

INSIDER VIEW

# Baltics

ESTONIA-LATVIA-LITHUANIA

MONDAY, JUNE 17, 2002

## Opening a new chapter in history

**INTRODUCTION** IN JUST OVER 10 YEARS SINCE INDEPENDENCE, ESTONIA, LATVIA AND LITHUANIA HAVE ACHIEVED STABILITY AND PROSPERITY. NOW, ALL EFFORTS ARE TURNED TOWARDS EU AND NATO MEM-

BERSHIP AND CONSOLIDATING RELATIONS WITH THEIR NEIGHBORS. WITH AN IDEAL POSITION TO PROVIDE A LINK BETWEEN EAST AND WEST, IT'S TIME FOR THESE NATIONS TO PUT THEMSELVES ON THE MAP.

SINCE THE dismantling of the Soviet bloc at the beginning of the 1990s, the Baltic states of Estonia, Latvia and Lithuania have been fortunate in their transitions to independent republics. Of the 15 new countries created after the disintegration of the Soviet Union, only Estonia, Latvia and Lithuania have managed to avoid the pitfalls of sudden independence and the state of chaos and civil war that claimed many of their counterparts.

A number of factors set these newly liberated nations apart, not least of which is the historical affinity they hold for Europe—a sense of belonging that over 50 years of Soviet rule could not erase. This explains their immediate response upon independence to align their political and economic infrastructures with those of the West, separating themselves from the 'ruble zone' by restoring national currencies and protecting their new economies from imported inflation. The Baltic people were willing to sacrifice immediate economic gains for greater future benefits. An increase in salary levels helped avoid the poverty and social discontent that overtook their neighbors, and their stability prevented Russian military intervention and mafia growth seen in former Soviet territories in the 1990s—events which may have had a potentially devastating effect on the newly independent republics.



## Potential global link between east and west

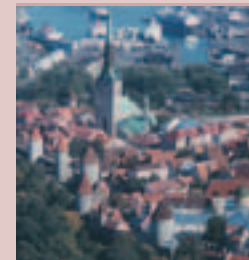
THE HISTORY of the Baltic states of Estonia, Latvia and Lithuania has always been that of small countries sandwiched between superpowers. This has consistently worked against the nations as 800 years of war-torn times and foreign occupation have shown. Now, however, the Baltic people are hoping that their geographic location might for the first time work in their favor. The warming of political relations between the U.S. and Russia and the opening up of the Russian economy as well as the implications that the opening holds for future trading between Russia and Europe sud-

denly places the Baltic states in an advantageous global position. What the Baltic people want above all is a future of long-term security and freedom. They are betting on their imminent accession to the European Union and NATO to secure this. Their accessions also assure an improved economic scenario. If things continue moving in their current direction, the Baltic countries may soon find themselves in the middle of a 600 million people market—the EU, Russia and the Commonwealth of In-

dependent States, and the Baltic Sea Region. What's more, the small domestic markets of Estonia, Latvia, and Lithuania have obliged the countries to base their new economies on export, which has meant developing strong transit and logistics infrastructures. This may soon prove to be their ace in hand. The Baltic people are well prepared to assume the role of global link between east and west. Most speak Russian and, more importantly, understand the Russian mentality. On the other hand,

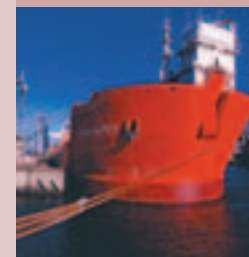
they feel they belong to Europe and in general, their own mentalities are much closer to those of Scandinavians for example. They are well educated, multilingual, progressive and have managed to convert their new republics into stable and prosperous nations in just over 10 years. Furthermore, the Baltic states do not believe that EU and NATO membership will compromise relations with Russia. Most feel that relations will improve in that Russia will be forced to acknowledge the Baltic states in their own right and that mutual respect will be the base of healthier political and economic relations.

Above all the Baltic people want a future of long-term security and freedom



### ESTONIA

Ideally positioned to become a major business hub in the region  
PAGE 2



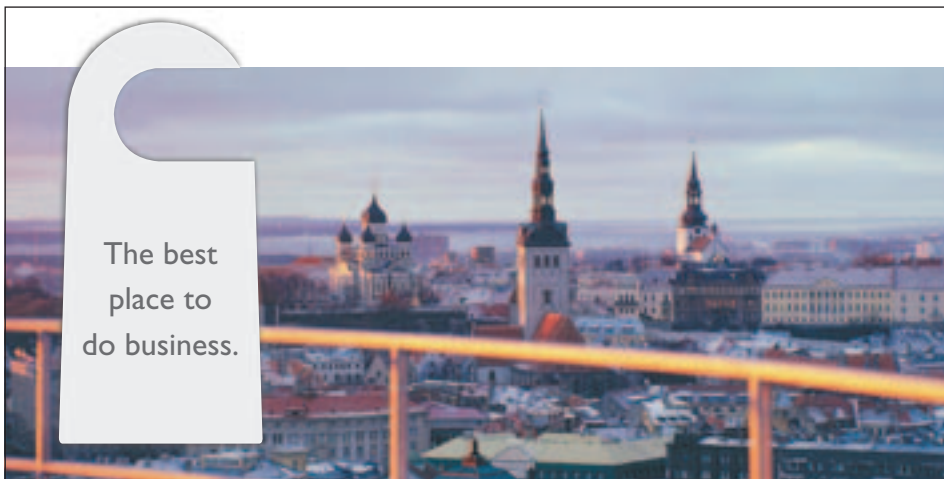
### LATVIA

Strategic geographic location is key for future development of industry  
PAGE 4



### LITHUANIA

Ready for the imminent invitation to form a part of the European Union  
PAGE 5



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## Baltics

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## Estonia

## Bold monetary reforms have paid off

**POLITICS & ECONOMY** A NUMBER OF FACTORS ENSURED THE RAPID TRANSITION OF ESTONIA TO ECONOMIC STABILITY, INCLUDING BOLD MONETARY REFORMS AND THE PIONEERING, DETERMINED NATURE OF ITS PEOPLE.

