Express Pasts offers most rational business solutions as each customer is treated individually. Our service is particularly convenient for trade companies and firms working in other countries. Concluding a cooperation contract with SJSC Latvijas Pasts, the customers can acquire a guaranteed package delivery to any location in Latvia”.

THREE STEPS TOWARDS SUCCESS

“Last year we have introduced a new Express Pasts delivery service, i.e. so-called x3, x2 and x1 delivery-types which function both in Latvia and abroad, Mr. M. Sturitis acknowledged

Thus, x3-service means packages’ delivery on Latvian territory within 6 hours. Choosing this level of urgent express-post services, the package is given highest urgency priority and the recipient can get it the same day. This kind of service is presently available in Riga-region area, as well as for deliveries from Riga to Liepaja, Ventspils, Kuldiga, Rezekne and Daugavpils.

The second, x2-service means delivery of packages inside Latvian territory within 15 hours. Express Pasts is the first service in Latvia, which in the standard service package offers delivery within 15 hours or next working day delivery before 11.00 a.m. to any Latvian place.

The third, x1-service means delivery on Latvian territory within 20 hours. In this package of standard economy service we offer delivery during the time span from 20 hours on or next working day delivery before 16.00 p.m. to any village in Latvia. Within this kind of service an evening delivery before 21.00 p.m. is available too.”

FLEXIBLE APPROACH TO EACH CUSTOMER

Taking into consideration each customer’s interests within the Express Pasts service, SJSC Latvijas Pasts can offer the following services: broadest delivery network in Latvia and other Baltic States; an opportunity to process big amounts of postal items; sending parcels by courier post-restant delivery with payments collected by a courier; door-to-door post delivery; return of signed invoice-bills to sender; notifications on receiving posted items, an opportunity to store post items in the nearest postal office; receiving written correspondence at a client’s place and delivery to the post office; the best prices and flexible system of discounts.

Additional information about Express Pasts’ service can be obtained by phone: +371 7018796, or through internet: www.expresspasts.lv (where a price list is available too). •
On the 20th of June in Reval Hotel Ridzene a double event was celebrated at the presence of a large audience. The event was dedicated to 10 years since

The evening was opened by the magazine’s first editor, Mr. Janis Dombergs, present editor-in-chief, Mrs. Olga Pavuk and BC’s international editor, Mr. Eugene Eteris.

Gratifying BC’ letters have been presented to the chairman of Latvijas Gaze’s board of directors, Mr. Adrians Davis.

Kazakhstan Embassy is represented by the Consul in Riga, Mrs. Zhazira Myrzakassimova.

The Slovakian Embassy’s Second Secretary in Latvia, Mr. Aleksander Skurla and NP Properties’ executive director, Mrs. Elita Moiseja.

BC’s long-time partner and supporter, Mrs. Julija Malisheva, AveTransGroup president.

Petits publishing house’s president, Mr. Alexej Sheinin and VIP Lounge’s editor-in-chief, Mrs. Elena Titova.

A rare photo: a kiss of a famous paparazzi and ЖЗЛ magazine’s co-owner, Mr. Janis Banders.
Baltic Course = 10 + 6

the first publication of the magazine Балтийский курс and 6 years since the first issue of The Baltic Course.

Warm words and presents from the “Latvijas Auto” road carriers’ association general secretary, Mr. Pavel Groshev and the association president, Mr. Valdis Trezinsh.

Former Latvian Transport Minister, Mr. Ainars Slesers, and Mr. Adrians Davis.

Greetings from DnB NORD Banka presented by the head of the bank’s Financial Department, Mrs. Tatiana Ratnikova.

Business activities of Mrs. Helen Romanova (London) are closely connected to the Baltics.

Property expert, Mrs. Olga Dardik.

Designer’s bouquet presented by Latvian famous fashion designer, Mrs. Anna Osmushkina.

БК/BC’s partners: Baltic Russian Institute’s Senate chairman, Mr. Stanislav Buka and BRI’s science pro-rector, Mr. Vladimir Gurov.

Ceremonial cutting of the magazines’ celebratory cakes.
**GROSS DOMESTIC PRODUCT**

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<th>Latvia</th>
<th>Lithuania</th>
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<td><strong>GDP at current prices, mln EUR</strong></td>
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<td><strong>GDP per capita at current prices, EUR</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>4782</td>
<td>5264</td>
<td>6702</td>
</tr>
<tr>
<td>2005</td>
<td>5527</td>
<td>6030</td>
<td>7832</td>
</tr>
</tbody>
</table>

Source: Central Statistical Bureau of Latvia.

