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# REGIONAL LOGISTICS & ICT PROFILE: LATVIA

**Igor Kabashkin**

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# EXECUTIVE SUMMARY

This report summarises the analysis on regional development related to logistics and ICT in Latvia. The analysis was based on review of references, interviews with a number of experts from government ministries, local governments and non-governmental organizations, desktop research, and the results of a roundtable expert discussion.

Investigation was conducted in the framework of the LogOn Baltic Project part financed from the EU Interreg IIIB programme. Its aim is to present solutions that would improve the interplay between logistics & ICT competence, spatial planning and the competitiveness of small and medium enterprises in the Baltic Sea Region (BSR). There are 10 regions and more than 30 partners involved in the project. Latvia is represented by Riga City Council, Logistics and Customs Brokers Association, as well as the Transport and Telecommunications Institute.

Latvia today is well positioned to develop as an important logistics hub for the flows of goods between Western Europe and the rapidly growing economies of China and Russia. However, geography and history alone do not guarantee success in logistics, and Latvia is no exception.

The demand from private sector will be a critical precondition for development projects in the area of logistics and logistics-related ICT competences in the future.

The Regional Logistics & ICT Profile (short form, Regional Profile) is one of the several support tools necessary for the analysis and description of the logistics and ICT competences in the region.

Information from different areas of interest (i.e. economy, human resources, logistics infrastructure, ICT infrastructure, public sector, among others) together with the findings of the other empirical activities carried out during the project life, converges into the Regional Logistics & ICT Profile, turning it into a reference document for the whole project.

All of the regions involved in the LogOn Baltic project are following the same content structure to help keep uniformity among the different Regional Profiles.

# KOPSAVILKUMS

Sājā ziņojumā apkopoti dati par Latvijas reģionālā loģistikas un informācijas komunikāciju tehnoloģiju profila sagatavošanu projekta „Reģionu attīstības veicināšanas ar pilsētplānošanas, loģistikas un IKT zināšanu palīdzību (LogOn Baltic) ietvaros”.

Projektā ir iesaistījušies 10 reģioni un vairāk kā 30 partneri. Latviju šajā projektā pārstāv Rīgas dome, Loģistikas un muitas brokeru asociācija, kā arī Transporta un sakaru institūts.

Materiālā īsā formā izklāstīta šāda informācija:

- Latvija Baltijas jūras reģiona ietvaros; ģeogrāfiskā novietojuma; galveno klimatisko apstākļu, reģionāli administratīvas sadalījuma un vēsturiskā fona apraksts.
- Ekonomikas nozīmes reģionā un starptautiskās tirdzniecības apraksts, ietverot informāciju par tirgus vidi: sektoriem, to tendencēm, importa /eksporta rādītājiem, produktiem un tirdzniecības saiknēm BSR ? BJR?
- Organizāciju, atbalsta veidu, loģistikas, LKT projektu, sadarbības programmu, partnerību apraksts.
- Transporta, sakaru, infrastruktūras, transporta sektora pārvaldes, rūpniecības asociāciju, sociālo un vides jautājumu transporta sektora apraksts. Loģistikas un rūpniecības raksturojums un loģistikas sektora attīstības un perspektīvu analīze.
- IKT reģiona apraksts, IKT industrijas raksturojums un IKT sektora attīstības un perspektīvu analīze.
- Reģiona galveno rādītāju; Vajadzību; Trūkumu; Portfolio un SVID analīze; Reģiona perspektīvu apskats un kopsavilkuma sagatavošana.
- Reģionālo LogOn Baltic iniciatīvu un to saistības ar LogOn Baltic projektu apskats.

Latvija šodien ir izdevīgi pozicionējusies, lai attīstības kā svarīgs loģistikas mezgls preču plūsmas apkalpošanai starp Rietumeiropu un strauji augošajām Ķīnas un Krievijas ekonomikām. Taču ģeogrāfija un vēsture pašas par sevi negarantē veiksmi loģistikas jomā, un Latvija nav izņēmums.

Infrastruktūras attīstības plāniem jābalstās uz ticamām nākotnes kravu un cilvēku plūsmu prognozēm. Šis plūsmas, savukārt, var kalpot par pamatu vietējo pakalpojumu izveidei un attīstībai, ir sevišķi Latvijas mazāk attīstītājos novados pie mūsu austrumu robežas.

Materiāls satur lielu skaitu diagrammu, grafiku, tabulu, kurās atspoguļota Latvijas attīstības konkurencspējas dinamika, kā arī tās loma Baltijas jūras reģionā.

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# 1 INTRODUCTION

## 1.1 Project introduction – LogOn Baltic

The LogOn Baltic project was approved within the Baltic Sea Region (BSR) INTERREG III B Neighbourhood Programme, which is sponsored by the European Regional Development Fund (ERDF), as part of the Structural Funds, and co-financed by national project partners.

The purpose of LogOn Baltic is to present solutions to improve the interplay between logistics and Information and Communication Technologies (ICT) competence and spatial planning and strengthening Small and Medium-sized Enterprises (SMEs) competitiveness in the BSR. This is primarily done by the production and dissemination of information for regional development agencies on how to support enterprises in the participating regions in the field of ICT and logistics, thus improving regional development.

The following regions are participating in the project:

- South-West Finland
- Östergötland (Sweden)
- Denmark
- Southern Metropolitan Region of Hamburg (Germany)
- West-Mecklenburg (Germany)
- North-East Poland
- Lithuania
- Latvia
- Estonia
- St. Petersburg (Russia)

LogOn Baltic provides an overview of logistics efficiency and logistics information systems and their exploitation, in order to improve the interaction between SMEs and other public/private actors.

On the one hand, the empirical activities of LogOn Baltic compare the existing logistics services and infrastructure with the logistics needs in the participating regions, making it possible to develop perspectives and action plans for strengthening the logistics competence in the regions. On the other hand it describes the existing ICT infrastructure and services, revealing up to what extent they meet with the companies' needs for further development. In this way, LogOn Baltic focuses on:

a. identifying development agencies and evaluating their performance in each region
b. evaluating the level of logistics and ICT efficiency
c. suggesting concrete actions for regional and local public sector bodies

Data are gathered in each participating region using four tools: Development Measure Impact Analysis (DEMIA), Logistics survey, ICT survey and Expert Interviews; each of these is presented in a separate report. These results together with secondary data is presented in a regional report, that will describe the state of affairs in the region, with recommendations on what and how the region needs to develop. The regional reports are used as a basis for making an interregional comparison which is reported in an inter-regional report. All reports are available on the project homepage, www.logonbaltic.info.

## 1.2 Regional partner introduction

In Latvia the leading regional partner is the Riga City Council. The project is implemented also in cooperation with the Logistics and Customs Brokers Association and the Transport and Telecommunication Institute.

**Riga City Council** is the local government of Riga, Latvia's capital and its most significant economic centre. RCC has been a lead partner or a partner in a number of Interreg and Phare CBC projects, as well as other EC initiatives. Riga City Council has accrued a grounded expertise in EU project management and coordination; it includes projects like Riga Northern Transport Corridor (Northern Corridor), which is the largest transportation infrastructure project in Riga over the last decades.

**Logistics and Customs Brokers Association**[1] was established in 1997, with the initial aim of promoting the trade of customs brokers in Latvia through the development of the appropriate legislative base. When the new institution of "customs brokers" was established, the association refocused to develop other elements of business logistics

[1] Description of the partner is based on the information from www.lmba.lv.

besides customs issues. It acts as a cooperation platform for all interested parties regarding business logistics and customs clearance, as well as aims to promote the development of qualification and education standards in the field.

The work of the **Transport and Telecommunications Institute**[2] **(TTI)** is aimed at making productive contributions to the continued progress of the transportation industry of Latvia, in particular through conducting applied research and development work in contemporary and future transportation issues. The Institute encourages collaborative work between practitioners from both private and public sectors and the academics in various facets of transportation research relevant to the needs of Latvia. TTI also has a long experience in transport and logistics teaching.

## 1.3 Regional Profile introduction

The Regional Logistics & ICT Profile (short form, Regional Profile) is one of the several support tools necessary for the analysis and description of the logistics and ICT competences in the region.

Information from different areas of interest (i.e. economy, human resources, logistics infrastructure, ICT infrastructure, public sector, among others) together with the findings of the other empirical activities carried out during the project life, converges into the Regional Logistics & ICT Profile, turning it into a reference document for the whole project.

All of the regions involved in the LogOn Baltic project are following the same content structure to help keep uniformity among the different Regional Profiles.

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[2] Description of the partner is based on the information from www.tsi.lv and www.logonbaltic.info.

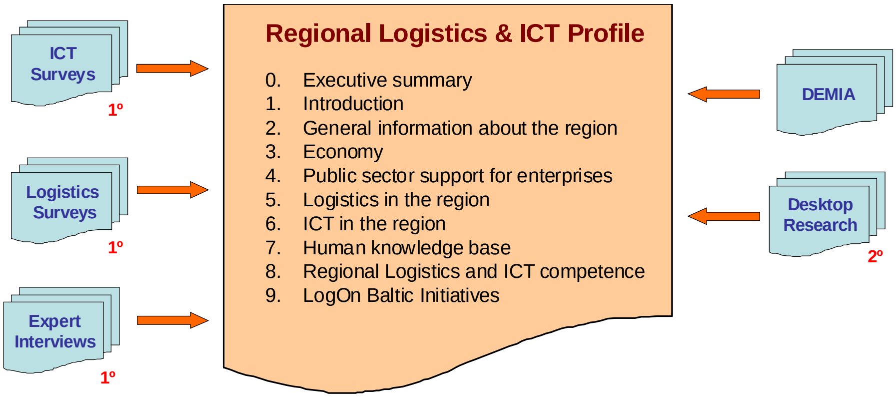



Figure 1 Tools used within the LogOn Baltic project

This tool is to be considered the main tool for secondary data collection, providing a comprehensive overview of the actual situation and development in the logistics and ICT industry.

# 2 GENERAL INFORMATION ABOUT THE REGION

## 2.1 Latvia in the Baltic Sea Region

The Republic of Latvia is situated in the North-East of Europe, on the shores of the Baltic Sea. In the North Latvia borders with Estonia, in the East — with Russia, in the South East — with Belarus, but in the South — with Lithuania. The western border of Latvia is formed by the Baltic Sea of which Latvia's coastline constitutes 531 km. Latvia consists of four historical regions: Kurzeme (the western region), Zemgale (the southern region), Vidzeme (the northern region) and Latgale (the eastern region). In accordance with this historical division in Latvia, four planning regions have been established, with the Riga Metropolitan Area constituting the fifth planning region. The planning regions correspond to NUTS III classification, although their precise borders and status are to be specified yet. According to the administrative division, the territory of the country is divided into 547 local governments (towns and pagasts) and 26 regional local governments (districts). Along with this division, there are 7 city local governments (municipalities), which fulfil the functions of both levels — of local governments and of regional governments (districts). According to the population census carried out this year, the population of Latvia is 2.37 million, of which almost one third (784 thousand) live in the capital city Riga.

The territory of Latvia is 64 589 km$^2$. A significant part of it - 40% of the state - is covered by forests. The location of Latvia on the shores of the Baltic Sea, where historically ports and trading centres have been located and which geographically is rather close (and easily accessible) to important development centres of the Baltic Sea region and Russia, has played a significant role in placing this territory at all times in the focus of economic and political interests. Latvia is situated at the crossroads of important communication routes between Western Europe and Russia.

The nature of Latvia is determined by its geographical location in the western part of the East-European plain and on the eastern coast of the Baltic Sea (Fig.1.), between 55° 40' - 58° 05' N latitude and 20° 58' - 28° 14' E longitude. Latvia belongs to a temperate zone, mixed forest sub-zone (boreonemoral province).


Figure 2 Location of Latvia in Europe

## 2.2 Main location factors

Latvia is located at the crossroads of northern and eastern Europe, on the east coast of the Baltic Sea. The Republic of Latvia is bounded by

Estonia to the north, Russia and Belarus to the east and Lithuania to the south, and has a maritime border with Sweden to the west. Other neighbouring countries include Finland, Poland and Germany. The strategic location of Latvia has been the major influence on the country's diverse historical and cultural experiences. Today, it is this location which forms the basis for Latvia's economic success.

Located at a strategic crossroads between Russia and Europe, Latvia has been a key area for trade and transport as well as a bloody battleground.

Latvia's location on the Baltic Sea has provided the country with one of its major economic moneymakers for the future. The three large seaports of Riga, Ventspils, and Liepaja are particularly promising for future trade because they can be used during all seasons and because a dense network of railroads and roads links them with many of the landlocked regions of neighbouring countries. For many years, Riga was the end point for Japanese container traffic originating in the Russian Far East, primarily the port of Nakhodka. This traffic was mostly unidirectional from east to west. With the expected opening up of Japan to incoming world trade, however, European exporters may find that Riga is the best route for their containers bound for Japan or China.

## 2.3 General climate conditions

Latvia climate is temperate, with a lot of temperature variations. Summer climate in Latvia is warm with relatively mild weather in spring and autumn. Winter climate in Latvia, which lasts from November to mid-March, can be very cold. Rainfall is distributed throughout the year with the heaviest rainfall in August. Snowfall is common in the winter months for Latvia climate.

Latvia's northern location matches Labrador's latitude. In the summer, daylight hours are much longer and in the winter much shorter than in New York City. This light deprivation may be an important ingredient in deciphering certain aspects of Latvia climate collective behaviour. It may account for the general liveliness and radiance in spring and summer, and the relative taciturnity and melancholy the rest of the year. The climate in Latvia is far different from that of Labrador, however, because of the effect of the Gulf Stream flowing across the Atlantic Ocean from Mexico. Average temperatures in winter are reasonably mild, ranging in January from -

2.8°C in Liepaja, on the western coast, to -6.6°C in the south-eastern town of Daugavpils. July temperatures range from 16.7°C in Liepaja to 17.6°C in Daugavpils. Latvia's proximity to the sea brings high levels of humidity and precipitation in the climate of Latvia, with average annual precipitation of 566 millimetres in Riga. There, an average of 180 days per year has precipitation, forty-four days have fog, and only seventy-two days are sunny. Continuous snow cover lasts eighty-two days, and the frost-free period lasts 177 days.

Spring and Summer Latvia climate is the best time for visit, from May to September. During this period daytime temperatures average around 61°F (16°C). Whereas the July and August is the peak tourist season and accommodation can be fully booked during this time. The coldest months in Latvia are January and February. Winter Latvia climate experiences extreme temperatures, and averages 25°F (-4°C) during the day.

Seeing the Latvian climate, light to medium weight clothes are worn during summer months. And medium to heavy-weight are needed during winter. Though, rainwear is advisable all the year round.

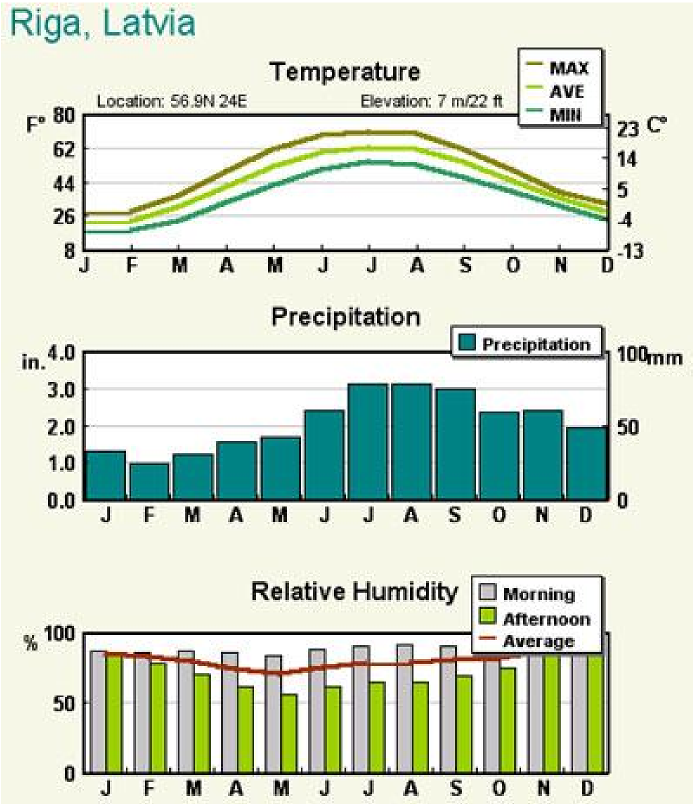



Figure 3 Climate in Latvia

## 2.4 Regional administrative divisions

Latvia is divided into five planning regions: Riga area, Kurzeme, Latgale, Vidzeme, and Zemgale (Figure 3).

Riga Region is situated in the central part of Latvia and its metropolis is the capital city of Latvia - Rīga. The territory of the region covers Rīga, Rīga district, Jūrmala, as well as the districts of Tukums, Ogre and Limbaži.

About 40% of Latvian population live in the capital city of Riga. Riga Region generates some two-thirds of Latvian GDP, it has the highest rate of entrepreneurial activity (26 firms per 1000 inhabitants), and over 60% of Latvian industrial capacity (DG Regio 2005). Accordingly, Riga also has the highest GDP per capita in the country with significant lead over other parts of Latvia.


Figure 4 Administrative divisions of Latvia

The key economic sectors are: transit, finances, power industry, food production, pharmaceutical production, wood-processing, publishing and printing industry, furniture production, textile production, and production of communication equipment.

Riga is an important centre for transport and logistics, with an international airport, seaport, and railway and road connections that make it a natural hub for Latvia, and put it in a good position to become a central hub of the Baltic States.

Kurzeme Region is situated in the Western part of Latvia: between the Baltic Sea in the West, the Gulf of Riga in the East and bordering Lithuania.

Kurzeme development centres are the two largest towns - Liepāja and Ventspils. The transport sector contributes 25% of the total added value in the region. Processing industry is the second important sector in the region, its proportion in the total added value constituting 16%.

Industry is mainly concentrated in towns and district centres. Similar to other Latvian regions the major problem in Kurzeme is that the industry is based on low cost workforce and consequently low added value for the produced goods. The main components of the industry include processing of food, metal and wood.

As regards the transport infrastructure, roads and especially the ones linking smaller centres and rural areas of the region are in a very poor condition. Access to ports and airports is also important in Kurzeme region that due to certain constraints cannot be fully used by the region to satisfy its potential of transportation opportunities.

Latgale Region is situated in the eastern part of Latvia. The region's eastern and southern borders are also state borders - in the East with Russian Federation and Belorussia, in South - with Lithuania. Latgale planning region consists of Balvi, Daugavpils, Ludza, Krāslava, Preiļi and Rēzekne districts, as well as Cities of Rēzekne and Daugavpils.

The most important economic branches in Latgale region are wood processing, food and beverage, machine building, chemical and light industry. However, economic situation in Latgale is considerably worse than Latvia average.

Several transport corridors of international importance cross the territory of the Latgale region - A13, A12, A6. The condition of the road pavement is critical and is in need of renovation.

Vidzeme Region lies in the North-East of Latvia. In the North it borders with the Republic of Estonia, in the East - with the Russian Federation. Vidzeme planning region consists of Alūksne, Cēsis, Gulbene, Madona, Valka and Valmiera districts.

The region is crossed by two national importance motor roads – A2 and A3.

Vidzeme planning region can be regarded as very agricultural; also, a relatively small share of the region's revenues comes from transit services, which is a significant source in other regions of Latvia. Main cause of slow development rests with the general agricultural production difficulties - low level of production specialisation and technologies, also the decrease of prices for agricultural products, which are unfortunately not compensated by the current subsidies. Foreign investments have been made into wood (Madona, Valka) and food processing (Cesis).

Zemgale Region, in the North bordering on the Bay of Rīga, in the South - on Lithuania, includes the districts of Aizkraukle, Bauska, Dobele, Jelgava and Jekabpils. The region is located near the capital city of Rīga, to which it is well connected with motor roads and railway. Several significant transport corridors cross the region.

Zemgale region is the most developed agricultural region in Latvia; almost all agricultural lands are being used in the Region. There are all kinds of agricultural produce processing enterprises, which are some of the strongest in Latvia. Local produce can be processed in the Region.

Most of the population is employed in manufacturing industry – especially wood processing and wood production, as well as retail and wholesale industries and transport, storage and communications industry.