ESTONIA HAS impressed the world with its rapid and successful transition to democracy. Since its independence from the former Soviet Union in 1991, the country has been busy implementing a liberal market econo-

my, strict monetary reforms, and liberalization policies. Today, over 90% of the country's businesses are in private hands. Minister of Foreign Affairs, Kristiina Ojuland, comments, "We had our first free elections in 1992 and the first government of Estonia made some basic changes, the first and most important of which was the policy of a free market economy. Since then, Estonia has become one of the most liberal countries in the world in economic terms." Former minister of foreign affairs, Toomas Hendrik Iivess, states that the success of Estonia's rapid transition was largely a result of these economic reforms that took place immediately after independence, which other ex-Soviet bloc countries did not implement at that time.

Prime Minister Siim Kallas, however, attributes a great part of the country's success to the ingenuity and sense of individualism of the Estonian people. He points out that Estonians led a slightly different life than that of their counterparts during the Soviet years, which further separated their reality from that of their neighbors. During the occupation, for ex-



**SIIM KALLAS**  
Prime Minister of Estonia: attributes much of country's success to the innovative nature of its people



**KRISTIINA OJULAND**  
Estonian Minister of Foreign Affairs: sees EU and NATO membership as primary goals



**VAHUR KRAFT**  
Governor of the Bank of Estonia: pegging the kroon to the deutschmark was key to attaining economic stability



**ESTONIAN CAPITAL** Tallinn boasts close links to Scandinavia and a sophisticated Western outlook as pluses for investors

ample, Estonians still had access to Finnish television, an advantage not shared by other countries under Soviet rule. This served to diminish the isolation of the country, keeping people abreast of current affairs outside the Soviet realm. "I remember watching Finnish TV as a schoolboy and it was absolutely another world. As well as information, it gave us a

huge desire to separate ourselves from the immediate Soviet reality," explains Mr. Kallas. "On top of that, Estonians have always been an individualistic type of people and have always taken a strong interest in their own businesses, as well as making constant efforts to keep their skills up to date. At the beginning of the 1990s, we could still imagine, if

not remember, Estonia as a prosperous country before the occupation." Another critical factor underlying Estonia's success was the stabilization of its currency, the result of a bold and controversial decision on the part of policymakers to establish a currency board and peg the kroon to the German deutschmark. Former minister of

economic affairs, Henrik Hololei, comments, "10 years ago the currency board mechanism was only used in two other countries and we were warned against employing it since it takes away all the monetary instruments. Back then, 9 out of 10 experts told us that if we pegged the currency, we would fail and we would not be able to successfully maintain it. Well, nine and a half years have passed and we have kept the peg. A very stable monetary environment has been created and that, in turn, has brought in a lot of investment."

Vahur Kraft, governor of the Bank of Estonia, agrees, "I think that the fixed exchange rate against the deutschmark was the cornerstone of our very rapid change from the old economy to the new one."

Estonia has had an average growth rate of 5% during the last five years and the country is well positioned to become a major business hub in the region; it has free trade agreements with a number of countries, including the European Union, and full membership in the EU is expected by 2004. The country is also investor friendly and foreign-owned companies account for 50% of the GDP. With tariff-free customs, low start-up and running costs, and a system of flat-rate taxes designed to encourage enterprise and maximize profits (as well as no tax on reinvested earnings), "Estonia really is the best place in Europe for investment" as the minister of foreign affairs, Ms. Ojuland states. "Furthermore, the country has a highly developed technological capacity—you can easily set up shop in Tallinn where you have all the technology within reach, plus you have the legislation on your side."

## Creating a favorable climate for local and foreign investors

**INVESTMENT** TWO BODIES HAVE BEEN GIVEN WITH THE TASK OF PAVING THE WAY FOR FOREIGN INVESTORS AND PROVIDING SUPPORT TO LOCAL COMPANIES

SINCE INDEPENDENCE, Estonia has bet on foreign investment to drive its new economy. To this end, the new republic slashed export tariffs, created a liberal and open economic policy and devised a low tax system. The Estonian Investment Agency (EIA) was established in 1994 to monitor and improve Estonia's investment climate. In addition, Estonia became a member of the World Trade Organization (WTO) in 1999, a move calculated to increase the security of both foreign and Estonian entrepreneurs by creating a reliable framework for implementing national economic and trade policies.

Now Estonia is hedging its bets with increased national investment in

its own medium-sized companies. A limited domestic market (the country has a population of just 1.5 million) has stimulated the development of a highly export-oriented country. Estonia is pro-free trade and has agreements with numerous countries. Main exports, of which 60% currently go to Baltic Sea countries, include agriculture, chemicals, wood products, minerals, textiles and machinery. The Estonian Trade Promotion Agency (ETPA) supports the country's SMEs and works to facilitate the growth of Estonian exports. Director Lea Kroonmann states, "Our normal tasks include supporting different schemes to cover the costs in export plans, as well as pro-

viding information on tariffs, import lists, etc. Lately we have been working with EU quality standards, trying to get companies to think about these issues and to act in accordance with world market needs." A large part of Estonia's exports consist of subcontracting and the EIA often acts as a mediator for foreign companies who are looking to subcontract within Estonia. Director Andrus Viirg comments, "We provide matchmaking services for companies, connecting them to each other for both export and import purposes. Estonian companies have established a name for themselves as subcontractive partners; a lot of the electronics for Nokia and Ericsson were made in Estonia. Volvo is now

part of General Motors and there are many Scandinavian companies subcontracted to them. In turn, they subcontract from us." Although Estonia has been gradually weaning itself away from Russian markets and orienting itself towards the West, with its well-developed logistics and transport infrastructure, the country still has strong potential to act as a transit between Europe and Russia. Currently inhibited by double tariff rates, Estonia believes things will change dramatically once Russia joins the WTO. Says Mrs. Kroonmann, "We have all learned Russian at school and their way of life is familiar to us so we understand their way of doing business, which is totally different to the U.S., for example."