**FOREIGN DIRECT INVESTMENTS**

At the end of quarter | Latvia | Lithuania | Estonia |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FDI, stock, total, mln EUR</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Q 2005</td>
<td>3546</td>
<td>5078</td>
<td>9099</td>
</tr>
<tr>
<td>I Q 2006</td>
<td>4444</td>
<td>5653</td>
<td>11224</td>
</tr>
<tr>
<td><strong>Per capita, EUR</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Q 2005</td>
<td>1590</td>
<td>1485</td>
<td>6750</td>
</tr>
<tr>
<td>I Q 2006</td>
<td>1940</td>
<td>1664</td>
<td>8347</td>
</tr>
<tr>
<td><strong>FDI, flows, mln EUR</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Q 2005</td>
<td>174</td>
<td>192</td>
<td>938</td>
</tr>
<tr>
<td>I Q 2006</td>
<td>291</td>
<td>178</td>
<td>496</td>
</tr>
<tr>
<td><strong>% of GDP</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Q 2005</td>
<td>6.6</td>
<td>4.5</td>
<td>40.4</td>
</tr>
<tr>
<td>I Q 2006</td>
<td>8.9</td>
<td>3.6</td>
<td>18.1</td>
</tr>
</tbody>
</table>

Source: Central Statistical Bureau of Latvia.

**WAGES, EUR**

<table>
<thead>
<tr>
<th></th>
<th>Latvia</th>
<th>Lithuania</th>
<th>Estonia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly average, Q1 2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross wages</td>
<td>383</td>
<td>416</td>
<td>549</td>
</tr>
<tr>
<td>% to Q1 2005</td>
<td>119.2</td>
<td>113.2</td>
<td>115.7</td>
</tr>
<tr>
<td>Min. wages, June 2006</td>
<td>128</td>
<td>159</td>
<td>192</td>
</tr>
<tr>
<td>% to June 2005</td>
<td>112.5</td>
<td>110.0</td>
<td>111.5</td>
</tr>
<tr>
<td>Old-age pension, monthly average, Q1 2006</td>
<td>131</td>
<td>129</td>
<td>175</td>
</tr>
<tr>
<td>% to Q1 2005</td>
<td>118.7</td>
<td>100.1</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Central Statistical Bureau of Latvia.

**AVERAGE PRICES FOR GOODS AND SERVICES, EUR PER KG**

<table>
<thead>
<tr>
<th></th>
<th>Latvia</th>
<th>Lithuania</th>
<th>Estonia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef</td>
<td>2.97</td>
<td>2.99</td>
<td>3.35</td>
</tr>
<tr>
<td>Pork</td>
<td>2.66</td>
<td>2.66</td>
<td>2.58</td>
</tr>
<tr>
<td>Chicken</td>
<td>1.98</td>
<td>1.96</td>
<td>1.68</td>
</tr>
<tr>
<td>Sausage boiled</td>
<td>2.77</td>
<td>2.83</td>
<td>2.61</td>
</tr>
<tr>
<td>Butter</td>
<td>3.56</td>
<td>3.53</td>
<td>4.53</td>
</tr>
<tr>
<td>Milk, 2.5% of fat, 1l</td>
<td>0.54</td>
<td>0.54</td>
<td>0.48</td>
</tr>
<tr>
<td>Eggs, 10 pcs</td>
<td>0.90</td>
<td>0.88</td>
<td>0.83</td>
</tr>
<tr>
<td>Rye bread</td>
<td>0.80</td>
<td>0.84</td>
<td>0.74</td>
</tr>
<tr>
<td>Wheat bread</td>
<td>0.97</td>
<td>0.97</td>
<td>0.93</td>
</tr>
<tr>
<td>Sugar</td>
<td>0.97</td>
<td>0.95</td>
<td>0.85</td>
</tr>
<tr>
<td>Potatoes</td>
<td>0.33</td>
<td>0.46</td>
<td>0.39</td>
</tr>
<tr>
<td>Vodka 40% alc. vol., 1l</td>
<td>8.45</td>
<td>8.39</td>
<td>7.27</td>
</tr>
<tr>
<td>Petrol A-95, 1l</td>
<td>0.87</td>
<td>0.92</td>
<td>0.96</td>
</tr>
<tr>
<td>Electricity, per 100 kWh</td>
<td>6.83</td>
<td>6.83</td>
<td>8.98</td>
</tr>
</tbody>
</table>

Source: Central Statistical Bureau of Latvia.