The region has a good road network; road density constitutes 882 km per 1000 sq km. The highest road density is in Jelgava, Dobele, Bauska districts. However, road quality is poor, especially with respect to the roads of regional or local importance.

Table 1 Primary subdivisions: Latvia is divided into 26 districts & 7 cities

| District | Typ | HASC | ISO | FIPS | Population | Area(km.²) | Area(mi.²) | Post |
|---|---|---|---|---|---|---|---|---|
| Aizkraukle | D | LV.AI | AI | LG01 | 41,968 | 2,565 | 990 | 51 |
| Alūksne | D | LV.AL | AL | LG02 | 26,422 | 2,243 | 866 | 43 |
| Balvi | D | LV.BL | BL | LG03 | 30,624 | 2,386 | 921 | 45 |
| Bauska | D | LV.BU | BU | LG04 | 53,197 | 1,882 | 727 | 39 |
| Cēsis | D | LV.CE | CE | LG05 | 60,620 | 3,067 | 1,184 | 41 |
| Daugavpils | c | LV.DV | DGV | LG06 | 115,265 | 72 | 28 | 54 |
| Daugavpils | d | LV.DG | DA | LG07 | 42,758 | 2,525 | 975 | 54 |
| Dobele | d | LV.DO | DO | LG08 | 40,246 | 1,633 | 631 | 37 |
| Gulbene | d | LV.GU | GU | LG09 | 28,194 | 1,877 | 725 | 44 |
| Jēkabpils | d | LV.JK | JK | LG10 | 56,348 | 2,998 | 1,158 | 52 |
| Jelgava | c | LV.JE | JEL | LG11 | 63,652 | 60 | 23 | 29 |
| Jelgava | d | LV.JG | JL | LG12 | 37,371 | 1,604 | 619 | 30 |
| Jūrmala | c | LV.JM | JUR | LG13 | 55,718 | 100 | 39 | 20 |
| Krāslava | d | LV.KR | KR | LG14 | 36,836 | 2,285 | 882 | 56 |
| Kuldīga | d | LV.KU | KU | LG15 | 38,169 | 2,502 | 966 | 33 |
| Liepāja | c | LV.LJ | LPX | LG16 | 89,448 | 60 | 23 | 34 |
| Liepāja | d | LV.LP | LE | LG17 | 46,817 | 3,594 | 1,388 | 34 |
| Limbaži | d | LV.LM | LM | LG18 | 40,164 | 2,602 | 1,005 | 40 |
| Ludza | d | LV.LU | LU | LG19 | 35,125 | 2,412 | 931 | 57 |
| Madona | d | LV.MA | MA | LG20 | 46,459 | 3,346 | 1,292 | 48 |
| Ogre | d | LV.OG | OG | LG21 | 63,064 | 1,840 | 710 | 50 |
| Preiļi | d | LV.PR | PR | LG22 | 41,735 | 2,041 | 788 | 53 |
| Rēzekne | c | LV.RK | REZ | LG23 | 39,233 | 17 | 7 | 46 |
| Rēzekne | d | LV.RZ | RE | LG24 | 43,090 | 2,812 | 1,086 | 46 |
| Riga | c | LV.RA | RIX | LG25 | 764,329 | 307 | 119 | 00 |
| Riga | d | LV.RG | RI | LG26 | 144,346 | 3,059 | 1,181 | 20 |
| Saldus | d | LV.SA | SA | LG27 | 38,916 | 2,182 | 842 | 38 |
| Talsi | d | LV.TA | TA | LG28 | 49,814 | 2,751 | 1,062 | 32 |
| Tukums | d | LV.TU | TU | LG29 | 54,200 | 2,447 | 945 | 31 |
| Valka | d | LV.VK | VK | LG30 | 34,317 | 2,437 | 941 | 47 |
| Valmiera | d | LV.VM | VM | LG31 | 60,390 | 2,365 | 913 | 42 |
| Ventspils | c | LV.VS | VEN | LG32 | 43,928 | 46 | 18 | 36 |
| Ventspils | d | LV.VN | VE | LG33 | 14,620 | 2,472 | 954 | 36 |
| 33 divisions | | | | | 2,377,383 | 64,589 | 24,938 | |

- **Typ:** c = city, d = district.
- **HASC:** Hierarchical administrative subdivision codes.
- **ISO:** Codes from ISO 3166-2.
- **FIPS:** Codes from FIPS PUB 10-4.
- **Population:** 2000-03-31 census.

## 2.5 Historical background

By the 10th century, the area that is today Latvia was inhabited by several Baltic tribes who had formed their own local governments. In 1054, German sailors who shipwrecked on the Daugava River inhabited the area, which initiated a period of increasing Germanic influence. The Germans named the territory Livonia. In 1201, Riga, the current capital of Latvia, was founded by the Germanic Bishop Alberth of Livonia; the city joined the Hanseatic League in 1285 and began to form important cultural and economic relationships with the rest of Europe. However, the new German nobility enserfed the indigenous people and accorded them only limited trading and property rights.

Subsequent wars and treaties led to Livonia's partition and colonization for centuries. In 1721 Russia took control over the Latvian territories as a result of its victory over Sweden in the Great Northern War. During this time there was little sense of a Latvian national identity, as both serfdom and institutional controls to migration and social mobility limited the boundaries of the indigenous people's intellectual and social geography. However, in the 1860's, the Young Latvian Movement was formed in order to promote the indigenous language against “russification” policies and to publicize and counteract the socioeconomic oppression of Latvians, 60% of whom belonged to the landless, urban class. This growing proletariat became fertile ground for the ideas of western European socialism and supported the creation in 1903 of the Latvian Social Democratic Union (LSDU), which continued to champion national interests and Latvia's national self-determination, especially during the failed 1905 Revolution in Russia.

The onset of World War I brought German occupation of the western coastal province of Kurzeme, which Latvians heroically countered with several regiments of riflemen commanded by Czarist generals. The military campaign generally increased Latvian and LSDU support for the Bolsheviks' successful October Revolution in 1917, in the hopes of a "free Latvia within free Russia." These circumstances led to the formation of the Soviet "Iskolat Republic" in the unoccupied section of Latvia. The Latvian Provisional National Council and the Riga Democratic Bloc stood in opposition to this government and to the landed barons' German sympathies. These and other political parties formed the Latvian People's Council, which on November 18, 1918 declared Latvia's independence and formed an army. The new Latvian Army won a decisive battle over the combined German-Red Army forces and consolidated that success on the eastern Latgale front.

These developments led to the dissolution of the Soviet Latvian government on January 13, 1920 and to a peace treaty between Latvia and Soviet Russia on August 11 later that year. On September 22, 1921, an independent Latvia was admitted to the League of Nations.

The government, headed by Prime Minister Ulmanis, declared a democratic, parliamentary republic. It recognized Latvian as the official language, granted cultural autonomy to the country's sizeable minorities, and introduced an electoral system into the Latvian constitution, which was adopted in 1922. The ensuing decade witnessed sweeping economic reform, as the war had devastated Latvian agriculture, and most Russian factories had been evacuated to Russia. However, economic depression heightened political turmoil, and, on May 15, 1934, the Prime Minister dismissed the Parliament, banned outspoken and left-wing political parties, and tightened authoritarian state control over Latvian social life and the economy.

The German-Soviet Nonaggression Pact of 1939 steadily forced Latvia under Soviet influence, culminating in Latvia's annexation by the Soviet Union on August 5, 1940. On June 14 of the following year, 15,000 Latvian citizens were forcibly deported and a large number of army officers shot. The subsequent German occupation witnessed the mobilization of many Latvians into Waffen SS legions, while some Latvians joined the Red Army and formed resistance groups, and others fled to the West and East. By 1945, Latvia's population had decreased by one-third.

After World War II, the U.S.S.R. subjected the Latvian republic to a social and economic reorganisation which rapidly changed the rural economy to one based on heavy industry, transformed the predominantly Latvian population into a more multiethnic populace, and converted the peasant class into a fully urbanized industrial worker class. As part of the goal to more fully integrate Latvia into the Soviet Union, Stalin deported another 42,000 Latvians and continued to promote the policy of encouraging Soviet immigration to Latvia.

In July 1989, following the dramatic events in East Germany, the Latvian Supreme Soviet adopted a "Declaration of Sovereignty" and amended the Constitution to assert the supremacy of its laws over those of the U.S.S.R. Candidates from the pro-independence party Latvian Popular Front gained a two-thirds majority in the Supreme Council in the March 1990 democratic elections. On May 4, the Council declared its intention to restore full Latvian independence after a "transitional" period; three days later, a Latvian was chosen Prime Minister. Soviet political and military forces tried unsuccessfully to overthrow the Latvian government. On August 21, 1991, Latvia claimed de facto independence. International recognition, including that of the U.S.S.R., followed. The United States, which had never recognized Latvia's forcible annexation by the U.S.S.R., resumed full diplomatic relations with Latvia on September 2.

Since regaining its independence, Latvia has rapidly moved away from the political-economic structures and socio-cultural patterns which underlay the Soviet Union. Through a U.S. initiative, on April 30, 1994, Latvia and Russia signed a troop withdrawal agreement; Russia withdrew the bulk of its troops by August 31 of that year. Except for some large state-owned utilities, Latvia has privatized most sectors of its economy, which has become one of the fastest developing economies in Europe. Latvia has also maintained and strengthened the democratic, parliamentary republic that it revived in 1990.

Internationally, Latvia has accomplished a great deal. It became a member of the United Nations (UN) on September 18, 1991, and is a signatory to a number of UN organisations and other international agreements, including the International Civil Aviation Organisation (ICAO), the International Monetary Fund (IMF), and the World Bank. It is also a member of the Organisation on Security and Cooperation in Europe (OSCE) and officially became a member of the North Atlantic Treaty Organisation (NATO) on March 29, 2004. On May 1, 2004 Latvia joined the European Union (EU).

Since 2004, Latvia has emerged as a significant player in foreign affairs, standing out as a successful post-Soviet transition society. Strong memories of occupation and oppression motivate Latvia to reach out to countries struggling to move beyond authoritarian politics and state-controlled economies. It has worked closely with the U.S. and the EU to promote democracy in Ukraine, Belarus, Moldova, and Georgia. Latvia also supports pro-market, pro-free-trade policies in European and international organisations. It was the European Union's fastest growing economy in 2004 and 2005, and the European Commission forecast that it would be so again in 2006.

Latvia has developed a policy of international security cooperation through participation in crisis management and peacekeeping operations. In 2006, Latvia deployed over 10% of its active duty military to support UN, NATO, and coalition military operations. That percentage is well above the European average in terms of per capita contributions. In 2007, Latvia expects to nearly double its participation in the NATO International Security Assistance Force (ISAF) in Afghanistan. It has also authorized the continued deployment of

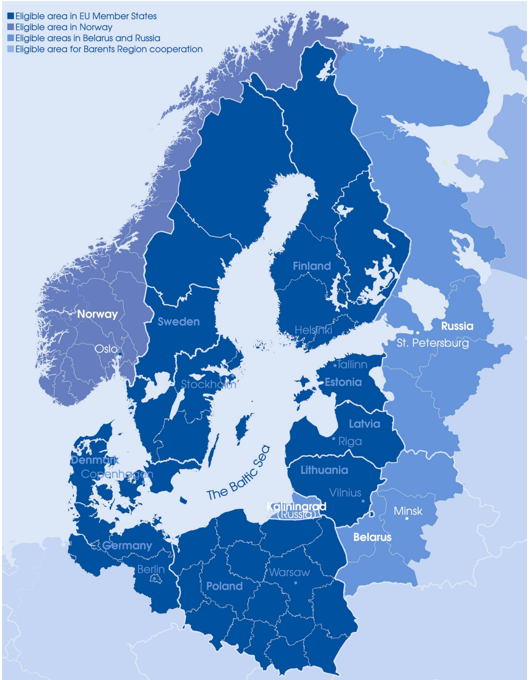
Latvian soldiers in Iraq through 2007. Closer to home, Latvia has been active in the Balkans: it supports the NATO mission in Kosovo with peacekeepers, and the European Union Force (EUFOR) mission in Bosnia with liaison officers. In November 2006, Latvia hosted a NATO Summit in its capital, Riga.

## 2.6 Links to the BSR

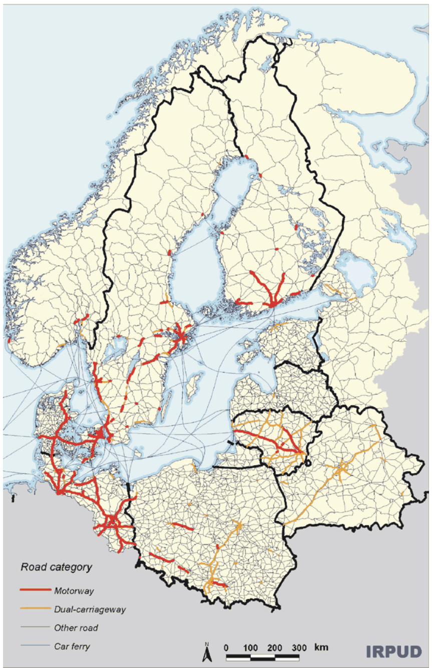
The Baltic Sea Region is a significant European Region, with unique qualities and is recognized as one the most promising areas for development, economic growth and investments in Europe. The region also possesses an exciting blend of cultures and natural assets. It is an area were East meets West. The Baltic Sea is unique in that it is by far the longest brackish water reservoir in the World, but because of this it is also very vulnerable to pollution. Therefore we have to be concerned about our common Sea, lakes, rivers and other water resources.

The overarching strategic objective of the Baltic Sea Region Programme is to strengthen the development towards a sustainable, competitive and territorially integrated Baltic Sea region by connecting potentials over the borders. As part of Europe, also the Baltic Sea region is expected to become a better place for its citizens to invest, work and live. The programme will thus address the European Union's Lisbon and Gothenburg strategies in order to boost knowledge based socio-economic competitiveness of the Baltic Sea region and its further territorial cohesion.

The BSR area includes the whole territory of Denmark, Estonia, Finland, Latvia, Lithuania, Poland and Sweden, and Northern parts of Germany as EU member states. Also the neighbouring countries of Norway (whole country), Russia (North-Western regions) and Belarus (whole country) belong to the programme area.

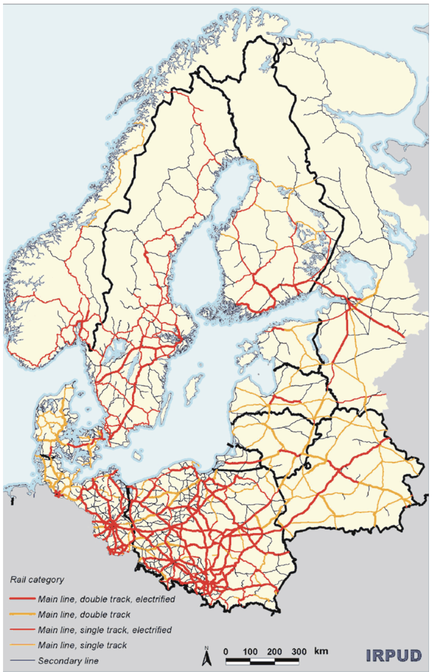



**Current road network in the Baltic Sea Region**




Source: IRPUD (2000)

**Current rail network in the Baltic Sea Region**

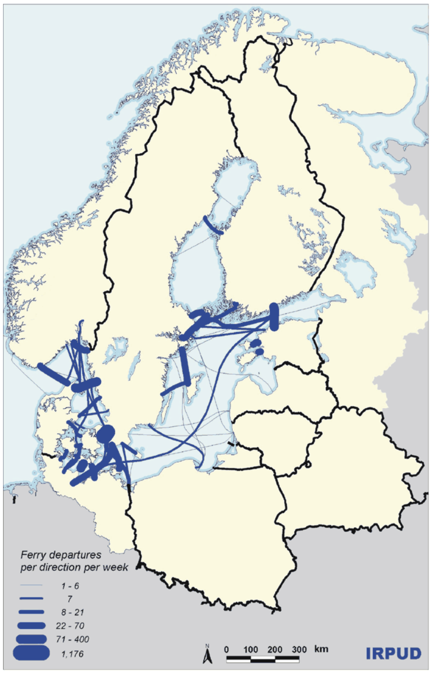



Source: IRPUD (2000)

Scheduled flights, 2000


Source: Actual online information of airlines and airports

Baltic Sea ferry services




Source: Ferryguide (2000)

Figure 5 BSR area and its transport infrastructure

Traditionally, geographic location has been considered the main source of economic well-being for the Baltic States. However with increased globalisation new factors that contribute to the national growth are emerging. The rapid development during recent years indicates that Latvia and its neighbours Estonia and Lithuania have been successful in making full use of these factors, in addition to the traditional location-based benefits, e.g. transit. So Latvia sees its future as the inspirational catalyst of regional development and that of the EU. The values Latvia brings to the table include economic dynamism, governmental efficiency and open economy.

Economic dynamism refers to development as measured by both economic figures and attitudes. Since 1999, when the Russian economic crisis struck, the Baltic States have exhibited GNP growth in excess of 6% for most of the years and Latvia even reached 8.5% in 2004. Naturally such growth is attributable to the low-income base and rapid foreign direct investment growth. However there are also several factors that comprise the macroeconomic environment facilitating these economic activities. These factors include the level of tax burden, the business and investment climate, labour availability and skill level. Latvia has one of the lowest tax burdens in the European Union.

Despite criticism from some of the Western European countries, Latvia strongly believes that lower taxes and simpler administration (e.g. a flat tax rate) best meet the challenge of the general trend of global efficiency, both in corporate and governmental sectors. Although Latvia's performance in business and investment climate indicators has not always been consistent, it has been improving lately. Efficiency is the key challenge in this area and should be the focus in Latvia and in other countries in the region if they want to compete successfully in the global marketplace. The availability of labour and skills is perhaps the single most critical aspect that needs to be addressed for the future development of Latvia. Quantitatively the available employee pool is decreasing due to low birth rates and outbound migration. Qualitatively the match between education and the needs of society and business needs to be constantly ad-dressed. Long-term labour productivity needs to be improved in order to sustain the economic development.

The huge potential for growth in several underdeveloped sectors in Latvia – be it infrastructure or construction – will provide possibilities for sustained economic growth in the medium term. From the investors' perspective, one should also continue to fully use the advantage that Latvia serves as a natural bridgehead for any economic activities in the Baltic States. This, in turn, is in the interests of the whole region. In conclusion, Latvia’s role on the Baltic Rim region should be not only viewed as a transit point, but also as a catalyst and example of efficient operations in corporate and governmental sectors. Especially, when currently EU-15 countries are experiencing an economic downturn, the experience of Latvia and other Eastern Europe countries should be further investigated to propose actions that would improve the competitiveness of each and every county and the EU as whole.

Table 2 Latvia: Key Indicators of Economic Development

| | 2003 | 2004 | 2005 | 2006 e | 2007 f |
|---|---|---|---|---|---|
| | (growth against the preceding year, %) | | | | |
| Gross domestic product | 7.2 | 8.6 | 10.2 | 12.0 | 9.0 |
| Private consumption | 8.2 | 9.5 | 11.4 | 17.0 | 12.0 |
| Public consumption | 1.9 | 2.1 | 2.7 | 3.0 | 3.0 |
| Gross fixed capital formation | 12.3 | 23.8 | 18.6 | 18.0 | 15.0 |
| Exports | 5.2 | 9.4 | 20.7 | 11.0 | 10.0 |
| Imports | 13.1 | 16.6 | 13.5 | 16.0 | 10.0 |
| Consumer prices | 2.9 | 6.2 | 6.7 | 6.5 | 6.5 |
| | (in % of GDP, unless indicated otherwise) | | | | |
| Central government budget fiscal balance | -1.6 | -1.1 | -1.2 | -0.3 | -1.4 |
| Central government debt | 14.4 | 14.5 | 12.1 | 10.2 | 10.0 |
| Current account balance | -8.1 | -12.9 | -12.4 | -18.5 | -18.0 |
| Foreign direct investments (flows) | 2.7 | 4.6 | 4.6 | 7.5 | 7.0 |
| Unemployment rate (15-74 years) | 10.6 | 10.4 | 8.7 | 7.3 | 6.0 |

e – estimation; f – forecast

# 3 ECONOMY

## 3.1 Economic importance of the region

*Market environment*

Business environment in Latvia is being constantly improved through development of the legal framework, harmonising it with EU requirements and monitoring the effects of administrative procedures on business activity. Considerable reforms and improvements have been achieved in registration of enterprises, taxation policy, customs legislation and procedures and border crossing, construction, real estate development and other areas.