Estonia's main exports include agriculture, wood products, textiles and machinery



**PRINCIPAL AREAS** of interest to U.S. investors include machine building and electronics, where special bodies have been set up to assist in the investment process

ESTONIAN INVESTMENT AGENCY

# Baltics

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## U.S. pharmaceuticals giant backs Estonia 100%

PFIZER IS ONE U.S. company firmly ensconced in Estonia. The global pharmaceutical giant first opened its doors in Tallinn in 1996. Concern for the quality of drugs in ex-communist bloc countries was the main driving force behind the decision to assess market potential in the region. The expansion also gave the company the chance to support a fledgling republic and it placed all available resources in the country. The regional office in Tallinn is entirely staffed by Estonians and the company is actively involved in social and educational programs in Estonia. Dr. Reet Volkmann is Pfizer's general manager in Estonia. She explains that Pfizer is now involved in a number of projects to promote health in the region. "In cooperation with Estonian specialists, we have begun a book series entitled 'The Estonian Man'. The first book discusses the factors associated with the male lifecycle, from birth to death. The second book will address the state of men's health in Estonia and what needs to be done to improve it. We hope the book series will provide an impetus for the development of male health research here." Pfizer also supports a number of sports activities in Estonia. "Pfizer is number one in the world, so we encourage anyone working towards this goal," states Dr. Volkmann. "It was extremely rewarding for us to represent Estonian gold medal winner Andrus Veerpalu in the 2002 Winter Olympics in Salt Lake City." Pfizer's presence in Estonia con-



**REET VOLKMANN**  
General  
Manager of  
Pfizer in  
Estonia

tributes to improvements in the healthcare system, which policymakers are now trying to model on German and Scandinavian systems. Product safety is taken very seriously and the primary focus is to provide the best quality pharmaceutical products available. Consequently, Dr. Volkmann feels the company's presence in Estonia is a win-win situation for citizens and company alike. As for doing business in Estonia, Dr. Volkmann stresses the importance of community commitment. "When you see companies successfully invest here, it is because they've earned the trust and support of the local network...business-wise, Estonia is a very good country to operate in. Once you know the laws and you find the right people, it is extremely easy to do business. Business culture, spirit, and ethics are important in Estonia."

Pfizer now operates in more than 150 countries worldwide. The company's 1999 revenues in just 12 countries outside the U.S. exceeded US\$100 million, helping to make it the world's fastest-growing pharmaceutical company. Revenues in general for Pfizer grew by 284% throughout the 1990s to reach US\$16.2 billion in 1999.



**ANDRUS VEERPALU**, gold medal winner in the men's 15km classical cross-country race at the 2002 Winter Olympics, was sponsored by Pfizer



ESTONIAN TOURIST BOARD

**STEEPED IN TRADITION** Estonia is as culturally rich as it is diverse, with the advantage of European standards of hotels, restaurants and transport without the high prices

## Baltics: the new Scandinavia?

**TOURISM** ESTONIA OFFERS THE VISITOR PRETTY MUCH EVERYTHING: DENSE FORESTS, ROLLING HILLS, NATURAL SPAS, AND DESPITE THE RAPID CHANGES SINCE INDEPENDENCE, THERE'S STILL PLENTY OF TRADITION

ESTONIA LIES in a sometimes forgotten, and therefore all the more fascinating, corner of Europe, nestled between the Nordic countries across the Baltic Sea to the west and bordered by Russia to the east. To the south are the country's Baltic neighbors of Latvia and Lithuania. Of the three, Estonia is the smallest, covering an area roughly the equivalent of New Hampshire and Vermont combined. The capital city of Tallinn, with its medieval center, is located on the country's northern shores and has a population of 500,000, nearly one third of the country's total of 1.5 million. Geographically, Estonia is distinguished by thick forests that cover 40% of the country's territory, rolling hills and rivers, and by its winding coasts and dozens of uninhabited islands. For tourists, the country is best divided into four regions: the culturally rich northern area of the capital, the forests and folklore of the south, the sun and sea of western Estonia, and the heady mixture of Russian and Estonian culture which prevails in the east.

As a tourist destination, Estonia is still refreshingly genuine and uncontrived. Not only is it a nation with a touching, visible past, but it is also a nation that is as progressive and hip as it is history-filled. Foreign visitors totaled 3.2 million in 2001 and the country maintains European standards in transport, hotels, and restaurants, without the steeper mainstream European prices. With EU integration imminent, the Estonian Tourist Board is rethinking its promotional approach and considering a joint marketing of the entire Baltic area. Estonian Tourist Board Director Riina Lõhmus explains, "I feel that there is a great future in a Baltic branding, giving attention to all the countries surrounding the Baltic Sea, as is done with the Mediterranean countries. Estonia is similar to Sweden and Stockholm, but there are differences and people like variety so a Baltic island cruise or a Baltic capital cities cruise could be created." For the U.S. visitor new to the country, Mrs. Lõhmus recommends visiting the romantic west coast, which

she says is a good area for experiencing traditional lifestyles and foods, plus you can find numerous spa resorts there.