**CARGO TURNOVER AT PORTS IN THE GULF OF FINLAND (LENGRAD REGION, RUSSIA), MLN T**

<table>
<thead>
<tr>
<th></th>
<th>Jan-Apr 2005</th>
<th>Jan-Apr 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primorsk</td>
<td>8.10</td>
<td>7.82</td>
</tr>
<tr>
<td>Vyostsk</td>
<td>6.29</td>
<td>6.01</td>
</tr>
<tr>
<td>Vyborg</td>
<td>5.03</td>
<td>4.40</td>
</tr>
<tr>
<td>Ust-Luga</td>
<td>3.40</td>
<td>3.17</td>
</tr>
</tbody>
</table>

* Exports made up 99.8% of total cargo turnover. Source: regions.ru.

**CARGO TURNOVER AT BALTIC PORTS, THOU T**

<table>
<thead>
<tr>
<th></th>
<th>Jan-Apr 2005</th>
<th>Jan-Apr 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tallinn</td>
<td>59352</td>
<td>59334</td>
</tr>
<tr>
<td>Klaipeda</td>
<td>1254</td>
<td>1254</td>
</tr>
<tr>
<td>Riga</td>
<td>1254</td>
<td>1700</td>
</tr>
<tr>
<td>Liepaja</td>
<td>917</td>
<td>917</td>
</tr>
<tr>
<td>Ventspils (oil terminal)</td>
<td>3675</td>
<td>3675</td>
</tr>
</tbody>
</table>

Source: Port statistics.

**CONTAINER FREIGHT AT BALTIC PORTS, TEU**

<table>
<thead>
<tr>
<th></th>
<th>Jan-Apr 2005</th>
<th>Jan-Apr 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tallinn</td>
<td>59352</td>
<td>59334</td>
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<tr>
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<td>1254</td>
<td>1254</td>
</tr>
<tr>
<td>Riga</td>
<td>1254</td>
<td>1700</td>
</tr>
<tr>
<td>Liepaja</td>
<td>917</td>
<td>917</td>
</tr>
<tr>
<td>Ventspils</td>
<td>3675</td>
<td>3675</td>
</tr>
</tbody>
</table>

Source: Port statistics.
DYNAMICS OF IMPORT CONTAINER CARGO FLOWS IN RUSSIA BY TYPE OF TRANSPORT, 2001-2004


RUSSIAN FREIGHT MARKET GROWTH FORECASTS BY TYPE OF TRANSPORT, 2004-2010


GROWTH FORECASTS FOR SEGMENTS OF THE RUSSIAN MARKET OF LOGISTICS SERVICES, 2004-2010

Source: RosBusinessConsulting.

GROWTH FORECASTS FOR THE RUSSIAN CONTAINER TRANSPORTATION MARKET BY SEGMENTS UP TO 2008

Market segment | 2004 | 2005* | 2006* | 2007* | 2008* |
--- | --- | --- | --- | --- | --- |
Railway | 101467 | 111614 | 122775 | 135053 | 148558 |
St. Petersburg | 771990 | 926388 | 1157985 | 1447481 | 1809352 |
Russia’s North-Western reg. | 94420 | 141630 | 198282 | 257767 | 309320 |
Russia’s Far East | 398964 | 534612 | 711034 | 924344 | 1201647 |
Russia’s South | 154473 | 223986 | 302381 | 377976 | 453571 |
Baltic ports | 253545 | 316931 | 380318 | 456381 | 538530 |
Finnish ports | 293250 | 337238 | 406485 | 505856 | 607028 |
Ukrainian ports | 35703 | 46414 | 58946 | 73093 | 87711 |
Total | 2103812 | 2638813 | 3336406 | 4177951 | 5155717 |

* Annual forecasts.


STRUCTURE OF THE RUSSIAN CONTAINER FREIGHT MARKET BY HANDLING OF FOREIGN TRADE CARGOS AT PORTS AND BY RAIL, 2004, %

Source: SeaNews.

AMOUNT AND STRUCTURE OF RUSSIAN MARKET OF LOGISTICS SERVICES 2004, %


STRUCTURE OF THE RUSSIAN MARKET OF LOGISTICS SERVICES, FORECAST FOR 2010, %

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