Reforms for improvement of business environment are estimated positively in various surveys, for example, in the survey “Doing Business in 2007: How to reform” (www.doingbusiness.org) conducted by the World Bank Group, business environment of Latvia takes the 24th place among 175 countries, which is by 2 positions higher in comparison with the previous year (in “Doing Business in 2006”, Latvia took the 26th place among 155 countries). Achievements in the spheres of taxation, licensing and liquidation of enterprises allowed getting the higher place. Latvia also has a high place in the topic “Enforcing Contracts”, where Latvia takes the 11th position, and starting a business is also made simpler. In the topic “Registering Property” Latvia has climbed by 7 positions, but still only takes the 82nd place. The indicator in the topic “Employing Workers” is the lowest due to a complicated situation in dismissing workers. Latvia is placed among 15 countries, where reforms favourable to business activity proceed most rapidly.

Action Plan for Improvement of Business Environment worked out annually since 1999 is among efficient mechanisms for improvement of business environment in Latvia. The Action Plan is an inter-ministry policy planning document setting out directions of activity for implementation of business environment policy as well as tasks, measures to be carried out, responsible institutions, indicators for assessment of how the tasks have been accomplished and their accomplishment terms. Problems included in the Action Plan and their solutions are identified through close co-operation with organisations representing entrepreneurs (Council of the Small and Medium-Sized Enterprises and Crafts, National Economy Council, Foreign Investors Council in Latvia) as well as through assessment of problems identified in business environment surveys. The Action Plan covers amendments to legal acts, revision and simplification of procedures, improvement of co-ordination between various bodies, preparation and publication of information, as well as training employees of public institutions.

Directions and tasks of the Action Plan cover such spheres as taxation policy and tax administration, improvement of legal environment for business activity, reduction of the number of procedures and the required time, and improvement of access to information.

The latest Action Plan for 2006 includes 23 measures. With its help it is planned to find solutions to such issues as reduction of time for settlement of issues with the SRS, reform of the tax penalty system, development of e-government services, improvement of regulation of real estate transactions, and simplification of construction procedures. On August 15, 2006 the Ministry of Economics submitted to the Cabinet of Ministers the informative report on the process of fulfilment of the plan in respect of measures whose fulfilment term was June 1, 2006. The deadline of June 1, 2006 was for 9 measures, of which 6 are completely fulfilled and 3 are partly fulfilled.

Simultaneously with efforts to eliminate administrative obstacles, meetings with higher government officials are held annually in co-operation with the Foreign Investors Council in Latvia (FICIL). Prime Minister, Minister of Economics, Minister of Foreign Affairs, Minister of Finance and other government officials take part in the high-level meetings. They meet with leaders of bigger international investor companies and other higher officials that represent various spheres and countries. Since the 2nd High-Level Meeting, recommendations of FICIL are included in the Action Plan. The 10th high-level meeting of Latvian government and FICIL took place on June 21-22, 2006. The most important issues discussed were:

- Potential improvements of taxation policy and tax administration;
- Issues of transport infrastructure;
- Issues of development of real estate market;
- Development of Latvian economy and business environment;

- Co-operation between Latvian government and investors: progress of previous years and further co-operation;
- In search of excellence: development strategies of Latvia.

In August-December 2005 the Ministry of Economics and the Latvian Investment and Development Agency (LIDA) in co-operation with the market and sociological research centre SKDS and the World Bank's Foreign Investment Advisory Service (FIAS) conducted their regular (already the 4th) survey to assess measures for improvement of business environment. The survey consists of three main elements: business survey, self-appraisal of the influence on business environment exerted by national and local government institutions, and report of policy recommendations. SKDS conducted the business survey by using methodology jointly improved by the World Bank/FIAS, Central Statistical Bureau, LIDA and SKDS. 701 company managers in Latvian cities and regions were interviewed in the survey.

The survey covered such spheres as starting a business, licensing, environmental requirements, foreign trade, observance of working regulations, inspection activities, tax administration, state assistance to business activity and electronic services. The survey contained questions about administrative costs and time spent fulfilling requirements of supervision institutions during entrepreneurs' daily business activities in phases of start-up, choice of location and operation.

The survey allows to compare development trends of business environment and to identify spheres where new reform programmes are required as well as to measure effectiveness of various activities for improvement of business environment. The survey helps both to develop measures of assistance to small and medium-sized enterprises and find out the opinion of entrepreneurs about operation of state and local government bodies.

Panel of private sector experts and representatives of entrepreneur associations is established for independent supervision of the survey and determination of entrepreneur priorities. Representatives of non-governmental organisations (National Economy Council, Council of the Small and Medium-Sized Enterprises and Crafts, Foreign Investors Council in Latvia, Employers' Confederation of Latvia, Latvian Chamber of Commerce and Industry, Latvian Association of Certified Auditors, Foundation for Representation of Taxpayers' Rights and Interests, Association of Mechanical Engineering and Metalworking Industries of Latvia, Latvian Association of Business Consultants, Logistics and Customs Brokers Association, Latvian Real Estate Association) as well as independent experts are represented in the expert panel.

The survey indicates that business environment has improved in comparison with results of previous surveys in all parameters, except the inflation indicator that has deteriorated in comparison with 2003. Indicators of constancy of laws and predictability of changes, tax rates, competition with shadow economy, corruption in the public sector, personal and property safety have improved by 10% on average in comparison with 2003.

In order to encourage discussion of entrepreneurs and public bodies about the problems that are faced by entrepreneurs daily and to jointly seek solutions, the conference “Initiative “Better Regulation”: for Raising Competitiveness of Business Environment in Latvia and Europe” was organised on June 30, 2006.

Recommendations of the conference as well as other proposals of entrepreneurs will be included in the Action Plan for Improvement of Business Environment for 2007.

On August 14, 2006 the Cabinet of Ministers reviewed the informative report on proposals for ensuring flexicurity in labour regulation. Pursuant to instruction of the Cabinet of Ministers, several amendments to normative acts have to be made – on seasonal work, work where young people are employed, work where contracts of indefinite duration are not concluded, work permits for foreigners, etc. Draft instruction prescribes continuing discussions on improvement of the system of leaves for studies as well as on introduction of a unified system of residence/work permits. It is planned to improve the legal base for establishment and operation of private employment agencies and temporary employment agencies.

On November 21, 2006 the Cabinet of Ministers approved Regulation No. 941 that amends the procedure for issuance of sick leave certificates. The regulation prescribes that in case when incapacity for work lasts 45 days and the attending physician or physician assistant has not consulted with other specialist physicians in this period, the attending physician or physician assistant is obliged to send the patient to a specialist physician who, in 30 days, has to assess if the patient must interrupt or continue the sick leave. In the case, when incapacity lasts six months, the attending physician or physician assistant is obliged to send the patient to the Health and Working Capacity Medical Expert Commission (HWCMEC) that decides on determination of disability for the person, making appropriate note in the sick leave certificate.

In October 2006 the government adopted the Draft Concept on Development of the State Joint Stock Company “Latvijas Hipotēku un zemes banka” (Mortgage and Land Bank of Latvia, MLBL) for 2007-2013 (Order of the Cabinet of Ministers No. 841 of November 1, 2006). In accordance with the version of the concept approved by the government, MLBL will be made as a development bank and will be kept as a state property in order to ensure retaining of the experience gathered through administration and implementation of various state support programmes carried out up to now.

Reforms implemented in Latvia and integration in the EU have left a positive impact on economic development of the country. Latvia has shown the highest economic growth rates in the EU. Since 2001 the average annual growth of gross domestic product in Latvia was 8.1%, in 2005 GDP increased even faster by 10.2%. Rapid economic growth of Latvia continues in 2006 as well. GDP in the first 3 quarters of this year has increased by 11.9% in comparison with the respective period of 2005. The high growth rates are achieved due to stable dynamics of domestic demand and increase in exports.

Economic activity increases in all major sectors of the national economy. The biggest contribution to the growth in the recent years is made by service sectors. Increase in domestic demand especially promotes development of trade, hotels and restaurants, which in total has grown by 12.7% on average every year in the period of 2001-2005. Financial intermediation and real estate transactions, rent, computer services and other commercial services in total grew by 8.7% on average annually in the mentioned time period. Trade, hotels and restaurants as well as financial intermediation and commercial services continue growing rapidly in 2006 as well (by 18.5%, 12.8%, 12.9% and 17.6% respectively in 9 months of this year).

The dynamics of domestic demand is steady and ensured by the growth of income, stability of the financial system, expansion of credit opportunities, accession to NATO and EU, and formation of positive future expectations. It is expected that increased household income and spread of consumer loans will foster further growth of domestic trade (especially non-food consumer goods) and other market services but the growth rates will be lower than up to now. Big opportunities for growth lie ahead for the tourism sector that has developed very fast in the recent years.

Manufacturing also contributes substantially to the growth. In the period of 2001-2005, output of manufacturing has grown by 7.6% on average every year, which is almost at the same level as the average growth of national economy. In these years, the biggest contribution to industrial growth was made by wood industry, machine building and metalwork production.

Rapid rise of investment has a favourable influence on development of construction. In the period of 2001-2005, output in construction has grown by 11.9% on average every year. The output grew by 15.5% in 2005 and by 14.8% in 9 months of 2006. Construction of streets and roads, residential and commercial buildings, hotels, industrial and other objects grows fast. The construction sector is expected to maintain high development rates also in the future due to development of mortgage lending, increased economic activity and investment as well as implementation of projects financed from EU funds.

Transit services are important for Latvian national economy and constitute approximately 15% of the revenues from Latvian exports of goods and services or about 5% of GDP. Although transit services grow by volume, their share in national economy in general and in the transport and communications sector decreases. This is explicable by the fact that the domestic demand of transport sector services has grown faster than their external demand in the last years. Two-thirds of the growth in the transport and communications sector depends on the domestic demand (development of communications, warehousing, parking services, tourism, etc.) and only one-third depends on the external demand (transit).

*Key regional industry sectors and their products*

The structure of Latvian economy in sectoral profile has changed in favour of service sectors in the last years. The share of service sectors in the value added has increased to 73.8% in 2005 from 71.8% in 2000. Construction, trade services, transport and communications have grown faster than other sectors of the economy in terms of both the value added and the number of employees.

The structure of the economy in terms of employment differs considerably from the structure by value added due to the marked difference between productivity levels in various sectors of the economy.

Table 3 Structure of the Economy (%)

| | By value added | | By number of employees | |
|---|---|---|---|---|
| | **2000** | **2005** | **2000** | **2005** |
| Primary sectors | 4.7 | 4.4 | 14.5 | 11.5 |
| Manufacturing | 13.7 | 12.8 | 17.9 | 15.8 |
| Electricity, gas and water supply | 3.6 | 2.6 | 1.9 | 1.6 |
| Construction | 6.2 | 6.3 | 5.9 | 8.8 |
| Trade, hotels and restaurants | 17.9 | 22.1 | 17.7 | 19.1 |
| Transport and communications | 14.1 | 15.0 | 8.3 | 9.4 |
| Other commercial services | 23.0 | 22.6 | 12.4 | 13.0 |
| Public services | 16.8 | 14.2 | 21.4 | 20.8 |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** |

The rapid economic growth in the recent years was ensured both by increased domestic demand and by wider export opportunities. Increase of domestic demand had a direct impact on the fast growth of several service sectors, while increased volumes of industrial production were mainly based on rising exports.

In the last five years (2001-2005), increasing trade (wholesale and retail) contributed to almost one-third of the growth. The contribution by manufacturing is by one-half less and also lags behind the contribution by the transport and communications sector.

The growth of trade as an economic sector has been driven mostly by the domestic demand, but a little over one-tenth is related to the trade mediation services provided to non-residents. This share grows every year.

Two-thirds of the total demand of the transport and communications sector is determined by the domestic demand that is stable and has increased faster than the external demand in the recent years. This refers especially to communications as well as supporting and auxiliary types of transport activity, such as warehousing, parking services, and operation of travel agencies. The external demand for transit services is unstable. Due to the discriminatory attitude of Russia since 2002 as regards the transit of oil products through Ventspils port, total amount of cargo sent to ports declined. As from 2004, the situation has improved mostly due to increased cargo turnover of other Latvian ports.

Table 4 GDP Growth (%)

| | Growth rates | | Contribution to growth | |
|---|---|---|---|---|
| | **2005** | **Average 2001-2005** | **2005** | **Total 2001-2005** |
| Primary sectors | 6.8 | 4.6 | 0.3 | 1.1 |
| Manufacturing | 6.3 | 7.6 | 0.9 | 6.0 |
| Electricity, gas and water supply | 2.3 | 4.4 | 0.1 | 0.8 |
| Construction | 15.5 | 11.9 | 1.1 | 4.6 |
| Trade, hotels and restaurants | 17.2 | 12.7 | 3.5 | 14.4 |
| Transport and communications | 16.2 | 9.6 | 2.3 | 8.6 |
| Other commercial services | 8.1 | 7.8 | 1.8 | 9.8 |
| Public services | 2.7 | 2.8 | 0.4 | 2.4 |
| **GDP** | **10.2** | **8.1** | **10.2** | **47.7** |

The significant growth rates in the transport and communications sector in 2004-2005 were ensured by increased transportation both of cargo and of passengers as well as by development of the communications industry. In cargo transportation, the amount of cargo transported by motor vehicles grew substantially and contributed most to the overall growth. Contributions by railway transport and port services to the growth of the sector were smaller. Passenger transport services increased substantially, especially in air transport.

Rapid growth of investment has a favourable impact on the development of construction industry that is growing at a rate much higher than the average growth in the economy.

Table 5 GDP Growth in 3 Quarters of 2006 (% against the respective quarter of the preceding year)

| | Growth rates | | | | Contribution to growth* | | | |
|---|---|---|---|---|---|---|---|---|
| | 1st quarter | 2nd quarter | 3rd quarter | Total in 3 quarters | 1st quarter | 2nd quarter | 3rd quarter | Total in 3 quarters |
| Primary sectors | 4.1 | -3.0 | -3.9 | -1.7 | 0.1 | -0.1 | -0.2 | -0.1 |
| Manufacturing | 8.8 | 4.3 | 7.8 | 6.8 | 1.3 | 0.6 | 1.0 | 0.9 |
| Electricity, gas and water supply | 10.7 | 0.6 | 7.7 | 6.7 | 0.4 | 0.0 | 0.1 | 0.2 |
| Construction | 17.5 | 16.1 | 12.2 | 14.8 | 1.1 | 1.1 | 1.1 | 1.1 |
| Trade, hotels and restaurants | 17.3 | 18.4 | 18.6 | 18.1 | 4.4 | 3.7 | 4.2 | 4.0 |
| Transport and communications | 6.0 | 10.9 | 12.1 | 9.8 | 0.9 | 1.8 | 1.9 | 1.6 |
| Other commercial services | 17.4 | 14.7 | 16.3 | 16.1 | 4.5 | 3.4 | 3.5 | 3.8 |
| Public services | 2.9 | 4.3 | 1.7 | 3.0 | 0.4 | 0.6 | 0.2 | 0.4 |
| **Total** | **13.1** | **11.1** | **11.8** | **11.9** | **13.1** | **11.1** | **11.8** | **11.9** |

## 3.2 International Trade

EU is the main trading partner of Latvia. Trade with EU member states has been constantly expanding since restoration of Latvia's independence, and currently 75% of Latvian exports and imports are linked to the EU. In 2005 most of Latvia's foreign trade turnover was made up by trade with Lithuania (12.7% of the total amount), Germany (12.6%), Estonia (9%), Russia (8.3%), Sweden (6.1%) and Poland (5.9%).

After the accession to the EU, trade of Latvia with Lithuania and Estonia as well as with other new EU member states grew very fast. Latvian trade with other Baltic states in two years has increased more than twice in comparison with the period before the accession.

*Exports and imports of commodities*

Exports of Latvian commodities in January-November 2006 grew at a more moderate pace than in the previous year by 13.7% in current prices, while imports increased much faster by 29.3%. As usual, imports increased especially fast in the 2nd quarter (Fig.9).

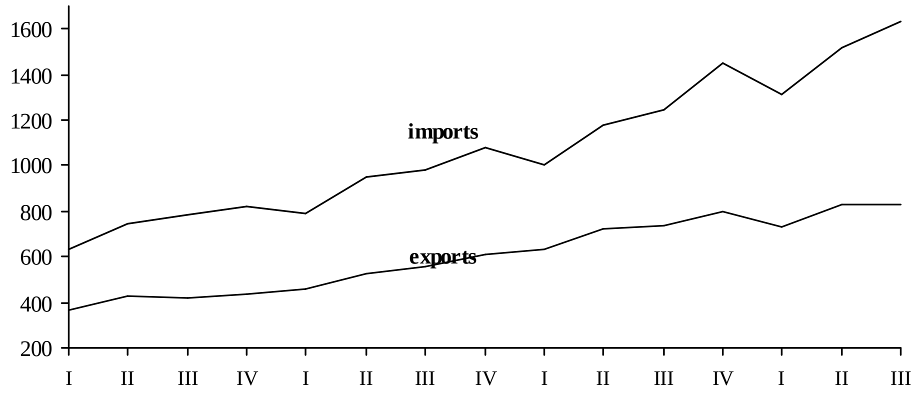



Figure 6 Commodity Exports and Imports by Quarters (million LVL)

In the 3rd quarter of 2006 the commodity exports were favourably influenced by the fast rise of the export unit value that exceeded the value of the respective period of 2005 by 10.8%, as the euro exchange rate increased and world prices grew in several groups of goods, especially mineral products.

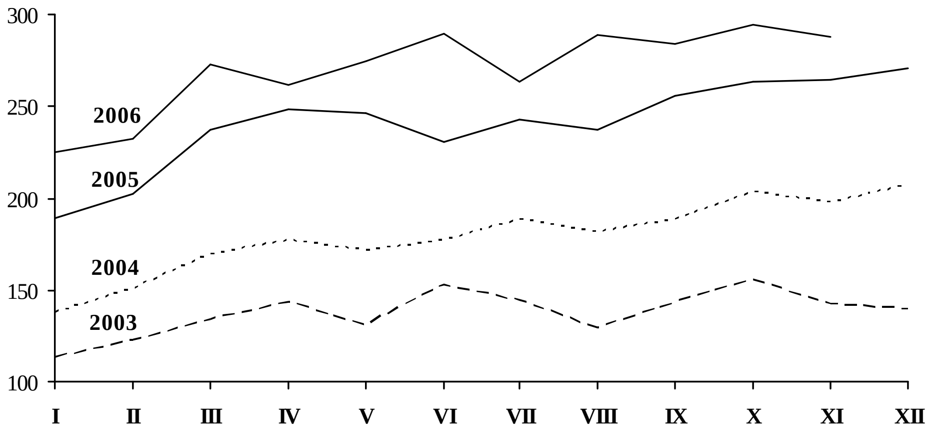



Figure 7 Commodity Exports by Months (million LVL)

Commodity exports in 2006 went up in almost all groups of goods, especially metal-working products, which accounted for almost 30% of the total growth of exports. Exports of mineral products, which had increased very fast the previous year, considerably decreased (mostly to EU member states), and exports of wood products slightly diminished (Table 6).