The Radisson SAS Hotel, Tallinn, first opened its doors to guests in February 2001. In the hotel's first year, it has received over 66 thousand guests and maintained a room occupancy rate of 67%. The Tallinn hotel cements Radisson's presence in the Baltic region, where it has been establishing itself for over

five years. Along with its other hotels in Riga, Vilnius, Klaipeda, and St. Petersburg, Radisson SAS is now the leading international hotel operator in the area. General Manager of the Tallinn hotel, Peter Holst explains, "When we saw the collapse of the Soviet Union, we saw the possibility of expanding into the Baltics. Today we have hotels in all the Baltic states and this helps us secure inter-Baltic travel, as well as taking care of tourist groups traveling within the region. I came over to set up the business and open the hotel and I found a very highly skilled laborforce in Estonia so we didn't need to bring in a big group

of expatriates. We relied on local management and I have never regretted the decision. The Estonians have been and continue to be very competent."

The Tallinn hotel is totally equipped to deal with conferences and Mr. Holst states that many conferences are moving from the more expensive Scandinavian countries to Estonia. He says, "The prices here are a big advantage. If you are planning a conference in Sweden for 100 people, it would be cheaper to come here than hold it in Sweden, which is exactly what many Swedish and Finnish conference groups are doing now."

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## Baltics

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## Latvia

## Long-term stability will guarantee prosperity

**POLITICS & ECONOMY** WHILE EU AND NATO MEMBERSHIP ARE THE IMMEDIATE GOALS, LATVIA ALSO RECOGNIZES THE NEED TO CONSOLIDATE REGIONAL AND INTERNATIONAL RELATIONS

2002 MARKS an important year for Latvia as the country is expected to be formally invited to join both the European Union and NATO before year-end. According to Latvian Prime Minister Andris Berzins, EU and NATO membership represent two of the country's three main foreign policy priorities at the moment, the other being the maintaining of strong relations within the Baltic region. However, all three short-term aims are intended to contribute to the government's primary goals of long-term stability and security for the new republic. Mr. Berzins states, "Realization of these priorities is the way to achieve long-term sustainable development and long-term guarantees for the country. Every time I am asked why we need to join the EU or NATO, I give the same answer, 'Look at what has happened in Latvia in the last 100 years. The order of the state was changed three times. In 100

years, we had two revolutions, four nationalizations and denationalizations of property, numerous deportations to Siberia or Germany, and the list continues. It means that we have only had peace for 15-20 years, and then somebody came and said that our home was their home. It means that the main thing we want and need now in Latvia is long-term stability and security. We want to live in a peaceful and democratic environment and we want to use all the principles that are used by normal democratic societies."

Although EU membership is traditionally seen as an economic agreement and NATO a security-related involvement, the Latvian government contends that the two are strongly interrelated. Minister of Economy Aigars Kalvitis points out that Latvia's NATO membership is likely to help the country reap economic benefits in the sense of an increase in foreign investment. He explains, "If Latvia becomes a member of NATO, I think there will be big changes within our industry and also our investment structure since our security will then be guaranteed."

However, it is clear that the most important aspect of accession to the EU and NATO for Latvia is to become part of the vision and principles that both organizations stand for. Minister of Foreign Affairs Indulis Berzins comments, "The EU and NATO are two sides of the same



LIKE ALL THREE Baltic states, Latvia has undergone dramatic change since independence, while EU and NATO membership are priorities, regional relations are also key

coin. We can say that the EU is about economic prosperity and cooperation, and that NATO is much more about defense, and military and political cooperation but I really see these two processes as part of the same idea—to build Europe whole and free." Echoing these sentiments, Latvian President Vaira Vike-Freiberga also stresses Latvia's interest in maintaining strong relations with

the U.S. She states, "Americans should know that Latvians are their friends. After September 11, there were masses of flowers in front of the American embassy here. We feel for the American people and we support them. We have not forgotten that the U.S. was instrumental in maintaining international non-recognition of the annexation of Latvia in 1940 and we hope that it will once again spearhead the movement to ensure our safety for the next century and beyond. We certainly share the same values and priorities and we like to think of NATO as not just a military alliance, but as a common civilization."

"We like to think of NATO as not just a military alliance, but as a common civilization"

## Regional trail blazer sets the pace

**ECONOMY** IN THE LAST 10 YEARS THE LATVIAN ECONOMY HAS UNDERGONE A COMPLETE OVERHAUL, SUCCESSFULLY ADAPTING TO MARKET NEEDS AS THEY AROSE. ONCE AGAIN INDUSTRY IS PROSPERING—IT IN PARTICULAR

IN RECENT YEARS, Latvia has experienced the fastest economic growth in the northern hemisphere, consistently tripling average European growth—a fact made even more impressive if one considers the changes the Latvian economy has undergone in the last 10 years. As an industrial giant under the former Soviet Union, 90% of the country's income was generated from production. When the Soviet Union collapsed, many of the factories, which were full of outdated machinery, were closed. As well as switching to a free-market economy and undergoing massive privatizations, Latvia was also forced to rethink its industry. After restructuring and reestablishing trade relationships with Russia, the coun-

try's economic scenario changed once again with the 1998 Russian crisis. Companies were suddenly forced to look west for new markets and adjust their production processes to meet European standards. This was accomplished in record time. By 2000, 60% of Latvia's trade was with EU countries and its economy was flourishing. Minister of Economy Aigars Kalvitis explains, "Today the Latvian economy is really healthy and we lead the candidate countries to the EU in all macroeconomic figures. Before 1998, we were oriented towards the Russian and former Soviet Union economies. And after the crisis, the economy was reoriented towards EU countries. Now, however, the Russian, Ukrainian

### Privatization Revenues

**TOTAL REVENUES 1994-2001**

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**REVENUES 2001**

- 36 million LVL in cash
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Latvia Lati	United States Dollars
1 LVL = 1.61551 USD	1 USD = 0.619000 LVL



**VAIRA VIKE-FREIBERGA**  
President of Latvia: interested in maintaining strong relations with the U.S.



**ANDRIS BERZINS**  
Prime Minister of Latvia: main priorities are EU and NATO membership

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## Baltics

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**VENTSPILS** has transformed in the last 10 years to become a modern, progressive city. The city council is working to provide added value for transit passing through

and Kazakhstani economies are much better and we increased trade to the east again last year, which has helped us keep up a high speed of development. In the year 2000, we finished with a GDP growth of 6.6%. In 2001, it will be at least 7.5% and inflation is lower than 3%."