Table 6 Exports by Main Groups of Commodities (FOB prices)

| | 2005 | | January-November 2006 | |
|---|---|---|---|---|
| | structure (%) | increase against 2004 (current prices, %) | structure (%) | increase against January-November 2005 (current prices, %) |
| **Total** | **100.0** | **34.3** | **100.0** | **13.7** |
| including: | | | | |
| wood and wood products (IX) | 24.8 | 9.5 | 22.4 | 1.0 |
| metals and metal articles (XV) | 13.1 | 25.1 | 15.3 | 31.4 |
| light industry products (VIII; XI-XII) | 9.3 | 10.3 | 8.9 | 6.9 |
| agricultural and food products (I-IV) | 12.2 | 68.5 | 13.2 | 26.9 |
| products of chemical industry and allied industries. plastics (VI-VII) | 8.0 | 37.6 | 9.8 | 38.7 |
| machinery (XVI) | 9.3 | 59.2 | 9.5 | 18.0 |
| mineral products (V) | 9.2 | 132.4 | 5.6 | -31.2 |
| Transport vehicles (XVII) | 3.9 | 104.4 | 5.9 | 75.7 |
| other commodities (X; XIII-XIV; XVIII-XXII) | 10.2 | 25.9 | 9.4 | 3.6 |
| **Total (million LVL)** | **2888.2** | | **2974.7** | |

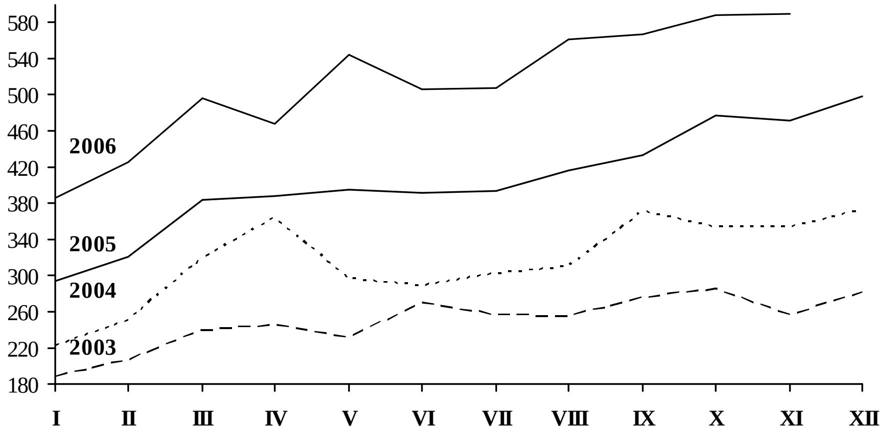



Figure 8 Commodity Imports by Months (million LVL)

Table 7 Imports by Main Groups of Commodities (CIF prices)

| | 2005 | | January-November 2006 | |
|---|---|---|---|---|
| | **structure (%)** | **increase against 2004 (current prices, %)** | **structure (%)** | **increase against January-November 2005 (current prices, %)** |
| **Total** | **100.0** | **27.9** | **100.0** | **29.3** |
| including: | | | | |
| wood and wood products (IX) | 2.9 | 24.5 | 2.5 | 10.4 |
| metals and metal articles (XV) | 9.2 | 15.2 | 9.6 | 34.0 |
| light industry products (VIII; XI-XII) | 6.0 | 12.2 | 6.0 | 24.5 |
| agricultural and food products (I-IV) | 11.6 | 27.2 | 11.0 | 23.6 |
| products of chemical industry and allied industries. plastics (VI-VII) | 13.5 | 22.1 | 13.5 | 28.1 |
| machinery (XVI) | 19.9 | 28.1 | 19.1 | 25.3 |
| mineral products (V) | 15.5 | 56.3 | 14.0 | 16.3 |
| transport vehicles (XVII) | 10.7 | 26.4 | 13.4 | 62.9 |
| other commodities (X; XIII-XIV; XVIII-XXII) | 10.7 | 27.1 | 10.9 | 34.1 |
| **Total (million LVL)** | **4866.9** | | **5648.8** | |

Increase of commodity imports in January-November 2006 was observed in all groups of commodities and the biggest one was in groups of transport vehicles and machinery which accounted for 23% and 17% respectively of the total increase of imports. Imports of food products increased at a slightly more moderate pace in the mentioned period.

As viewed by classification of the broad economic categories, the imports have not changed substantially during the last four years (Figure 12).

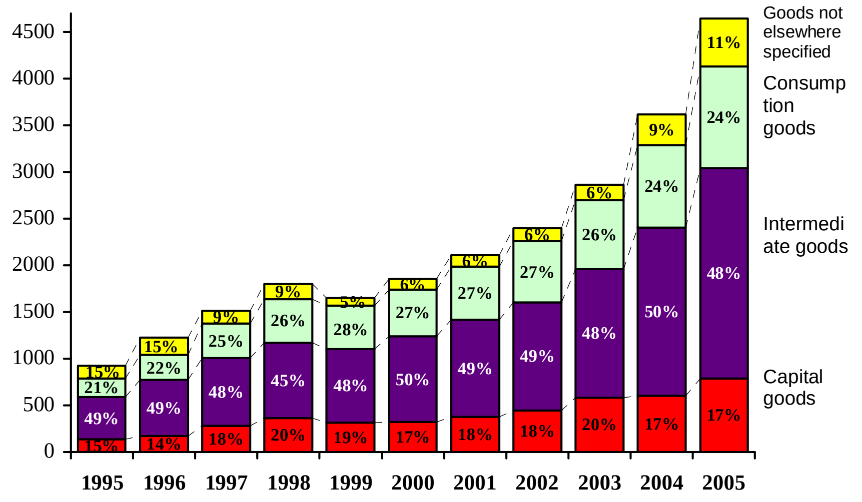



Figure 9 Imports by Classification of the Broad Economic Categories (in connection with basic indices of national accounts. in current FOB prices. million LVL)

*Exports and imports of services*

The clearly negative balance of commodity trade of Latvia is partly covered by the positive balance of services (see Table 8). According to the data of the balance of payments, the balance of services has slightly improved in January-September 2006 as exports of services went up by 29% but imports increased at a slightly more moderate pace by 19%.

More than half of the exports of services are made by the revenues from transit haulage. The 1st half of 2006 was rather successful for the transit business as cargo turnover in ports increased and volumes of rail transport services and road transport services grew.

Growth of revenues from incoming tourists and increase of commercial services are significant. It must be noted that the amount of expenses by foreign tourists in Latvia gradually becomes similar to the amount of expenses by Latvian travellers abroad.

Table 8 Exports and Imports of Services in January-September 2006

| | Million LVL | | | Structure (%) | | Changes against January-September 2005 (%) | |
|---|---|---|---|---|---|---|---|
| | exports | imports | balance | exports | imports | exports | imports |
| **Services – total** | 1104.1 | 782.7 | 321.4 | 100 | 100 | 25.2 | 23.7 |
| including: | | | | | | | |
| Transport services | 599.6 | 257.1 | 342.5 | 54.3 | 32.8 | 19.2 | 23.4 |
| – sea transport | 230.9 | 61.8 | 169.1 | 20.9 | 7.9 | 7.7 | 29.5 |
| – air transport | 79.5 | 90.9 | -11.4 | 7.2 | 11.6 | 39.4 | 26.0 |
| – other transport | 289.2 | 104.5 | 184.8 | 26.2 | 13.4 | 24.8 | 17.9 |
| Travel | 209.1 | 286.5 | -77.4 | 18.9 | 36.6 | 44.4 | 18.9 |
| Commercial services | 279.9 | 226.2 | 53.8 | 25.4 | 28.9 | 27.3 | 32.3 |
| Other services | 15.4 | 12.9 | 2.5 | 1.4 | 1.6 | 11.6 | 5.9 |

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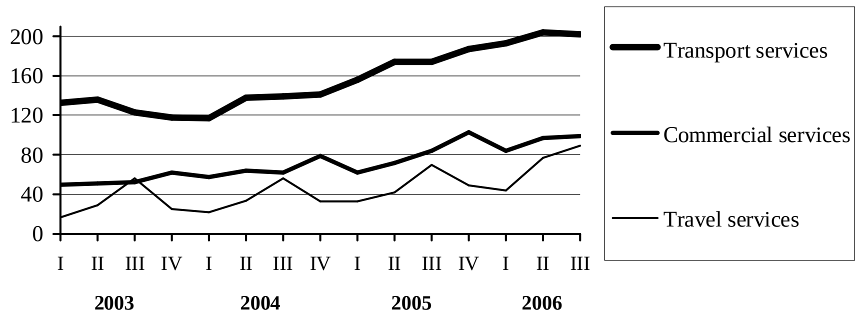



Figure 10 Exports of Services by Quarters (million LVL)

Growth of revenues from incoming tourists and increase of commercial services are significant. It must be noted that the amount of expenses by foreign tourists in Latvia gradually becomes similar to the amount of expenses by Latvian travellers abroad.

Growth rates in the new EU member states and candidate countries are still at a rather high level. Domestic demand, based on rapid capital influx in the region as well as the usual crediting boom is still mentioned as the main driving force.

Table 9 Main Macroeconomic Indicators of the New EU Member States and Candidate Countries (percentage)

| | GDP growth | | | | Consumer prices | | | | Current account deficit (% of GDP) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006 f** | **2007 f** | **2004** | **2005** | **2006 f** | **2007 f** | **2004** | **2005** | **2006 f** | **2007 f** |
| **Total** | **6.6** | **5.5** | **5.4** | **5.0** | **6.3** | **4.9** | **5.4** | **4.7** | **-5.7** | **-5.2** | **-5.7** | **-5.4** |
| Estonia | 7.8 | 9.8 | 9.5 | 8.0 | 3.0 | 4.1 | 4.6 | 3.8 | -13.0 | -11.0 | -12.0 | -11.7 |
| **Latvia** | **8.6** | **10.2** | **11.0** | **9.0** | **6.2** | **6.7** | **6.6** | **6.5** | **-12.9** | **-12.4** | **-14.0** | **-13.7** |
| Lithuania | 7.0 | 7.3 | 6.8 | 6.5 | 1.2 | 2.7 | 3.6 | 3.3 | -7.7 | -6.9 | -7.5 | -7.4 |
| Czech Republic | 4.2 | 6.1 | 6.0 | 4.7 | 2.8 | 1.8 | 2.9 | 3.3 | -6.0 | -2.1 | -1.9 | -1.6 |
| Hungary | 5.2 | 4.1 | 4.5 | 3.5 | 6.8 | 3.6 | 3.5 | 5.8 | -8.6 | -7.4 | -9.1 | -8.0 |
| Poland | 5.3 | 3.4 | 5.0 | 4.5 | 3.5 | 2.1 | 0.9 | 2.3 | -4.2 | -1.4 | -1.7 | -1.9 |
| Slovakia | 5.4 | 6.1 | 6.5 | 7.0 | 7.5 | 2.7 | 4.7 | 3.6 | -3.6 | -8.6 | -7.7 | -5.9 |
| Slovenia | 4.2 | 3.9 | 4.2 | 4.0 | 3.6 | 2.5 | 2.5 | 2.3 | -2.1 | -1.1 | -2.0 | 2.3 |
| Cyprus | 3.9 | 3.7 | 3.5 | 3.8 | 2.3 | 2.6 | 3.0 | 2.3 | -5.7 | -5.8 | -4.6 | -3.5 |
| Malta | -1.5 | 2.5 | 1.6 | 1.8 | 2.7 | 2.5 | 2.9 | 2.8 | -9.6 | -13.1 | -12.5 | -12.0 |
| Turkey | 8.9 | 7.4 | 5.0 | 5.0 | 8.6 | 8.2 | 10.2 | 7.2 | -5.2 | -6.4 | -6.7 | -5.8 |
| Bulgaria | 5.7 | 5.5 | 5.6 | 6.0 | 6.1 | 5.0 | 7.4 | 3.8 | -5.8 | -11.8 | -12.4 | -12.2 |
| Romania | 8.4 | 4.1 | 5.5 | 5.5 | 11.9 | 9.0 | 7.8 | 5.7 | -8.5 | -8.7 | -10.9 | -11.1 |

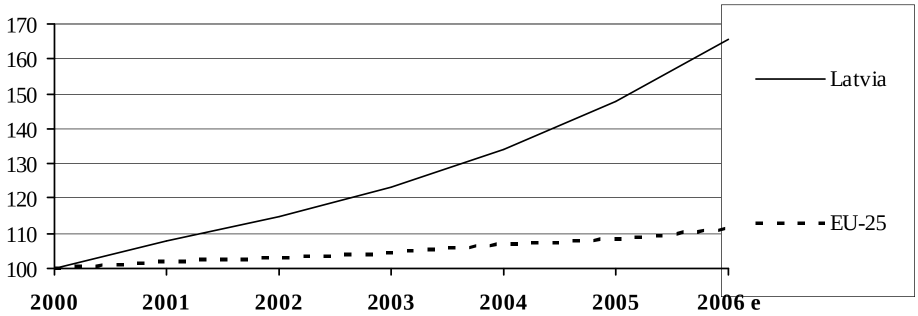
Source: "The World Economic Outlook April 2006", International Monetary Fund, http://www.imf.org
f – forecast.

Growth rates may remain at a rather high level in the future on the basis of the steadily growing domestic demand and increasingly bigger integration in the markets of the old member states. High current account deficits are considered as growth risks for the new EU member states (with the exception of some countries, e.g., Czech Republic, Poland and Slovenia); according to experts, the growth may also be affected unfavourably by fluctuations in international currency markets.

According to IMF calculations, the growth in region in 2006 on the whole will remain the same as in 2005 (by 5.4%) while in 2007 it will slightly decrease to 5%.

The convincingly highest growth rates among EU member states are still maintained in the Baltic States, which is stimulated by successful macroeconomic policies and broad structural reforms. Like in the previous periods, domestic demand remains at high level, which is stimulated by rapid increase of loans granted to individuals. Rapid growth is still observed in the market of real estate prices. For these reasons, high current account deficit of the balance of payments still maintains in the Baltic States. Growth rates in the Baltic States in 2006 on the whole are still forecasted at a very high level, and the growth in Lithuania and Estonia may reach 6.8% and 9.5% respectively. In 2007 the growth may slightly stabilise to 6.5% and 8% respectively.

Rapid economic growth is observed in Latvia for several years. In the last five years (2001-2005) GDP went up annually by 8 per cent on average.



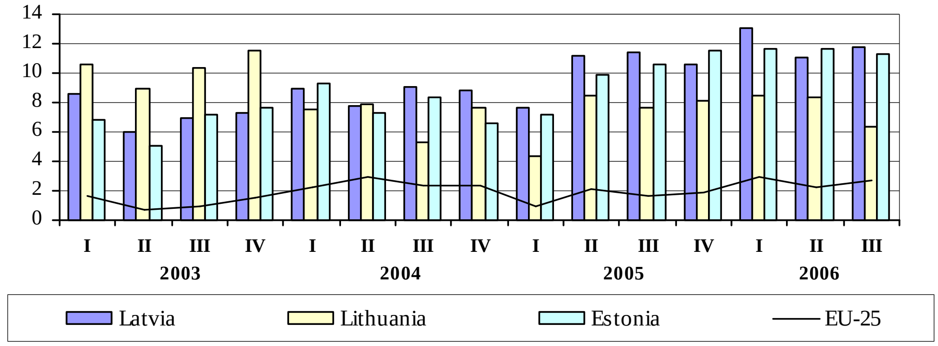

Source: *Eurostat*
e – estimation by the Ministry of Economics for Latvia; by Eurostat for EU-25

Figure 11 GDP Growth in Latvia and EU (2000 = 100%)

Growth was especially fast in 2004 and 2005 (by 8.6% and 10.2% respectively). Also the results of the first 3 quarters of 2006 (GDP growth by 11.9% in comparison with the respective period of the previous year) indicate that the fast growth trends are still maintained. The steady growth is ensured by stable dynamics of the domestic demand and ability to expand export markets.

Although the average growth of EU member states has been rather slow in the last years, the growth rates of the new EU member states are high and steady, especially of the Baltic States, including Latvia.

Besides, the GDP growth in 2005 and 2006 (according to provisional data on 3 quarters of the year) was the most rapid in Latvia.




Source: *Eurostat*

Figure 12 GDP Growth in Latvia, Lithuania, Estonia and EU, Quarterly Profile (percentage change against the corresponding quarter of the preceding year)

In 2006, GDP capita in purchasing power standards was 52.3% of the EU average (according to the estimation by Eurostat). In comparison with 2000, the backwardness from the average EU level was reduced by 17 percentage points.

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*Origin and destination of products*

Exports to EU member states in January-November 2006 were by 11% bigger than in the previous year. Like the total Latvian exports, also exports to EU member states increased in almost all groups of commodities with the exception of mineral products and wood products. The biggest growth in exports to EU member states was provided by metal-working products (42% of the total exports to EU member states).

Exports to the CIS countries in January-November 2006 continued increasing at especially rapid pace by 33.5%, mainly due to increased exports of machinery and metals and metal articles (21% and 14% respectively of the total growth of exports to the CIS countries). Only exports of mineral products decreased slightly (by 0.2%).

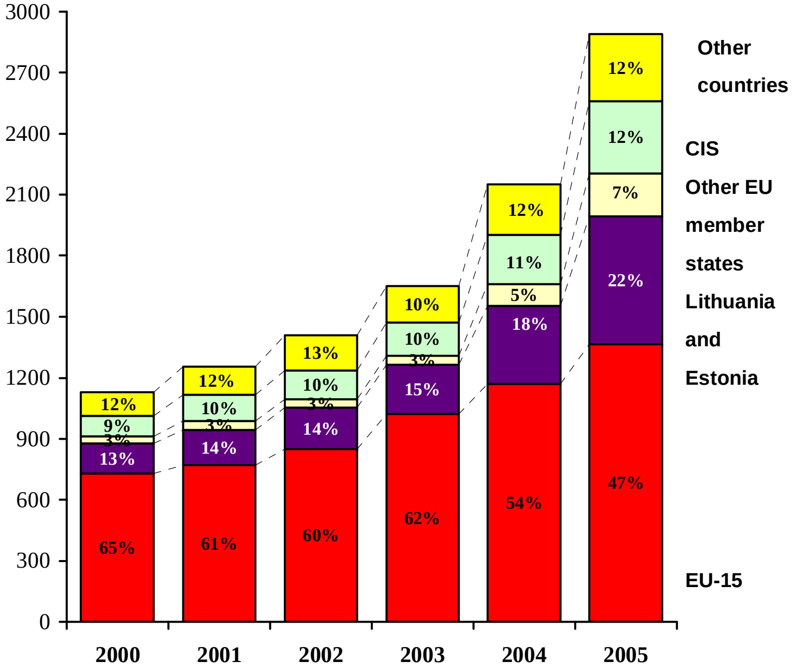



Figure 13 Exports by Groups of Countries (percentage)

*Important trade links in the BSR*

The biggest trading partners of Latvia in January-November 2006 were Lithuania (14% of the total foreign trade turnover), Germany (14%), Estonia (9%), Russia (8%), Sweden (6%) and Poland (6%).

After the accession to the EU, foreign trade of Latvia with Lithuania and Estonia still continued growing rapidly. In comparison with the period before accession to the EU, Latvian foreign trade with these countries has increased more than twice during two years. However a considerable negative balance still remains although the share of the negative balance stays at about the same level.