Although timber is Latvia's largest export and largest source of national income, its richest resource is its highly educated workforce. The country has a long history of excellent educational standards; as far back as the 17th century, Latvia was educating its peasants—something done in very few European countries at the time. Today, the government hopes to employ its laborforce's high level of education in the development of a strong knowledge-based society. In fact, 50% of the country's university graduates are educated in the field of information technologies. Moreover, in order to attract foreign investment in these sectors, the government has introduced reductions for hi-tech investment. Finance Minister Gundars Berzins has chosen unusual methods for demonstrating Latvia's IT capacity, including setting up Internet camera access in his own office, as well as running his cabinet with real time electronic portfolios. He explains, "There is no computer on my desk. Instead, I have a portfolio that contains all the cabinet programs and agendas. It is interactive in the sense that I can add notes or comments on works in progress. At yesterday's cabinet meeting, we worked without paper for the first time." According to Mr. Berzins, there are now plans to set up a new higher educational institution for IT specialists in the country. In addition, Roberts Zile, Minister of Special Assignments for Cooperation with International Financial Agencies, reports that one of the last World Bank projects in Latvia will be an upgrading in university level sciences and research, a project expected to begin in 2004.

## Strategically placed for trade with Europe

**INFRASTRUCTURE** THANKS TO THE MODERNIZATION OF VENTSPILS, LATVIA HAS TAKEN ADVANTAGE OF ITS POSITION AND NOW PROVIDES A SHORT TRANSIT ROUTE FOR OIL AND OIL PRODUCTS FROM RUSSIA TO EUROPEAN MARKETS

LATVIA HAS adeptly exploited its strategic geographic location with the development of a strong transit infrastructure. Transit now accounts for nearly 20% of Latvia's GDP and the country is the regional leader in terms of cargo transit turnover. The country's oil transit corridor is comprised of pipelines, railway networks, oil and oil product transshipment terminals and ports. The volume of transit cargo through Latvian ports is greater than the combined volumes of the Baltic ports of Lithuania, Estonia, Finland and Russia. Additionally Latvia's three major ports, all of which have free port status, are ice-free throughout the year. The port of Ventspils is the largest in the Baltic region and the route through Ventspils is one of the shortest transit routes from Russia to European markets. Because of its geographic location, climatic conditions, and well-equipped facilities, Ventspils is the most universal transshipment point for oil and oil products in the Baltic. The total volume of transshipped cargoes in 2001

was 37.9 million tons, of which 15 million tons were crude oil and 13.7 million tons oil products. The largest transshipment terminal of crude oil and petroleum in the port of Ventspils is the joint-stock company Ventspils Nafta, which has been operating in the Baltic region since 1961. The company's main activities include the receipt and transport of crude oil and petroleum products by pipeline and railway, the loading and dispatching of crude oil and oil products by ship, and the receipt and dispatch of gasoline. Ventspils Nafta also has a controlling interest in the group that operates Latvia's oil transit corridor, including part ownership of Latvia's oil and petroleum product pipelines. Ventspils Nafta President Igors Skoks says that the terminal's facilities and those of the port are state-of-the-art. He explains, "We have fully reconstructed the company, updating and modernizing our equipment, and in the last few years, we have increased our capacity significantly. Five years ago the total volume was about

4277 barrels of total output. Now it is 1.2 million and we have possibilities for a further increase in the future if needed. Also, together with the port authority, we have invested in deepening the port's shelf bottom so it accommodates not only smaller ships, but also large ones that are going on north."

Aivars Lembergs is chairman of both Ventspils City Council and Ventspils Free Port. He comments on the transformation of Ventspils over the last 10 years, which has gone from being a polluted industrial town to a clean, modern and progressive city. "10 years ago, Ventspils was in a very difficult position but radical changes have taken place; mainly as a result of retraining our people," he explains. "At the time, we looked at each sector separately and selected the leading country in the world for that respective sector. We then established contacts with that particular country's institutions to ask for training support. We certainly acquired the best education. All of this training provided us with opportunities and another chance at investing the resources at our disposal in the right way. As a result, we have steadily moved upwards in our development." Mr. Lembergs says that Latvia needs large-scale investment projects now in value-added production. He explains, "Basically the transit going through Ventspils needs to have added value; the idea being to import raw materials, process them here, and then export them—somehow improving on the goods while they are here. We are currently working on several projects."

Ventspils is the most universal transshipment point for oil products in the Baltic



**AIVARS LEMBERGS**  
Chairman of Ventspils City Council and Ventspils Free Port



**IGORS SKOKS**  
President of Ventspils Nafta: capacity has increased thanks to state-of-the-art equipment

# Lithuania

## Countdown to joining the European Union

**POLITICS & ECONOMY** WITH EU ACCESSION FORECAST FOR THIS YEAR, LITHUANIA IS CHECKING OFF THE LAST REQUIREMENTS ON THE LIST. STRENGTHENING RELATIONS AT HOME AND ABROAD ARE ALSO TOP PRIORITY

LITHUANIA IS the largest and the most southern of the three Baltic states and has a population of nearly four million. In July 2001, Prime Minister Algirdas Brazauskas assumed power after the resignation of Rolandas Paskas, who, after just eight months in office, stepped down due to disagreements with coalition partners. Mr. Brazauskas was not a new face on Lithuanian political scene; he also served as the country's first freely elected president shortly after the country's independence in 1990. Since last summer, Mr. Brazauskas has been busy implementing the last of Lithuania's EU requirements as the country is hoping to receive an invitation to join this year. He elaborates, "The most complicated issue for us at the moment is agriculture since we had a collective farming system during Soviet times and we must complete the restitution of land ownership. The second issue is the harmonization of the tax system to EU standards, but we have already



**VALDAS ADAMKUS**  
President of Lithuania: expects EU requirements to be met by the end of this year

prepared the documents and submitted them to parliament. The third most complicated issue is that of the energy sector which was always a single economic entity but must now be split into separate enterprises. We are restructuring the sector now and we hope to have it completed by the end of December." President Valdas Adamkus agrees that Lithuania's agricultural policies will still take some time to fulfill but is optimistic that all EU requirements will be met by the end of this year. He adds, "It will probably take some years to readjust our long-term agricultural policies, but otherwise we have already closed 21

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DEPARTMENT OF TOURISM, MUNICIPALITY OF VILNIUS

**DIVERSE** influences make Lithuanian capital Vilnius a unique location. Undergoing modernization at a rapid pace, it's gearing up to form part of the EU

# Baltics

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## Joint telecoms venture enjoys rapid growth

ONE SECTOR of the Lithuanian economy with a large U.S. presence is telecommunications. UAB Voicecom, founded in March 2001, is a joint venture between Minnesota-based Nexcom and Lithuania's leading fixed-line operator, Lietuvos Telekomas (LT). For the last few years, Nexcom has been establishing a presence throughout Central and Eastern Europe and now boasts networks in 10 countries in the region. Combining the strengths of both parent companies, Voicecom specializes in long-distance calls using Internet protocol (IP) technology and has also harnessed the potential available in LT's established sales channels. Voicecom's greatest competitive advantage in the Lithuanian market is cost savings. In just eight months, and with a staff of 10, Voicecom has

reached a two-digit market share in international calls, making the country Nexcom's second-largest operations base. General Manager Harri J. Suokko comments, "The main reason for our tremendous growth is that Lithuania used to be a closed market with expensive communications. With new technologies, we can reduce the expenses involved in long-distance communications and provide the best prices for individuals or companies between certain countries, especially those where IP technology is more advanced."

According to Mr. Suokko, opportunities abound for the foreign investor in value-added services. He explains, "There are lots of business areas that have not yet been harvested here and value-added services are definitely miss-

ing. Only the first steps have been taken towards a value-added market in communication services. Voicecom is focusing on the global market now, but my forecast is that within two years the local value-added market will be bigger than the global market we are currently harvesting."

LT was privatized in 1998 and 60% of the company is now owned by Amber Teleholding, a consortium of Finnish Sonora and Swedish Tella. Since privatization, US\$400 million has been invested in updating the company, further strengthening its prominent position. Today, LT is looking to expand throughout the Baltic region. LT's General Manager and President Tapio Paarma believes Lithuania's economic future is bright and that it is a safe spot to invest. He states, "I have a positive view of the future and there should be no hesitation about investing in Lithuania. The country is quite stable and there are a lot of connections with the U.S. There are hundreds of thousands of Lithuanians who have moved to the U.S. or have relatives living there."



**HARRI J. SUOKKO**  
General  
Manager of  
Voicecom



**TAPIO PAARMA**  
General  
Manager and  
President of  
Lietuvos  
Telekomas

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chapters of the EU requirements and the rest will meet their projected schedules by the end of 2002."

NATO membership is also a top priority on the government's agenda this year. Minister of Foreign Affairs Antanas Valionis says that Lithuania is eager to secure its independence through NATO membership (which may also take place in 2002) and believes that accession will contribute to better relations with Russia. "Today, Lithuania enjoys the best international security position in its history, so one of the strategic objectives of our foreign policy is to make the positive changes that have occurred over the last decade permanent and irreversible. For us, this is best achieved by EU and NATO enlargement in our region," he com-



**ALGIRDAS BRAZAUSKAS**  
Prime Minister of  
Lithuania: energy  
and agriculture  
sectors are high  
on list priorities  
for reform

"NATO membership will also lead to better neighborly relations and cooperation between Lithuania and Russia. We believe that a strengthening of the international security and stability in the proximity of the Russian border not only benefits the NATO alliance and Lithuania, but also Russia itself." Lithuania currently has strong relations with the U.S. and the U.S. is Lithuania's third-largest investor. However, the recent disagreement between the Lithuanian government and U.S.-based Williams International over its Lithuanian oil



**ANTANAS VALIONIS**  
Lithuanian  
Minister of  
Foreign Affairs:  
plans to boost  
U.S. investor  
confidence

refinery operations has Prime Minister Brazauskas concerned that there may be a misperception of Lithuania's investment climate abroad. He says that the Williams case should not be misconstrued as representative of an unfavorable climate in Lithuania as the country has a long history of successful cooperation with foreign companies. He states, "I can assure you that Lithuania is indeed an open country for foreign investment and many companies, like Philip Morris for example, have improved their performance dramatically here."