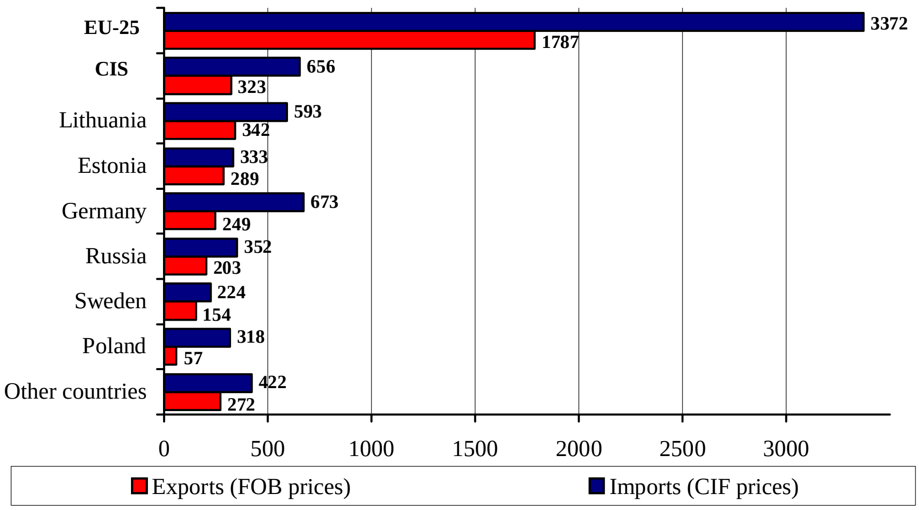



Figure 14 Foreign Trade Turnover of Latvia* in January-November 2006 (million LVL)

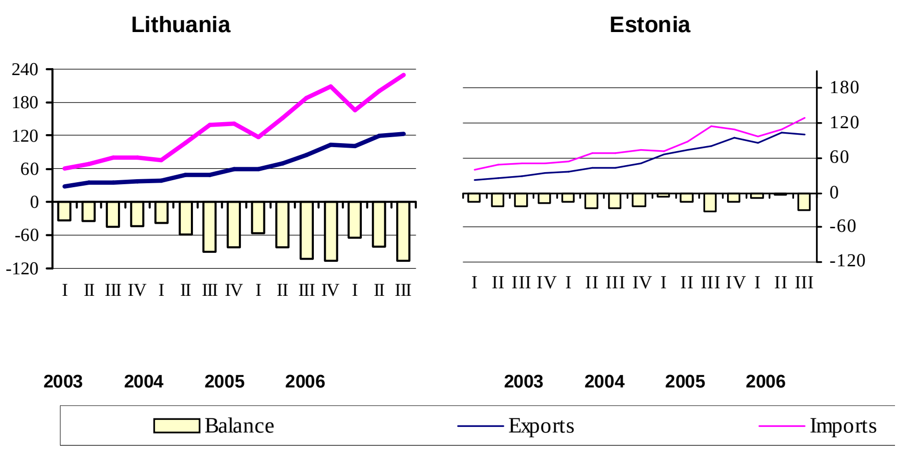



Figure 15 Latvian Foreign Trade Turnover with Lithuania and Estonia by Quarters (mln. LVL)

As Figure 18 shows the negative balance of foreign trade with Lithuania (in January-November 2006 imports exceeded exports by 41%) is bigger than with Estonia (14%). The main groups of commodities exported to Estonia and Lithuania are food and chemical industry products while the main imported commodities are mineral products and transport vehicles.

In January-November 2006 exports to Lithuania increased rapidly (by 54%) and the biggest contributions were made by the groups of transport vehicles and agricultural and food products. Imports from Lithuania in this period grew at a more moderate pace by 24%.

Growth rates of exports and imports in trade with Estonia in January-November 2006 were similar (32% and 23% respectively).

# 4 PUBLIC SECTOR SUPPORT FOR ENTERPRISES

## 4.1 Organisations

The Ministry of Economics is the leading public administration body that develops the public private partnership (PPP) policy and co-ordinates its implementation. Main goals of the Ministry of Economics in PPP sphere are:

- elaborate proposals for improvement of the legal and methodological base of PPP;
- co-operate with Latvian, EU and other international and foreign bodies on PPP policy issues;
- identify potential PPP projects;
- co-ordinate activities of state, local government and private sector in the area of PPP.

Latvian Investment and Development Agency (LIDA) is responsible for implementation of PPP projects, working out proposals for promotion of PPP development and supporting development and implementation of respective projects as well as provision of informative, consultative, legal and other public services on this issue to state and local government bodies as well as natural and legal persons.

Along with the Ministry of Economics and LIDA, there are other institutions related to PPP, e.g., the Cabinet of Ministers, in pursuance of the Public Procurement Law, adopts decision on conclusion of PPP service agreements for up to 30 years; the Ministry of Finance (responsible for the influence of PPP projects on the state budget and debt); line ministries and local governments, which are implementers of PPP projects and have a substantial influence on opportunities for usage of PPP.

The Council of the Small and Medium-Sized Enterprises and Crafts (hereinafter CSMEC) is an advisory institution of the Ministry of Economics.

CSMEC consists of representatives delegated by 27 non-governmental organisations representing small and medium-sized enterprises (SME) and businessmen (organisations of various sectors of economy and regional organisations of SME). The composition and statutes of the CSMEC were approved by Regulation No. 49 of February 16, 2004 of the Ministry of Economics.

The activity of the CSMEC has an aim to involve the non-governmental organisations of SME and the industry associations into development and implementation of favourable SME business environment policy as well as promote SME development and co-operation and competitiveness of Latvian businessmen in the European Union.

The key functions of the CSMEC are: to review and follow settlement of such issues (draft normative documents, national economy development concepts, state budget and other documents) that are important for development and implementation of favourable SME business environment policy and would promote SME development, as well as prepare proposals and make recommending decisions on these issues; to carry out dialogue between entrepreneurs, the Ministry of Economics, other public bodies and non-governmental organisations as well as international organisations, which affect operation and development of SME.

CSMEC meetings are held once per month on average. Work of the Council of the Small and Medium-Sized Enterprises and Crafts is led by the Chairman elected by the Council.

In between CSMEC meetings, the recommending decisions are taken by the CSMEC Steering Committee that consists of five CSMEC members nominated by participating organisations of the Council. The Business Environment Improvement Division of the Latvian Investment and Development Agency ensures work of the Council and performs functions of its secretariat.

In the 2nd half of 2006, seven meetings of the Council of the Small and Medium-Sized Enterprises and Crafts have taken place, where the following most important issues were reviewed:

- on Operational Programmes “Entrepreneurship and Innovation” and “Infrastructure and Services”;
- on amendments to the Competition Law;

- on opportunities of small enterprises to participate in public procurement;
- on the planned state support to energy efficiency improvement, combined heat and power generation and thermal energy generation, as well as other opportunities to finance and support such measures;
- on opportunities to absorb financing from EU Structural Funds of the 2007-2013 planning period and other funds and on setting priorities for increase of competitiveness of business activity;
- on attraction of labour force in the Latvian market, etc.

The Council has continued the launched positive and efficient dialogue with institutions representing businessmen as well as with the Ministry of Economics and the public bodies responsible for improvement of Latvian business environment.

A positive trend to be noted is that, through co-operative efforts with the Ministry of Economics, businessmen are invited on a regular basis to assess SME development issues and the draft programming documents shaping SME development policy before their adoption by the government. Proposals for various legal acts and for action plan for improvement of business environment have been developed in working groups and submitted to the responsible ministries. For example, the Council actively participated in searching solutions for issues related to improvement of taxation policy, preparation of businessmen's project applications and receiving financing from the EU Structural Funds, etc.

On initiative of the CSMEC, an internet portal www.mazaisbizness.lv has been set up for small and medium-sized entrepreneurs, which serves as a manual and provides practical information for people willing to launch business activity as well as information necessary for small and medium-sized entrepreneurs about legislative acts and various legal and financial issues and latest developments.

Proposals have been made both for the action plan for improvement of business environment and for measures of promotion of SME development, for example:

- To hold annual "Businessmen's Knowledge Day" with the aim to provide for businessmen a comprehensive information on opportunities of further education and development of human resources in Latvia;
- To prepare manual for businessmen about the available state support and opportunities to attract finances;

- Conducting study about influence of administrative procedures on business activity – study of Latvian regions with the aim to advise what administrative obstacles hinder SME development;
- To hold seminars on opportunities of risk capital and about the influence of funds on business activity, etc.

During the year, comments and proposals for several draft legal acts have also been given, for example, “Regulations on Conditions of Providing Support to Small and Medium-Sized Commercial Companies and Industry Associations for Consultations and Participation at International Exhibitions and Trade Missions” and “Regulations on the Amount of the Entrepreneurship Risk State Fee and the Part of the Fee to be Transferred into the Employee Claims Guarantee Fund in 2007” as well as draft Law “Amendments to the Competition Law”.

For more detailed acquaintance with business environment in Latvian regions, the CSMEC organises visiting sessions on a regular basis; during these sessions, meetings with local government leaders and specialists and businessmen of the respective regions are held, problems and needs of entrepreneurs are discovered and solutions to them are searched collectively.

In the visiting sessions, the main topics of discussion are business environment and development prospects in the respective region, municipal support to entrepreneurs, opportunities for entrepreneurs to use financing from the EU Structural Funds and hindering factors.

In order to strengthen the role of the CSMEC in improvement of business environment and ensure that the non-governmental sector is competently represented in absorption of the EU Structural Funds and support programmes, the CSMEC members and representatives of its participating organisations are delegated to take part in the following councils and committees:

- EU Structural Funds Supervision Committee at the Ministry of Finance;
- Working group of the EU Structural Funds Steering Committee at the Ministry of Finance;
- Information Society National Council;
- Export Promotion Council at the Ministry of Economics;
- Advisory Council of the Latvian Investment and Development Agency;
- Working group for national taxation policy assessment at the Ministry of Finance;

- Entrepreneurs/experts panel of the Latvian Investment and Development Agency;
- Commercial Activity Development Council of the Riga City Council, etc.

Representative of the Council in Brussels takes part in work of the European Economic and Social Affairs Committee, and comments and proposals on several draft opinions have been given.

Through participation in entrepreneur delegations outside Latvia, co-operation agreements between the Council and similar organisations of the Republic of Azerbaijan and the State of Israel were concluded and talks with representatives of the Republic of Moldova were started.

The Council of the Small and Medium-Sized Enterprises and Crafts plans to solve the following issues at meetings in the nearest future:

- on improvement of entrepreneurship support instruments;
- on improvement of the legal environment of entrepreneurship;
- on prevention of payment delays in commercial transactions in the country;
- on reduction of personal income tax, etc.

## 4.2 Types of support

Most important normative acts regulating public private partnership:

- Concessions Law (in force as from February 16, 2000);
- Taking into account that new directives of the European Parliament and of the Council have been adopted, namely, Directive 2004/17/EC coordinating the procurement procedures on entities operating in the water, energy, transport and postal services sectors, and Directive 2004/18/EC on the co-ordination of procedures for the award of public works contracts, public supply contracts and public service contracts, the Ministry of Economics has worked out new draft Concessions Law that envisages to create more favourable environment for attraction of private capital in order to ensure public infrastructure and services as well as more transparent and equal procedure for the award of concessions. The draft law was approved by the Saeima in the 2nd reading;

- Public Procurement Law (in force as from May 1, 2006) prescribing that DBFO and other PPP agreements not regulated by the Concessions Law may be concluded for up to 30 years;
- Cabinet of Ministers Regulation No. 700 "On the Procedure of Registration, Recording and Control of Concession Agreements" of August 10, 2004 (in force as from August 14, 2004), establishing the procedure of registration, recording and control of concession agreements carried out by the Register of Enterprises;
- Concept on Promotion of Concessions (Attraction of Private Capital to Perform State Functions) was approved by the Cabinet of Ministers on April 16, 2002. It envisaged to create the Concessions Division at the Ministry of Economics and expand the competence of LIDA by including PPP issues;
- PPP Policy Framework Document 2005-2009, approved by the Cabinet of Ministers on March 23, 2005. They determine the basic principles and targets of PPP policy and indicators of their attainment;
- Action Plan for Implementation of the PPP Policy Framework Document, for 2006-2009, approved by the Cabinet of Ministers on November 16, 2005. It sets the following lines of action for PPP promotion:
  - Coordinated activity of institutions and organisations involved in the PPP process (establishment of Advisory council of PPP, etc.);
  - Examination of PPP by sectors (to conduct analysis of national economy sectors from the standpoint of PPP);
  - Creation of instruments promoting the PPP process (development of methodology and standardised documentation);
    - Alignment of the legislative framework (development of the Concessions Law in compliance with requirements of EU directives);
    - Improvement of the knowledge and understanding of PPP (creation of a unified PPP website, organisation of informative seminars).

*Implementation of the public private partnership policy*

Implementation of PPP mechanism in Latvia has been initiated by the Ministry of Economics (from September 2003) and LIDA (from the beginning of 2004) in two directions:

1. Activities related to the expansion of understanding of PPP, among them:
   - consulting the knowledge on PPP to a wider society;
   - development of methodical support;

2. Activities on PPP project level; – provision of advisory support to the owners of potential PPP projects, informing them about:
   - the applicable type of PPP transaction;
   - the applied conduction of procurement procedure;
   - financial and economic calculations and procedures for performing those;
   - the possible legal solutions of the project agreement;
   - other PPP issues.

Important role in PPP promotion is underlined by the programme "Promotion of Public Private Partnership" co-financed by the bilateral financial instrument of the Norwegian government. Main goal of the programme is to support state and local government institutions in their efforts to implement consistent and well-founded PPP approach to development of infrastructure and public services. The following activities will be supported in the framework of the programme:

- development of the technical and economic justification of PPP projects (VFM analysis);
- development of competition documents of PPP projects, among them drafting PPP agreement for projects that have VFM in case of PPP co-operation in accordance with the conducted survey.

Co-financing of the programme from the bilateral financial instrument of the Norwegian government is EUR 1.8 million. Two open tenders are planned in the framework of the programme – in the middle of 2007 (in the amount of EUR 0.8 million) and in the middle of 2008 (in the amount of EUR 1 million). Implementation of the projects has to be completed by April 30, 2011.

## 4.3 Logistics / ICT projects. Cooperation programs, partnerships

*Transport and Logistics*

Latvia's national transport policy is mainly based on and determined by Latvia's role as a freight transit country.

Since Latvia's (transport) economy (ports, transport operators, etc.) is strongly depending upon the freight transit between Central European countries and Russia/CIS-countries/Asian-countries, the main objectives of Latvia's national transport policy includes:

- to strengthen the position of Latvia's ports,
- to develop and maintain the East-West rail-corridors,
- to develop and maintain the East-West road network.

Another important objective of Latvia's national transport policy is the integration of Latvia's transport infrastructure with the other European countries. Therefore Latvia is strongly supporting the development of the 'Via Baltica' and the 'Rail Baltica' project.

Regarding passenger transport, Latvia aims at achieving an integrated high-quality passenger transport system especially in the Greater Riga Region. Furthermore Latvia's national transport policy aims also to keep the comparatively high share of public transport in modal split by modernising the rolling stock (in road and rail passenger transport), ensuring a united public transport administration system, and stable and adequate state financing.

Latvia aims to improve road traffic safety substantially upon making changes in the legal acts, introducing a recording system of infringements of traffic regulations that would raise the driver's individual responsibility, providing of preventive activities within the traffic safety, as well as by improvement of the road conditions.

In the maritime field, Latvia aims at improving the vessel safety, and decreasing a risk of pollution of the environment from ships on the Baltic Sea by further implementation of international acts and requirements.

The Latvian government aims at a maximum efficient use of the EU funds for the development of the national transport infrastructure, and at the same time the Latvian government is providing national finance and is encouraging private-public-partnership projects for the development of the transport infrastructure in Latvia.

One of the major trends in Latvian port industry is to develop logistics related zones such as free trade zones or international logistics zones to accommodate value-added logistics activities and to attract global logistics companies. The advantage of special logistics-oriented zones (whether or not they are designated as free trade zones providing tax related incentives) is that they attract foreign investment and create new employment. In addition, successful logistics zones are able to secure freight volume which may be generated by established logistics companies, and to develop their ports as hub ports.

Considering this growing competition among global logistics centres, Latvian ports have been actively trying to attract regional distribution centres of multinational logistics and manufacturing companies. In this regard, ports and governments are placing great emphasis on establishing strong support from governments, which may guarantee a reliable business environment and quality administrative support.

*Information Society*

Information society is a social development phase based on free mutual exchange of information and developing a knowledge-based economy. Information society consists of the technological base (infrastructure, software), range of information services available to the society, and the level of individual skills and knowledge. As a result of development of information and telecommunications technologies, information and knowledge are more and more widely used in the work and labour relations, education and everyday life.

In order to ensure access to information, the following tasks for development of ICT infrastructure and services have been set: ensuring that all people and entities in every part of Latvia have the possibility to receive electronic communications services, including broadband Internet services; development of publicly available Internet access points; implementation of the terrestrial digital television broadcasting; efficient use of limited national resources (radio frequency spectrum, numeration); creation of a single national emergency medical and crisis situation management structure; and increasing the range of electronic mail services.

In order to promote development of e-Government and eServices, the following activities are envisaged: capacity building of public administration and expansion of the range of e-services and availability of information; development of various channels for delivery of state and local government services (Internet, telephones and cell phones, radio and TV broadcasts); development of ICT infrastructure and services at the national and local government level by extensive use of external services; provision of a complete processing cycle of electronic documents in all national, local and judicial authorities; improvement of data quality in the national and local government information systems, their security, integration and linkage; introduction of uniform identification cards of Latvia's residents; formation of a common geospatial information infrastructure; improvement of the state electronic procurement system; improvement of the procedures and systems for collection and processing of statistical data; establishment of an e-election system; enhancement of general IT-related skills among Latvia's residents.

Building the information society is set as a priority in the National Lisbon Programme of Latvia for 2005-2008. The main planned activities for promotion of ICT and building the information society are the following:

- to encourage widespread use of ICT in public services, SMEs and households;
- to ensure the security of networks and information, as well as convergence and interoperability in order to establish an information area without frontiers;
- to encourage development of broadband networks, including the poorly served regions, in order to develop the knowledge economy.

On July 18, 2006 the Cabinet of Ministers approved the Guidelines for the Development of the Information Society for 2006-2013, setting lines of action for building the information society in Latvia.

Short-term priority tasks are:

- to develop territorial coverage of ICT access infrastructure;
- to make ICT more accessible financially for households and SME;
- to provide basic skills of ICT usage to individuals and motivate them to use ICT;
- to create electronic services of public administration and use ICT in order to optimise administrative functions; ensure access to public information for local governments and entrepreneurs for provision of services and develop centres for provision of public administration services;
- to introduce e-signature and develop infrastructure of its usage;
- to support creation of online services and innovative, knowledge-intensive and environmentally friendly products.

Lines of long-term action for development of information society are:

- to expand the access infrastructure and promote ICT accessibility;
- to develop knowledge and skills of users;
- to develop services and content;
- to develop ICT usage in commercial companies and in innovation;
- to develop ICT science and research;
- to promote creation of export-capable ICT products and services.

Financing from EU structural funds and resources from the state and local government budgets will be used for implementation of the development programme.

Affairs for 2007-2009 were approved by the Cabinet of Ministers Instruction No. 954 of December 13, 2006. The strategy comprises lines of action and spheres of competence of the secretariat. Measures and the funding planned for them are formulated in accordance with the principle of development of budget programmes. In the framework of budget programmes, the following new policy initiatives are set in priority sequence:

- management of projects of the operational programme measure “Infrastructure and Services of Information and Communication Technologies for 2007-2013”;
- increasing the number of the secretariat’s employees and harmonisation of the pay for work;
- Action Strategy of the Secretariat of the Special Tasks Minister for e-Government
- improvement of human resources of ERDF technical assistance;
- introduction of a safe electronic signature in Latvia;
- management of maintenance of centralised state information systems;
- management of other projects financed by the EU;
- conducting studies on e-services, state information systems, etc.;
- improvement of human resources of electronic procurement agency;
- establishment of contact points of the national e-access network and maintenance of National Contact Points of the e-Content plus programme of the European Commission.

In order to implement the new policy initiatives, the Secretariat of the Special Tasks Minister for e-Government Affairs plans to develop the following policy documents and normative acts in 2007 and 2008:

- amendments to the e-Government Development Programme for 2005-2009;
- guidelines of public private partnership (basic positions/concept) in the sphere of ICT infrastructure and services;
- concept on planning and development of architecture of the State Information Systems;
- concept “National Interoperability Framework for e-Government”;
- guidelines of development policy of e-services in public administration and their delivery channels (concept/action plan);
- amendments to the Law on State Information Systems;
- changes in normative acts in order to ensure creation and accessibility of the catalogue of public services;
- to introduce the term of public service and prescribe the procedure for provision of public services;
- the Cabinet of Ministers Regulation “Procedure for Provision of Public Services in Public Administration Institutions”;
- normative acts regulating maintenance of state information systems;
- normative acts regarding standardisation of interfaces and data exchange in the framework of the State Integrated Information System;
- to improve the status of electronic documents and the base of normative acts regulating their circulation;
- the Cabinet of Ministers regulations on provision of e-services, the standard of the description of services;
- the Cabinet of Ministers Regulation “Procedure by which the Information at Disposal of Institution is Made Public and Handed Over to Repeated Use”;
- the Cabinet of Ministers Regulation “Procedure by which Exclusive Rights are Granted and Information on Granting Such Rights is Made Public”;
- the Cabinet of Ministers Regulation “Procedure by which Institutions Place Information on the Internet”;
- the Cabinet of Ministers Regulation “Procedure for the Use of Integrated State Information Systems”;
- concept of development of e-services and the normative acts that regulate development, working out and provision of e-services;
- strategies (basic positions) of Latvia’s e-inclusion and e-access and the Action Programme;

- policy planning document and action plan in the area of the security of information society;
- concept of operation of customer service centres;
- strategy for development of repeated use of the public sector information.