## More competitiveness with currency repeg

**FINANCE PREPARATIONS FOR EU MEMBERSHIP HAVE BOOSTED INTERNAL REFORM IN LITHUANIA, PLACING THE COUNTRY IN AN INCREASINGLY COMPETITIVE POSITION FOR EXPORTS AND EASING THE WAY FOR INVESTORS**

DUE TO THE unfavorable structure of the Lithuanian economy, the country's slowdown after the 1998 Russian crisis was prolonged in comparison with the other Baltic countries. Of the three Baltic states, Lithuania had maintained the strongest trade links with Russia, Belarus, and the Ukraine. However, ongoing restructuring of economic agents, mainly involving an export reorientation towards EU markets, has led to sustainable export growth. As a result, Lithuania expected a 5% increase in GDP in 2001 and the country's medium-term economic outlook, due to the upturn in the Russian economy and an increase in domestic demand, is for relatively brisk growth. Minister of Economy Petras Cesna believes that these upward trends will be reinforced by the economic reforms that Lithuania has been undertaking in order to meet EU membership requirements. He

states, "In order to join the EU, we have to comply with certain requirements and so we have been carrying out our internal reforms in accordance with these. Consequently, as the very prospect of EU membership involves the technical, as well as financial, support of the EU, the process of internal reform in Lithuania is accelerated." One of the most important steps taken by the government this year was the February re-pegging of the country's currency, the litas, from the dollar to the euro. Chairman of the Board and Governor of Lithua-

nia's Central Bank Reinoldijus Sarkinas elaborates on this move, "As far back as 1994, our currency was pegged to the dollar. However, as things later developed, especially after 1998 and the increasing trade with EU countries, we made the decision to shift from the dollar to the euro." Mr. Sarkinas notes that as the country's foreign debt is already in euros, the re-peg will mean fewer losses for the government with regards to debt servicing. Furthermore, as Lithuania's exporters will now be using the same currency as that of the majority of their markets, he believes that the re-peg will further boost the Lithuanian economy. Minister of Finance Dalia Grybauskaitė adds that the re-peg will undoubtedly raise the competitiveness of Lithuania's export products, as the country now maintains 50% of its trade with EU countries.

Lithuania's privatization program has been at the core of the country's economic reforms and is currently in its final stages. The country's private sector now accounts for 70% of GDP. Still, the State Property Fund has 3,500 state-owned enterprises yet to sell and the combined value of the assets is estimated at US\$1 billion. President and Chairman of the Management Board of the National Stock Exchange of Lithuania, Rimantas Busila, advocates a pragmatic approach in the sale of these remaining assets and has been encouraging the government to make fuller use of IPOs. He states, "In our



**DALIA GRYBAUSKAITE**  
Lithuanian  
Minister of  
Finance: pegging  
the litas to the  
euro will benefit  
exports



**PETRAS CESNA**  
Lithuanian  
Minister of  
Economy: believes  
internal reform has  
been accelerated  
by EU support

opinion, it is extremely important how these companies are going to be privatized and we believe that a certain percentage of shares should go through the stock exchange, which would provide the opportunity for investors to acquire them. If this is not the case, we will have problems with market liquidity and a lack of share free-flow. We have submitted specific proposals to the government and I think we are making considerable progress."

On another note, Mr. Busila remarks on the strong support of America's Lithuanian community in the country during the last 10 years. He explains, "The first business contacts that emerged for us after independence in many spheres were with Americans of Lithuanian origin. Thanks to these connections, we were able to build a relationship with the U.S. Securities and Exchange Commission when we were starting our capital market. This greatly assisted us in building up the legal framework." Recently, Omnitel, which was established by Americans of Lithuanian origin, has grown into a technology giant in Lithuania, dominating 70% of the market.

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## Baltics

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## Achema Group: working to create a regional transport hub

IN THE SECOND half of 2001, Achema Group was founded in Jonava, Lithuania. The group consists of more than 30 production and service divisions with a combined yearly turnover exceeding US\$200 million. The largest divisions in the group are stock companies Klaipeda Stevedoring Company (KLASCO) and Achema. KLASCO, located at Lithuania's Klaipeda port, is the country's leading transshipment and multimode transportation company. Operating under ISO 9001 standards, KLASCO handles over eight million tons of different cargoes yearly, including steel, fertilizer, cotton, timber, grain, frozen products and sugar. The company has 20 quays with a total area of 9,871,000 ft<sup>2</sup> and a quay depth of up to 45.93 ft, sufficient to allow passage for vessels with an 80,000 tonnage. KLASCO owns four terminals: general cargo, Ro-Ro, container, and fertilizer. For cargo storage, the company has ten modern warehouses with a total area of 645,800 ft<sup>2</sup>, two refrigerated warehouses with a total area of 129,200 ft<sup>2</sup> and a freezing capacity of -25°C. President of KLAS-



**PART OF** the Achema group of companies, KLASCO, located at Klaipeda port, is Lithuania's leading transshipment and multimode transportation company

CO and Achema Bronislovas Lubys, states, "Klaipeda port can easily compete with other European ports with regard to technical and organizational aspects. However, the loading traditions from Finland to Russia that were established during Soviet times still exist, and although today Lithuania and Klaipeda can provide the same level of services and actually offer a shorter route to destination ports, I think it will take some time before

Western cargo owners realize that it is possible to load here in Klaipeda or in other Baltic ports, as well as in Finland." Achema is the largest nitrogen fertilizer and chemical producer in the Baltic states. As well as nitrogen and complex fertilizers, Achema also produces methanol, formalin, UFR, PVAD, technical gases, aluminum sulphate solution, as well as other chemical products, all according to ISO 9002 and

14001 standards. The company's annual sales exceed 3,937 million ft, which includes 1,969,000 ft of UAN, 1,476,000 ft of AN, and between 164,000 to 196,900 ft of urea. Around 85% of the company's production is exported to western Europe, including France, Germany, the U.K., Benelux, and the Scandinavian countries. Achema also has sales offices in France, Scandinavia, and Poland and makes spot sales to the U.S. when conditions permit. Regarding current investment opportunities in Lithuania, Dr. Lubys recommends the logistics sector. "Lithuania needs two or three large logistics centers and we are looking for partners now, perhaps to begin building next year. This would be a smart investment move as the necessary Lithuanian capital support would be provided here."