On May 26, 2006 the Electronic Procurement State Agency started its operation. The agency took over functions of system maintenance and ensuring of procurement as well as computers, software and accumulated data from the Procurement Supervision Bureau and made first centralised procurements.

Conference “Information and Communication Technologies for Inclusive Society” took place in Rīga on June 11-13, 2006. Ministerial Declaration was signed during the conference, which is a joint political agreement of 34 countries to implement e-inclusion goals: to solve the needs of aged employees and other aged people, reduce the geographic digital divide, improve access to electronic services and promote the ICT usability, improve ICT usage skills and competence of the population, and encourage cultural diversity and development of inclusive electronic government. The first meeting of the e-inclusion subgroup of the EU initiative “i2010 – a European Information Society for Growth and Employment” also took place during the conference.

In September 2006 the state JSC “Latvijas Pasts” introduced the service of e-signature. At the end of 2006 the Secretariat of the Special Assignments Minister for Electronic Government Affairs organised procurement of 50 000 smart cards that are bearers of electronic signature. The smart cards will be distributed to employees of public institutions.

The Cabinet of Ministers Instruction No. 789 of October 11, 2006 supported the 1st version of the concept “On Development of the Terrestrial Digital Television Broadcasting in Latvia”, charging the Ministry of Transport and Communications with development of the procedure by which the broadcasting in digital format of programmes made by electronic mass media is introduced.

The programme “Information and Communication Technologies for Education Quality” for 2007-2013 was approved by the Cabinet of Ministers Instruction No. 812 of October 20, 2006.

The strategic goal of the programme is to promote formation of educated and creative personality by raising knowledge, abilities and skills of educates in the use of information and communication technologies. The programme has the following sub-goals:

- to achieve high-quality acquirement of information literacy and computer literacy;
- to use ICT in the learning process widely by developing electronic teaching materials, improving the content of educational programme for improvement of education quality and attraction, creating and using various services to raise education quality;
- to increase ICT knowledge and skills of teachers and education employees by raising the qualification level and work efficiency of teachers/lecturers;
- to establish an efficient information system of education by ensuring availability of electronic teaching materials and raising efficiency of management of education system;
- to create corresponding to its tasks, cost-efficient, safe and reliable ICT infrastructure in all stages and forms of education institutions and education administration bodies.

In order to achieve the goal and sub-goals of the programme, the following lines of action are set:

- formation of electronic teaching resources;
- establishment of education information system;
- raising ICT competence of the teaching staff;
- modernisation and maintenance of ICT infrastructure of education system.

The required financing for implementation of the programme amounts to LVL 130.1 million, the envisaged sources of financing are the EU structural funds, state and local government budgets, and the private capital.

*Project part-financed by the EU Programme*

A number of Latvian local governments are - or were - partners in projects part-financed by the EU Programme to logistics competence building. Some of these projects are content wise relevant to the objectives of LogOn Baltic.

Most of these projects have to do with the possibilities and impact of new international transportation links. However, the impact of infrastructure development on local business conditions is considered in some of the projects.

In addition to the INTERREG projects listed in Table 10, there is the START project part financed by Clean Energy - Europe programme that Riga City Council is involved in.

Table 10 Interreg projects relevant to logistics involving Latvian partners[3]

| Project name | Key objective(s) | Project partners in Latvia |
|---|---|---|
| **Baltic Tangent** | Generate knowledge about ways and means of developing and benefiting from an improved secondary transport infrastructure network linked to the TEN main routes in the South BSR, in particular regarding spatial planning, logistical concepts and other conditions for economic and labour market development | Vidzeme Development Agency, Valka Town Council, Riga Region Development Agency, Transport and Telecommunication Institute |
| **InLoC** Integrating Logistics Centre Networks in the Baltic Sea Region | Improve the networking and operation of ports, logistics centres and other logistics operators and to create innovative solutions and strategies for all actors in logistics chains; improve the compatibility of different ICT-based transport & logistics networks | Valka Town Council, Transport and Telecommunication Institute |
| **InterBaltic** Intermodality and Interoperability in the Baltic Sea Region | Develop a common transport strategy for the Baltic Sea Region and to give private and public decision makers on regional, national and international level recommendations on building up efficient intermodal transport systems able to cope with the future cargo flows | Transport Education and Research Centre |
| **LogVAS** Logistics potential for value added services in port-located areas | Create an information basis and identify logistic potential for value added services in the Baltic Sea Region; draw viable logistic market concepts which combine sea, rail road, air and inland waterway transport | Liepaja Special Economic Zone authority |
| **Remote Access** New Spatial Development Zone for Border Regions of Latvia and Russia – Connecting Potentials of Two Countries | Create a common spatial development strategy for the Latvian and Russian border areas, including to develop the basis and work out the justification for the further development of transport and logistics services in the project territory | Latgale Region Development Agency, Vidzeme Development Agency |

[3] Information on the first four projects was obtained from BSR Interreg webpage and their individual web pages, while that for the fifth one from the project partners

# 5 LOGISTICS IN THE REGION

## 5.1 Transport, connections and infrastructure

*Road Network*

Latvia has a total of 69,675.500 km of roads and streets. The average density of the road network is 1.079 km per 1 $km^2$. The average density of the state road network is 0.312 km per 1 $km^2$.

Table 11 Road network structure

| Road classes | Road length as at January 1, 2007, km | | | Average annual daily traffic in 2006 | |
|---|---|---|---|---|---|
| | **asphalt-concrete and other bituminous pavements** | **crushed-stone and gravel pavements** | **total length of road network** | **total** | **including trucks** |
| State roads, including: | 8138.563 | 12028.717 | 20167.280 | | |
| main roads (A) | 1622.228 | - | 1622.228 | 4976 | 1010 |
| 1st class roads (P) | 3997.432 | 1322.469 | 5319.901 | 1181 | 156 |
| 2nd class roads (V) | 2518.903 | 10706.248 | 13225.151 | | |
| Municipal roads and streets, including: | 5437.874 | 33575.346 | 39013.220 | | |
| roads | 1019.199 | 30412.820 | 31432.019 | | |
| streets | 4418.675 | 3162.526 | 7581.201 | | |
| Forest roads | 20.000 | 6975.000 | 6995.000 | | |
| Private roads | 500.000 | 3000.000 | 3500.000 | | |
| **Roads and streets, total** | **14096.437** | **55579.063** | **69675.500** | | |

*Bridges*

The Latvian State Roads is responsible for 922 bridges, out of which:

- 866 - reinforced concrete bridges;
- 15 - stone masonry bridges;
- 33 - steel bridges;
- 8 - wooden bridges.

Total length of bridges: 32,192.11 metres.


Figure 16 European road network


Figure 17 Latvian state road network

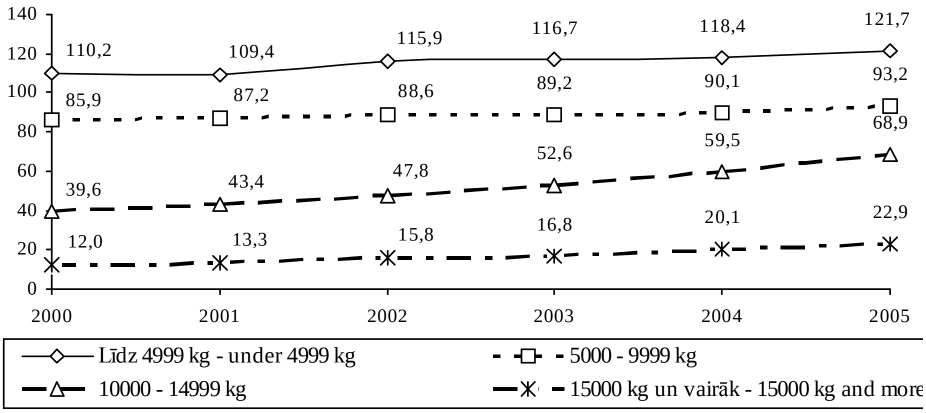



Figure 18 Total capacity of registered lorries by groups of capacity

Table 12 Freight turnover by type of traffic (million ton-km)

| | 2000 | 2003 | 2004 | 2005 *total* | *of which* *Own account* | *hire or reward* |
|---|---|---|---|---|---|---|
| **Total** | **4788.5** | **6763.2** | **7308.6** | **8546.8** | **1232.0** | **7314.8** |
| of which: | | | | | | |
| national traffic | 1484.4 | 2323.7 | 2330.2 | 2767.2 | 1109.2 | 1658.0 |
| international traffic | 3304.1 | 4439.5 | 4978.4 | 5779.6 | 122.8 | 5656.8 |
| of which: | | | | | | |
| exports | 1530.3 | 1950.5 | 2311.9 | 2300.0 | 36.7 | 2263.3 |
| imports | 887.1 | 1405.8 | 1481.0 | 1622.2 | 86.0 | 1536.2 |
| cross-trade | 886.7 | 1083.2 | 1185.5 | 1857.4 | 0.1 | 1857.3 |

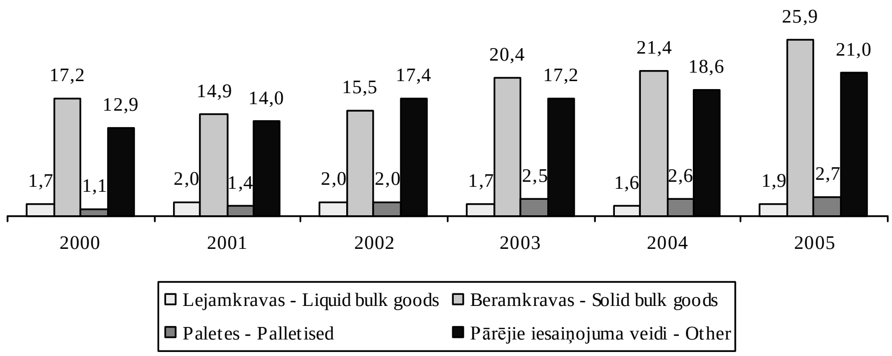
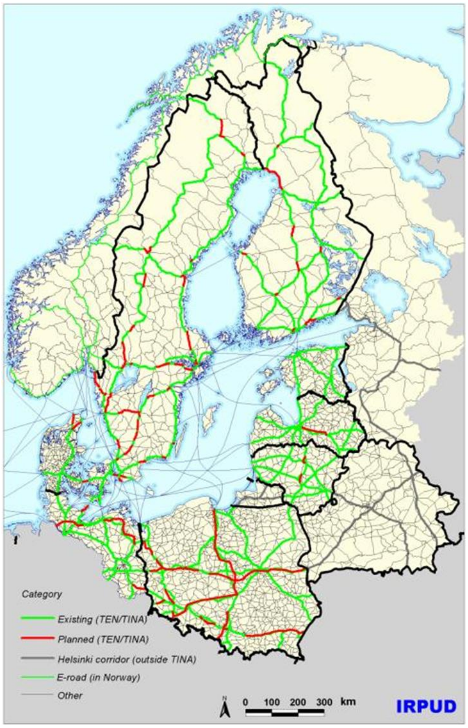



Figure 19 Freight turnover by mode of appearance of goods (mln tons)

Table 13 International freight transport by country (thousand tons)

| | 2000 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| ***Export freight transport*** | | | | |
| *Total* | **993.3** | **1488.8** | **1744.0** | **2071.8** |
| of which to: | | | | |
| Russian Federation | 324.4 | 328.4 | 412.4 | 494.9 |
| Germany | 244.3 | 254.6 | 331.8 | 249.9 |
| Poland | 80.7 | 92.1 | 61.6 | 37.3 |
| Lithuania | 69.2 | 167.2 | 191.3 | 338.4 |
| Estonia | 52.4 | 186.0 | 156.4 | 345.8 |
| Sweden | 12.6 | 70.2 | 75.5 | 85.9 |
| Nerherlands | 30.4 | 41.5 | 77.4 | 81.6 |
| Italy | 27.4 | 53.0 | 65.2 | 60.7 |
| France | 33.8 | 54.8 | 60.6 | 49.7 |
| other | 118.1 | 241.0 | 311.8 | 327.6 |
| ***Import freight transport*** | | | | |
| *Total* | **642.8** | **1172.1** | **1285.8** | **1760.0** |
| of which from: | | | | |
| Germany | 141.0 | 205.8 | 246.2 | 245.0 |
| Estonia | 99.8 | 221.2 | 189.8 | 271.4 |
| Lithuania | 92.6 | 183.7 | 186.6 | 534.0 |
| Poland | 82.3 | 108.9 | 116.6 | 70.2 |
| Russian Federation | 57.4 | 112.1 | 134.8 | 187.5 |
| Netherlands | 38.3 | 36.1 | 45.8 | 63.8 |
| Sweden | 18.9 | 63.4 | 66.1 | 74.7 |
| Belarus | 5.7 | 25.2 | 79.1 | 39.2 |
| other | 106.8 | 215.7 | 220.8 | 274.2 |

The Latvian road network is shown integrated BSR network in Figure 20.




Source: IRPUD (2000)

Figure 20 Trans-European road network outline plans and selected E-roads

*Railway Network*

Latvian Railway (LDz) is the state joint-stock company, the Government of Latvia owning all shares; ownership rights are exercised via the Ministry of Transport, Shareholders Meeting and the company. Since 2002, a small part of passenger transportation has been performed by a private company “Gulbenes-Aluksnes banitis” and from January 1, 2002 “Pasazieru vilciens” was established as a subsidiary of the state railway corporation to take over the functions related to domestic passenger transportation by rail. Since February, 2003 freight transportation has been performed also by private operators “Baltijas ekspresis” in Ventspils, “Liepajas tranzita ekspresis” in Ventspils and “Baltijas tranzita serviss” in Riga.

The Latvian rail transport system has the necessary capacity to compete with railways of the neighbouring countries in the transit transport market and to maintain a competitive position in relation to road transport. But, in order to meet the needs of potentially growing transit traffic, the quality and safety of the existing public rail infrastructure should be improved.

The objective of the Latvian railway development policy is a comprehensive modernisation and development of the Latvian railway-sector, in order to achieve successful integration into the European railway transport system as well as successful operation within market economy conditions. The railway sector policy will continue developing in the directions set-out by approved programmes and documents (National Programme for Transport Development 1996-2010).

Public usage railway infrastructure depending on its technical potential is divided in 3 categories according to railway infrastructure register.

LDz offers following wide gauge rail districts (including the station tracks and access tracks technologically connected with them) with operating length 1933,8 km.

Public usage railway infrastructure network has 157 distribution points and 77 of them are opened to freight operations.

Stations where freight operations are made consist of 2 distribution stations (Šķirotava and Daugavpils), 4 district stations (Jelgava, Rēzekne, Krustpils, Gulbene).

Public usage railway infrastructure network has borders with other countries according to Cabinet of Ministers Regulations Nr 246 1996.07.02. About the establishing the places for crossing border and about the location of border crossing points on the LR border:

With Estonia – Lugaži;

With the Russian Federation - Kārsava, Rēzekne, Zilupe;

With the Republic of Belarus – Indra;

With the Republic of Lithuania - Daugavpils, Eglaine, Kurcums, Meitene, Priekule, Reņģe, Vaiņode.

Public usage railway network has border with LR Limbaži region municipality railway – Skulte and with railway station of Freeport of Riga Authority – Rīga Krasta.

Customs control posts in border checkpoints: Indra, Kārsava, Rīga Passenger station luggage bureau, Zilupe, Šķirotava, Daugavpils, Rēzekne-2, Jelgava, Rīga cargo station.

Stations where railway technical maintenance operations are carried out: Daugavpils, Rēzekne, Šķirotava, Jelgava, Ventspils, Liepāja, Rīga Pasenger station.

Stations where train brakes are tested: Rīga Cargo station, Mangaļi, Ziemeļblāzma, Zemitāni, Pļaviņas, Gulbene, Saldus, Brocēni.

Stations where basic and circulation depots and locomotive teams recreation homes are located: Daugavpils, Rēzekne, Šķirotava, Jelgava, Ventspils, Liepāja.

The track gauge on rail network is 1520 mm. Track gauge in narrow gauge line Gulbene – Alūksne is 750 mm.

23.5 ton axle loads are permitted on public usage railway network.

The maximum gradient in 1st category lines is 8.4 mm/m (line Daugavpils-Indra), in 2nd category lines – 9.9 mm/m (line Zemitāni-Skulte), in 3rd category lines – 12.6 mm/m (line Gulbene-Pļaviņas).

According to "Regulations of railway technical operations" the maximum allowed speed for passenger trains is 120 km/h and 80 km/h for freight trains. Speed restrictions for train traffic timetable which will be in force starting May 27, 2007 until May 24, 2008, are defined in LDz directive Nr DV1-3/264 issued on 17.05.05, "About train traffic speed".

There are following electrified sections in public usage railway infrastructure:

- Rīga Passenger station– Jelgava;
- Torņakalns – Tukums 2;
- Rīga Passenger station – Zemitāni - Skulte;
- Rīga Passenger station – Aizkraukle;
- Zemitāni – Šķirotava.

The voltage of direct current of electrified lines is 3 kV.

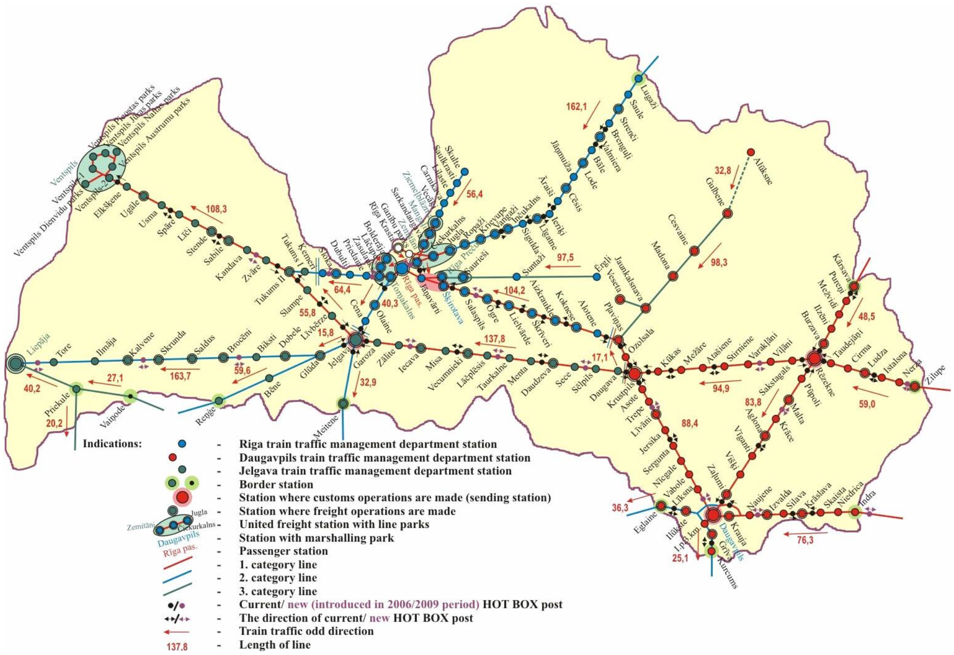



Figure 21 Latvian railway sheme

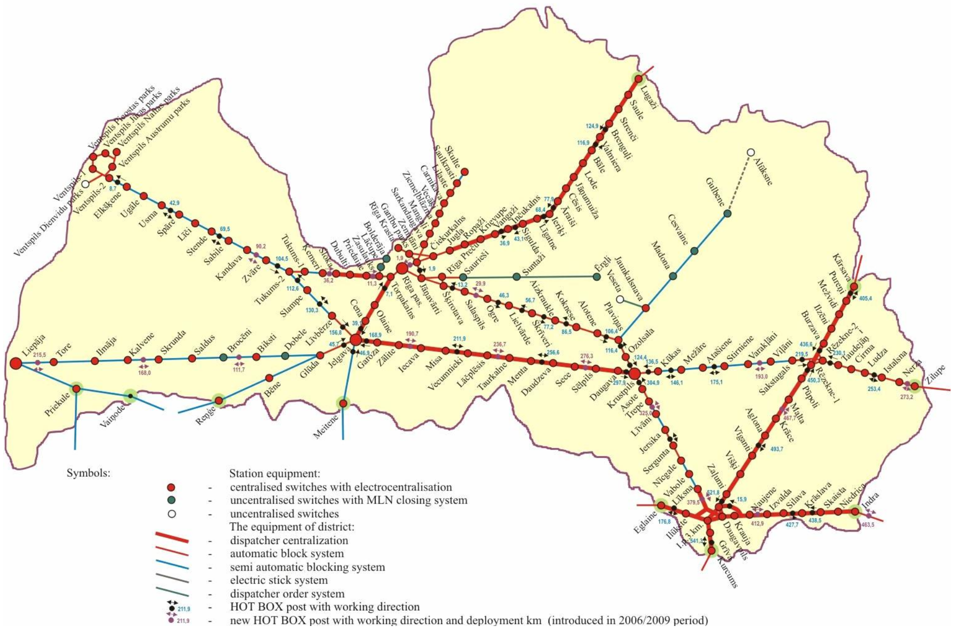



Figure 22 Latvian railway districts equipment

Table 14 Freight transport by rail

| Gads<br>*Year* | Pārvadātas kravas, tūkst.t<br>*Freight transported, thsd t* | Kravu apgrozība, milj. tonnkilometru<br>*Freight turnover, mln ton-km* | Vienas tonnas kravas vidējais pārvadājuma attālums, km<br>*Average distance length per ton of freight, km* |
|---|---|---|---|
| 1990 | 84111 | 18538 | 220 |
| 1995 | 28840 | 9757 | 338 |
| 2000 | 36413 | 13310 | 366 |
| 2001 | 37884 | 14179 | 374 |
| 2002 | 40100 | 15020 | 375 |
| 2003 | 49401 | 17955 | 363 |
| 2004 | 55901 | 18618 | 333 |
| 2005 | 60068 | 19779 | 329 |

Table 15 National and international freight transport by rail

(tūkst.t - *thsd tons*)

| | 2000 | 2003 | 2004 | 2005 | |
|---|---|---|---|---|---|
| **Pavisam** | **36413** | **49401** | **55901** | **60068** | **Total** |
| tai skaitā: | | | | | of which: |
| iekšzemes satiksmē | 1753 | 3375 | 7271 | 7840 | national traffic |
| starptautiskajā satiksmē | 34660 | 46026 | 48630 | 52228 | international traffic |
| no tiem: | | | | | of which: |
| eksporta pārvadājumos | 1936 | 2984 | 2167 | 1992 | exports |
| importa pārvadājumos | 4000 | 39359 | 41895 | 44532 | imports |
| tranzīta pārvadājumos | 28724 | 3683 | 4568 | 5704 | transit cargoes |
| No starptautiskajiem kravu pārvadājumiem - pārvadājumi caur ostām | 25925 | 37238 | 38667 | 40600 | Of the international freight transport, transport through ports |

The Latvian rail network - integrated in the BSR railway network - is shown in Figure 23.


Source: European Communities (1996); European Commission (1998); TINA Secretariat (1999), IRPUD (2000). Note: This map does not include all planned rail investments, but only those within the TEN/ TINA and Helsinki Corridors

Figure 23 Trans-European rail network outline plans

*Aviation*

In Latvia there are several airports (Fig.27), the largest one being the "Riga International Airport" located in the capital of Latvia - Riga; smaller airports are located in Liepaja, Ventspils and Daugavpils. They are operating in compliance with the international requirements and standards as per Convention on International Civil Aviation, as well as in accordance with other international regulations. Latvia has successfully harmonized the national legal acts with the EU. For this reason the implementation of the EU requirements in aviation has proceeded without any specific difficulties. The main priorities for air transport are safety and high service level.


Source: Ojala, Lauri – Naula, Tapio – Hoffmann, Torsten (2005) Trade and Transport Facilitation Audit of the Baltic States (TTFBS): On the Fast Track to Economic Development. The World Bank

Figure 24 Airports location

## Table 16 Civil aviation

| Gads *Year* | Pārvadāti pasažieri, tūkst. *Passengers carried, thsd* | Pasažierapgrozība, milj. pasažierkilometru *Passenger turnover, mln passenger-km* | Viena pasažiera vidējais brauciena attālums, km *Average length of journey per passenger, km* |
|---|---|---|---|
| 1990 | 2204.4 | 3357.0 | 1523 |
| 1995 | 234.2 | 354.7 | 1515 |
| 1999 | 239.5 | 237.7 | 993 |
| 2001 | 298.7 | 276.0 | 924 |
| 2002 | 325.9 | 338.1 | 1037 |
| 2003 | 408.1 | 424.0 | 1039 |
| 2004 | 677.6 | 825.1 | 1218 |
| 2005 | 1150.5 | 1478.4 | 1285 |

## Table 17 Passenger traffic at the airport Riga

| | 2000 | 2003 | 2004 | 2005 | |
|---|---|---|---|---|---|
| Izlidojušo lidmašīnu skaits | 9032 | 9749 | 13660 | 17276 | Number of aircraft departures |
| Izbraukušo pasažieru skaits, tūkst. | 289.5 | 356.8 | 533.8 | 938.4 | Passenger departures, thsd |
| tai skaitā ar Latvijas aviokompāniju lidmašīnām | 136.3 | 207.4 | 313.2 | 443.3 | of which by aircraft of Latvian airlines |
| Ielidojušo lidmašīnu skaits | 9038 | 9755 | 13665 | 17276 | Number of aircraft arrivals |
| Iebraukušo pasažieru skaits, tūkst. | 284.9 | 355.0 | 526.6 | 939.1 | Passenger arrivals, thsd |
| tai skaitā ar Latvijas aviokompāniju lidmašīnām | 135.8 | 205.5 | 302.6 | 424.9 | of which by aircraft of Latvian airlines |

## Table 18 Freight traffic at the airport Riga

(tonnas - *tons*)

| | 2000 | 2003 | 2004 | 2005 | |
|---|---|---|---|---|---|
| **Kravu apgrozība** | | | | | **Freight traffic** |
| nosūtītas kravas | 836 | 949 | 1059 | 1286 | freight loaded |
| saņemtas kravas | 2782 | 11367 | 6241 | 12816 | freight unloaded |
| **Pasta apgrozība** | | | | | **Post traffic** |
| nosūtīts pasts | 305 | 393 | 523 | 734 | mail loaded |
| saņemts pasts | 735 | 822 | 928 | 1127 | mail unloaded |

*Waterways. Maritime transport and ports.*

The importance of Latvian ports in the national economy has tightly connected with advantageous state geographical situation respecting to those countries with large economic potentials and large consumer markets. Last decade the importance of Latvian ports was strengthened by regaining of independence and gradual transition to market economy relations.

Convenient location near the Baltic Sea provides Latvia possibility to participate in sea cargo shipment by using 3 large and 7 small ports. Geographically advantageous position is even more enforced by land border with Russia - country in which territory concentrates the world's largest nature resources. It is more important that Latvia border with Russia is north-eastern European Union border. These natural advantage, state domestic and foreign policy, as well as many other economical and political factors and determine most important development tendencies for Latvian ports also nowadays.

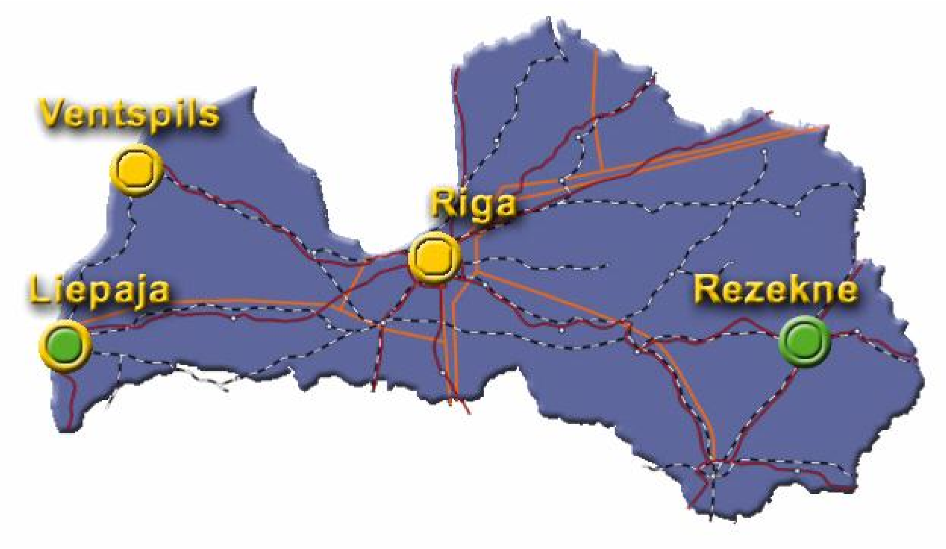



Figure 25 Free Ports and Special Economic Zones in Latvia

Ports are one of the most important stages in transportation logistics chain of cargos and passengers, because sea transport is related with different kinds of land transport. Therefore it is even more important to organize capacity of ports in way that allows integrating existing and perspective land cargo flow and development of infrastructure. The biggest part of cargos turnover in Latvian ports makes transit cargo, which main direction is from Russia and other former Soviet Union countries to Western countries, USA, Canada. Therefore transshipment of cargos volumes in ports is largely dependent from economic policy of countries that dispatches and receives frights.

Investigating the influence of ports on different fields of national economy, it was concluded that performance of ports influences development of 15 industries of national economy. Most tight ports are related with such industries us transport and communications, forestry, extractive and processing industry as well as different utility fields. The wide range of port economic activities and their relationship with many industries promotes dynamic port development and the port development pace is notably faster than state economic growth.

Important tendency can be noticed in performance of ports in the last years of revision period - the added value in territory of ports has increased. That tendency is related with diversification of services provided to ships entering in the port and with production of new goods in the ports' territories.

It shows that importance of ports have been increasing in national economy. The issues related with development of ports are regularly taken care by the state government. The government has worked out the national program of transport development and the state program of Latvian ports development. These documents describe the main tendencies of ports development and most important tasks to increase competitiveness of ports in international sea cargo market, taking into account changeable circumstances of economy globalisation.

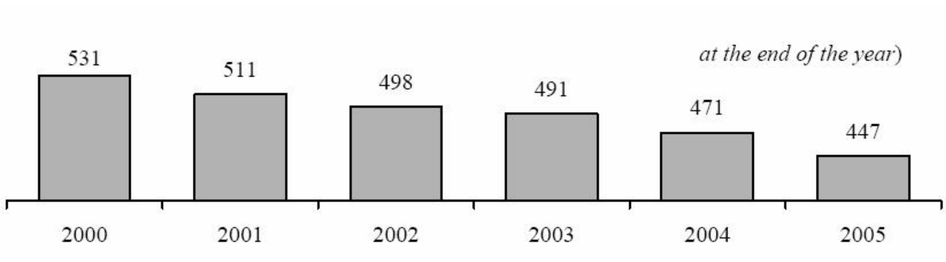



Figure 26 Number of vessels registered in the Latvian shipping register

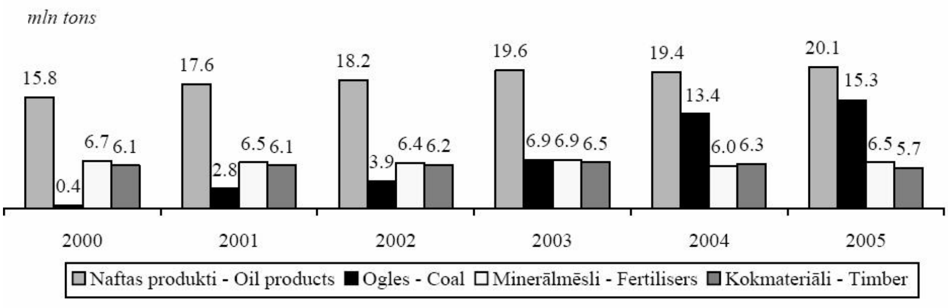



Figure 27 Cargo loaded at Latvia's ports by main commodity groups

Table 19 Cargo loaded into and unloaded from domestic and foreign vessels at Latvia's ports

(tūkst. t - *thsd tons*)

| Gads *Year* | Pavisam *Total* | tai skaitā ostās - *of which at ports* Rīga | Ventspils | Liepāja | mazās ostas *minor ports* |
|---|---|---|---|---|---|
| **Nosūtītas kravas** - ***Cargo loaded*** | | | | | |
| 1995 | 36370.5 | 5482.5 | 29215.3 | 1287.8 | 384.9 |
| 2000 | 49275.5 | 11650.0 | 34330.3 | 2559.9 | 735.3 |
| 2001 | 54372.3 | 13265.4 | 37541.1 | 2762.1 | 803.7 |
| 2002 | 48735.2 | 15885.0 | 28150.9 | 3709.5 | 989.8 |
| 2003 | 50918.3 | 19384.9 | 26546.8 | 4223.1 | 763.5 |
| 2004 | 54100.8 | 22157.9 | 27111.8 | 3792.3 | 1038.8 |
| 2005 | 55890.3 | 22045.6 | 29034.2 | 3766.4 | 1044.1 |
| **Saņemtas kravas** - ***Cargo unloaded*** | | | | | |
| 1995 | 2614.8 | 1971.0 | 407.8 | 151.9 | 84.1 |
| 2000 | 2567.3 | 1701.7 | 425.0 | 404.7 | 35.9 |
| 2001 | 2546.1 | 1618.5 | 395.6 | 498.4 | 33.6 |
| 2002 | 3419.5 | 2223.3 | 552.8 | 608.6 | 34.8 |
| 2003 | 3836.9 | 2336.8 | 769.4 | 634.8 | 95.9 |
| 2004 | 3299.5 | 1833.4 | 693.5 | 681.8 | 90.8 |
| 2005 | 4151.6 | 2383.5 | 828.8 | 742.0 | 197.3 |
| **Kravu apgrozība** - ***Cargo turnover*** | | | | | |
| 1995 | 38985.3 | 7453.5 | 29623.1 | 1439.7 | 469.0 |
| 2000 | 51842.8 | 13351.7 | 34755.3 | 2964.6 | 771.2 |
| 2001 | 56918.4 | 14883.9 | 37936.7 | 3260.5 | 837.3 |
| 2002 | 52154.7 | 18108.3 | 28703.7 | 4318.1 | 1024.6 |
| 2003 | 54755.2 | 21721.7 | 27316.2 | 4857.9 | 859.4 |
| 2004 | 57400.3 | 23991.3 | 27805.3 | 4474.1 | 1129.6 |
| 2005 | 60041.9 | 24429.1 | 29863.0 | 4508.4 | 1241.4 |

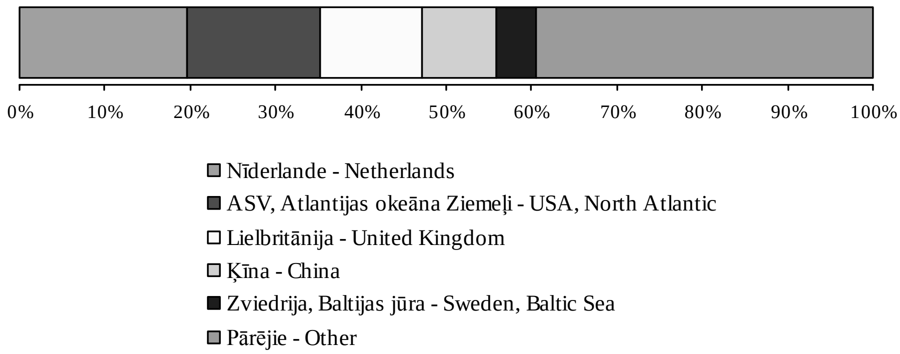



Figure 28 Main flow of the outward cargo from port of Ventspils in 2005

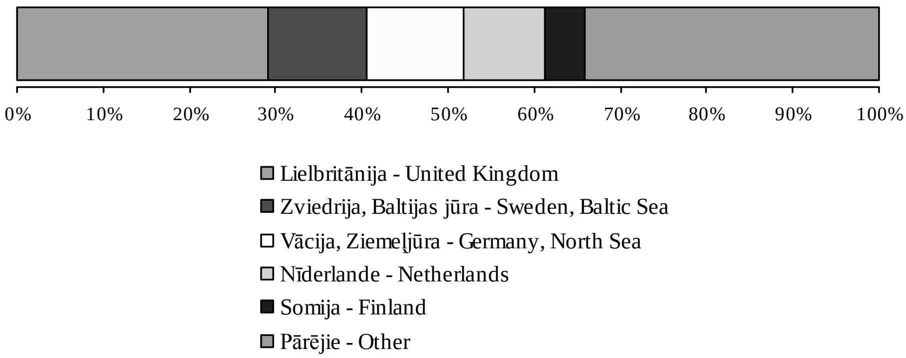



Figure 29 Main flow of the outward cargo from port of Riga in 2005

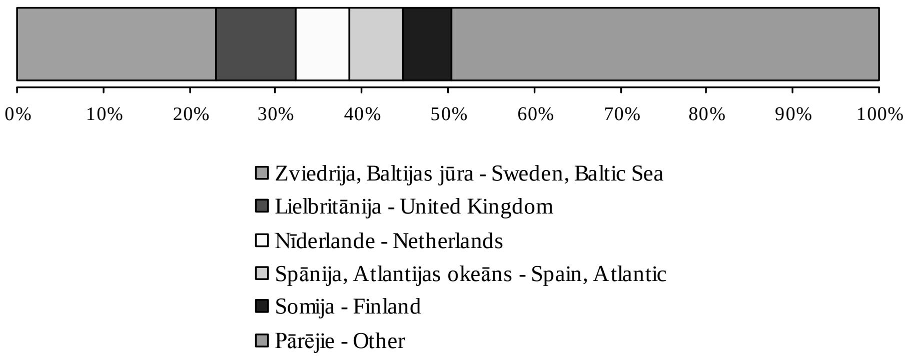



Figure 30 Main flow of the outward cargo from port of Liepaja in 2005

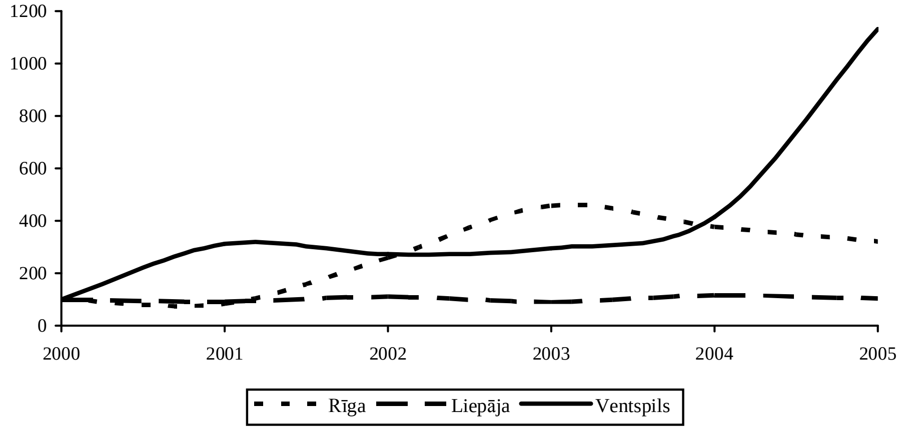



Figure 31 Passenger arrivals and departures

The development of freight terminals and warehouses should be promoted at crossings of transport corridors. In this process the development of logistics is of high importance. As a rule freight distribution centres are developing as joint ventures of private and respective municipal companies.

In the future it is planned to set up freight distribution centres in Riga, Ventspils, Liepaja, Rezekne, Daugavpils and at other principal transport junctions.

It is regarded that one of the most important issues for peripheral regions development is the development of logistics and distribution centres focused on attracting freight from Asia and the Far East. Latvia can serve as a distribution centre for cargo from Asian countries (e.g. China, Korea) not only in the Baltic States but also with equally successful results in Russia and the CIS countries.