**BRONISLOVAS LUBYS**  
President of  
KLASCO and  
Achema

## Pumping Up the industry sector

**TRADE & INDUSTRY** LIGHT INDUSTRY WAS GIVEN A BOOST WHEN COMPANIES STARTED TO LOOK WEST FOR NEW EXPORT MARKETS. NOW, WITH THE MARKET OPEN TO THE EAST, INVESTMENT IS NEEDED TO INCREASE PRODUCTION

LITHUANIA'S INDUSTRY and trade development has enjoyed the support of two important national organizations: the Confederation of Lithuanian Industrialists (CLI) and the Association of Light Industry Enterprises of Lithuania (ALIE). Since Lithuania's independence in 1991, CLI has worked side by side with the government and the country's political and economic organizations in order to ensure that Lithuania's industry development contributes to the prosperity and well-being of the country and its citizens, as well as fostering national culture and traditions. In order to achieve these aims, CLI carries out various activities, including the representation of members' interests before government and international institutions, assisting enterprises in finding new markets and helping to create favorable conditions for

Lithuanian exports. Lithuania's primary exports are minerals, machinery, chemicals, wood products, and food products. The country also has a substantial oil refining and distribution industry. ALIE includes members from the textile, clothing, leather and footwear sectors, and its main efforts involve lobbying, creating a higher level of interaction between businesses within the industry, and providing information for investors. The association has made progress in upgrading the quality, flexibility and reliability of the industry and has performed a crucial role as mediator between Lithuanian and foreign companies. General Director Vidmantas Viksraitis speaks about the history of the industry: "Light industry is well developed in Lithuania due

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# Baltics

## Market leader says quality produce is key to success

AGRICULTURAL AND food products make up around 10% of Lithuania's total exports and within Lithuania's agriculture sector dairy products play a key role. Rokiskio Suris, one of the country's largest dairy producers, is situated in the beautiful highland region of Lithuania, a region famous for its lakes, forests, and traditional milk farming techniques. It is within this setting that Rokiskio Suris produces its famous cheeses.

Founded in 1966, the company was privatized 10 years ago. It has made a name for itself worldwide as a producer of high-quality cheeses and has registered impressive growth in the last six years. Between 1996 and 2000, sales increased from US\$31 million to US\$77 million. As well as occupying a 50% share of the Lithuanian domestic cheese market, Rokiskio Suris now delivers products to 15 countries worldwide and exports account for nearly 80% of production, the majority going to Russia and the U.S. CEO Antanas Trumpa believes that Rokiskio Suris's success is based on the excellence of its products. "10 years ago our motto was already expressed in one word—quality. Today it's the same. We believe that quality must come from the very beginning, from the production of the milk, up to the final product. Our cheese is one of the very best in the world because it is made with only ecologically clean raw materials." To ensure that it continues that way, Rokiskio Suris has invested



**WORLD FAMOUS** for its cheeses, Rokiskio Suris uses only top-quality produce. The company exports 20 million pounds of cheese yearly to the U.S.

heavily in its facilities, updating equipment and techniques to meet ISO 9001 and 14001 standards, as well as investing directly in local farms to secure a high-quality milk supply. Production Director Dalius Trumpa says, "In the dairy sector we were the first to demand certain requirements of milk suppliers. But we didn't just ask for a better standard, we also invested a lot in that area throughout Lithuania. When the Soviet

system of collective farms was abolished, there were a lot of small farms and we invested to help create larger, stronger farms. This increased our production from 5,000 to 20,000 tons of cheese per year." Rokiskio Suris currently exports 20 million pounds of cheese yearly to the U.S. and hopes to eventually increase this to 50 million. To achieve this, the company is seeking to create its own U.S. distribution network.



**ANTANAS TRUMPA**  
Chief Executive Officer of Rokiskio Suris



**DALIUS TRUMPA**  
Production Director of Rokiskio Suris

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to historical circumstances; it was developed under Soviet occupation and, due to Moscow's centralized planning at the time, we had to provide not only for the residents of Lithuania, but also for Uzbekistan, the Ukraine, and parts of Russia. After regaining independence, we attempted to reorient towards those markets but on account of various economic and political problems, they were closed to us. So then we changed our export strategy and turned to Central Europe and the Scandinavian countries, which turned out to be very beneficial for us as the cooperation with Western companies was a major stimulus for further development in the industry." According to Mr. Viksraitis, Lithuania's competitive advantages in its light industry include production quality, company reliability, low labor costs, and its highly qualified management and workers. He elaborates, "The geographic location of Lithuania is very comfortable for us. Plus I think we have attained much in improving the quality of our production and the flexibility of our companies. Before, factories were accustomed to manufacturing products in large

quantities and over long periods of time. Now products can be produced rapidly and in whatever quantities are ordered. The support that companies are able to provide for each other through ALIE is another advantage that has greatly contributed towards improving product quality. Competition is crucial for growth, but it does not mean we cannot cooperate." Mr. Viksraitis believes that the greatest opportunities for U.S. investors at the moment are in Lithuania's textile industry, since the bulk of textile production is exported to the U.S. and it is the sector where the largest companies are found. He comments, "This sector lacks investments, while it has everything else: specialists, highly trained workers, the facilities, and the infrastructure. Still, cutting-edge technology in the textile industry is expensive, so we need more investors and more resources."

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