Transport policymakers and logistics operators both stress the necessity to build up an efficient transportation system by promoting the inter-modality patterns through the establishment of distribution and inter-modal centres. The seaport city-region should promote the settlement of such public logistics terminals at the local level in order to promote the local entrepreneurship, as well as to reduce the environmental impact of the freight transport within the urban area. The building of the inland logistics terminal at the more far hinterland locations should increase in efficiency the whole transport system because of the promotion of the inter-modality.

An attractive and competitive port is often considered as a regional, if not a national objective supporting the economic development of the region or the nation. Traditionally, the consequence of this view was as follows – the port operation and the related infrastructure was a public responsibility. Today, port operation is no more considered as a suitable or even acceptable task for public services. Some regions are starting to question the need for any public involvement in port business. Why should a city own a port? It does not own the marshalling yard or the truck freight terminal.

Such ideas do not mean that the city should not plan for or care for its port. Only that it must distinguish between public and business objectives. Local political opinions, competition with neighbouring regions and lack of overview might induce the city or the region to invest too much in relation to a realistic assessment of the commercial outcome.

Table 20 Selected major logistics and industrial parks' projects in Latvia[4]:

| Name | Location | Total area, m2 | Commissioning date | Profile |
|---|---|---|---|---|
| Dominante Park | Kekava, county of Riga | 35,000 | March 2007 | First Class A industrial park in Latvia |
| ELIPSE | Riga | 60,000 | October 2007 | Logistics center |
| Wellman Logistics Center | Salaspils, county of Riga | 19,000 | January 2007 | Logistics center |
| Riga Airport | Marupe, county of Riga | 2,260 | December 2006 | Office center |
| Logiparks | Riga | 40,000 | February 2007 | Logistics center |
| Commercial Center | Marupe, county of Riga | 6,000 | Q1 2007 | Logistics center |
| PBLC Business Center | Riga | 9,000 | March 2007 | Business center |
| Dommo Bussiness Park | Olaine, county of Riga | 11,190 | Q3 2007 | Business park |
| Saliena Real | Babite, county of Riga | 50,000 | n/a | Trade park |
| Ritausmas Logistics Center | Riga | 14,000 | Q1 2007 | Logistics center |
| Magnat | Riga port | 40,000 | July 2007 | Office complex |
| Latgale Apparatus-Making Technology Center (LATC) | Daugavpils | 3,000 | n/a | Technology center |
| Ventspils Free Port territory | Ventspils | over 10,000 | n/a | High-tech park etc. |

Dominante Park in Kekava is the largest industrial park in the Baltic's is already coordinating lease agreements for the second and third phase, which will be put into commission in one years time.

As early as March 2007 work in Kekava was begun by one of the biggest Latvian food distribution companies Jungent, the distribution company Baltā Bura, as well as a large Estonian wholesale company. Currently, negotiations are underway with large international companies about Dominate Park's second and third phase that will go into commission in the beginning of 2008.

The A class industrial park Dominante Park is a project, which provides for qualitative logistics and property management services, on a scale that's unprecedented in Latvia. This type of logistics infrastructure has no analogue, clients choose us for both the very high quality and because, as the clients business expands, we can secure

[4] Sources: Colliers International; LIAA, own information.
The Baltic Course № 23, Autums 2006, p.16-18 ByS Anzhela Rzhishcheva, Latvia

even bigger spaces to lease - they won't need to look for other opportunities.

It was precisely Dominante Park's industrial space compatibility to business company operational specifics that was a deciding factor for attracting the attention of large tenants.

As the foreign media's business market data sums up, Dominante Park is an all-powerful newcomer in the Baltic's industrial space market. The project is being carried out just in time because the ever growing demand for storage facilities and also for modern manufacturing buildings has led to the situation where, at present, goods are stored wherever possible – including old hangars, former fruit and vegetable warehouses and other inappropriate places – both as an actuality and in conformity with European Union requirements. Dominante Park plans to not only fill this demand,

Already international investors are showing a big interest about Dominante Park's second and third phase (more than 80,000 m2 of manufacturing, storage and office space), which will be put into commission at the beginning of next year. Dominante Park has an ideal geographic placement only a few ten kilometres from Riga.

Facts:

- Dominante Park's foundation-stone was put in place on the 31st of August 2006.
- Dominante Park will be a leader amongst the industrial space leasers and logistics service providers.
- The projects total value is 130 million EUR, it takes up 65 ha.
- Manufacture and storage building space -250,000 m2, including modern office building space – at least 10,000 m2.
- 1,500 work places will be created here.
- Significant attention has been given to worker comfort, that's why stores, a café and a rest area will be built here, workers will be provided with transportation to Riga and a day-care will be put up.

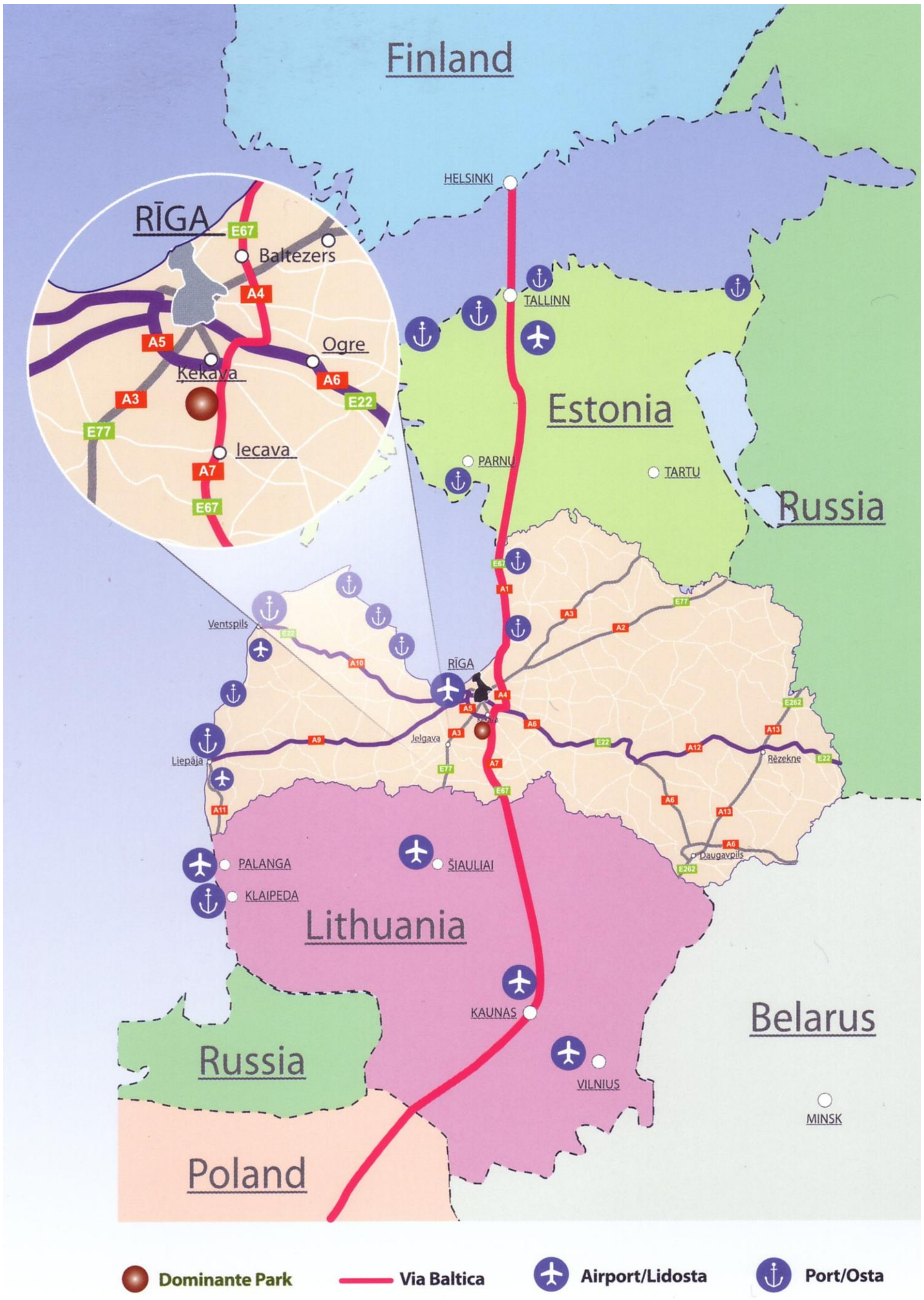



Figure 32 Location of Dominante Park

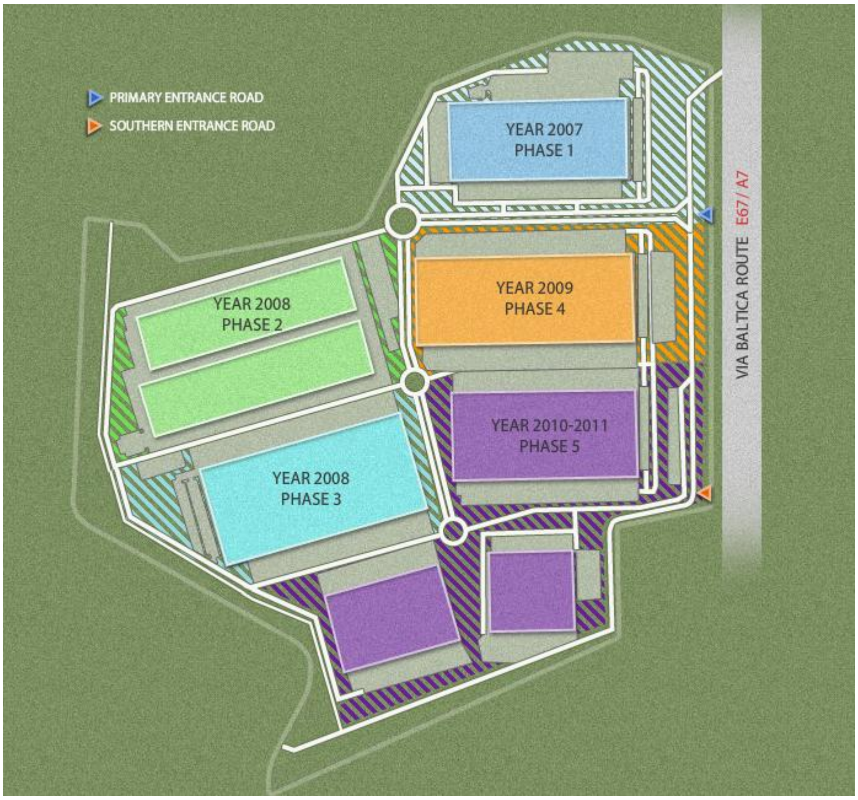



Figure 33 Dominante Park

*PHASE 1*: YEAR 2007, March
35,000 sq m of "A" class industrial/warehouse premises
3,500 sq m of "B" class office premises

*PHASE 2*: YEAR 2007
48,000 sq m of "A" class industrial/warehouse premises and "B" class office premises
Restaurant

*PHASE 3*: YEAR 2008
35,000 sq m of "A" class industrial/warehouse premises
3,500 sq m of "B" class office premises

The first phase of the park development delivers:

- 35,000 m² of "A" class industrial/warehouse spaces constructed according to the modern logistics standards.
- 3,500 m² of "B" class office premises.

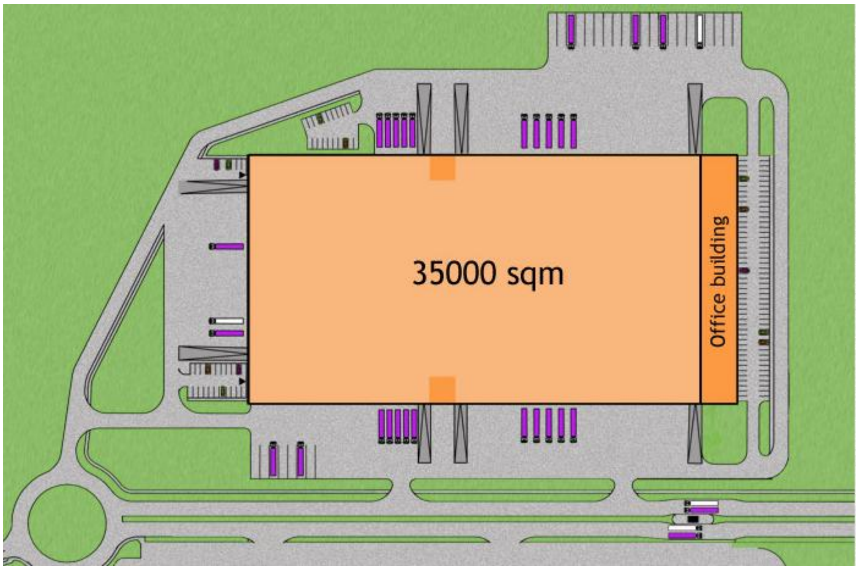



Figure 34 Dominante Park. PHASE 1. Year 2007, March

Putting into commission: March 2007

- Well-developed internal circulation scheme
- Future development of the road infrastructure close to the site
- Professional property management
- Flexible possibilities of space arrangement
- Ample parking for trucks and cars
- 24 h security system, video surveillance
- Canteen
- Bank branch, press point and other amenities
- Direct shuttle from Riga to Dominante Park

A fundamental dimension of the BSR projects is its Russian link as a fully integrated part of the concept as well as an extension on Russian ground to transport corridors heading for Central Asia and China. The investment in a centre for Chinese trade on the European market is now launched with Chinese capital. It proves to be a very concrete illustration that the development of the BSR should not just be related to the macro-region as such and the strong economic growth to be expected in for instance the Russian economy, but also focus on this region as a platform for a globally expanding Chinese industry with strong ambitions regarding business with Europe.

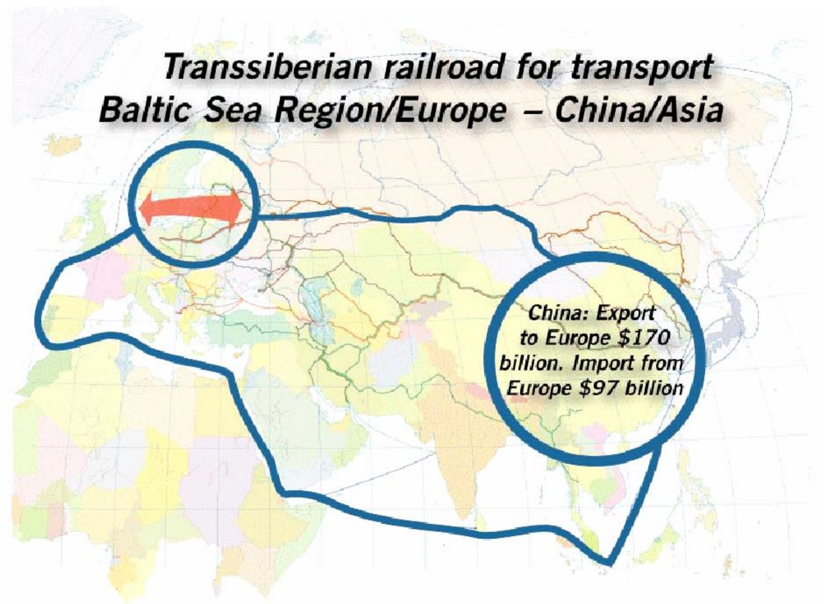



Figure 35 Global trade links

The overall objective was to analyse and report impact on opportunities and synergies for business activities in remote areas by improving access in the secondary networks to the main TEN-T transport corridors in the BSR - hereby to determine bottlenecks in the Baltic area.

The identified and analysed bottlenecks in Latvia are:

- Border crossing Latvia-Russia
- Riga Motorways
- Railway capacity

One of the main bottlenecks severely restricting the possibilities of transport development is the congestion on the Latvian - Russian border crossing points. As the border control on the Russian side does not work efficient enough, trucks, including the one working under TIR carnet, have to wait long - often ten or more - hours to cross the border. That results in less competitive transit corridor via Latvia, shifting Ro-Ro traffic and containers to other Baltic Sea eastern coast ports. Frequently changed requirements with regard to control documents on the Russian side, especially regarding sanitary and veterinary controls, are the next serious problem on the eastern boarders.

A specific bottleneck is the lack of high-speed transit main roads in the Riga region. The regional road system is also of poor quality and there is no junction (branches) between East-West and "Via Baltica" corridor with most significant populated areas in the region. The lack of arched railway junctions constitutes also a bottleneck in the road infrastructure, as does the absence of a by-pass road of Riga to be used for freight transport. Conflicts occur accordingly between transit operators and individual drivers on the roads.

During last years the intensity of cargo and passenger traffic and accordingly the territory needed for transport infrastructure (roads, parking places, logistic centres, repairs shops, and gas filling stations) have increased rapidly, while the development of infrastructure is insufficient in relation to this increase of traffic load. A significant weak point is that the development of transport modes is not balanced and coordinated within the region. There is no coordination in the planning of the transport system between Riga and other part of Riga region.

The quality of the road net in the region is not satisfactory and is continuously worsened. The technical condition of carriageways and roads is unsatisfactory and there is an incompliance regarding dimensions (for the roads of the respective category) of the most significant carriageways. Almost half of the asphalt roads are in a bad or even critical condition, one third of gravel roads is in a bad condition as well. Critical situation takes place with bridges; just some of them are in a satisfactory technical condition. The condition of the roads is damaged by overloaded transport mostly. The Riga region does not differ in this respect from the general Latvian picture: Despite slight improvements, however, the road network still does not meet the growing requirements, with only around 600 km of highway throughout the Baltic countries.

Because of the insufficient financing of the road sector there is furthermore an amount of undone reconstruction works within the road net. The financing for road maintenance and development is not sufficient to prevent road destruction when transport intensity and proportion of trucks increases.

Railway capacity in Latvia is the third main bottleneck. The Baltic Sea Region is seen as one of the most interesting areas in the world regarding economic growth. One important transport flow direction is the East West axis through the Baltic area. In 2004 about 125 million tons of cargo with origins in Third Countries was transported by rail to ports in Estonia, Latvia and Lithuania. For each of these new EU Member States it is forecasted in the TEN-STAC study that rail freight flows will increase substantially until 2020 with 80 -150 %. To meet needs of long distance freight a well developed railway system is necessary. Railway traffic has been underinvested during the last 50 years, even though 22 of 30 prioritized projects are rail related (CER).

About 90 % of all the rail freight between EU and Third countries in the North East Europe region flows from the East to the West. These flows follow basically four East-West routes (The Trans-Siberian railway (Transsib) via Perm passing North of Moscow to St-Petersburg, the Transsib via Moscow, Riga-Samara passing South of Moscow and Lvov/Kiev to Kazakhstan/China). Pan-European Corridor-III connects Poland via Lvov/Kiev to Kazakhstan/China. Pan-European Corridor-II forms the shortest connection between Moscow and Warsaw/Berlin and crosses the route Riga-Samara. Pan-European Corridor-IX crosses and interconnects the four East-West routes.

The importance of Transsib can already be seen in the increase in volume and in 2004 international container traffic from Asia to Europe along Transsib beat the 1983 record. As many as 155,400 twenty-foot containers were delivered from Primorye ports along the Asia-Europe-Asia route on this railway. A recent study also shows that the Russian Northwest Federal District can double or triple the international flows on links between Europe - Asia and Europe - Asia - America. Unfortunately today capacity of railway network is not enough for such volume of freight traffic.

## 5.2 Transport sector administration and industry associations

Table 21 Authorities at National Level

| **Authority** | **Role of the Authority regarding Transport Policy** |
|---|---|
| Ministry of Transport and Communications of the Republic of Latvia<br><br>*Gogola iela 3, Riga, LV-1743, Latvija.*<br>*Phone +371-7028215,*<br>*fax +371-7820621,*<br>www.sam.gov.lv | The issues of road, railway, maritime, air transport, passenger traffic and transit are under the jurisdiction of the Ministry of Transport and Communications.<br>Structure of the Ministry of Transport and Communications of the Republic of Latvia:<br>1.Road Transport Department<br>2.Aviation Department<br>3.Railway Department<br>4.Department of Informatics<br>5.Maritime Department<br>6.Department of Communications<br>7.Department of Foreign Relations<br>8.Department of Investments<br>9.Legal Department<br>10.Department of Passenger Transportation<br>11.Transit Policy Department |
| Institutions subordinate to the Ministry of Transport and Communications of the Republic of Latvia | |
| Civil Aviation Administration<br>www.caa.lv | The main purposes of this institution are:<br>• to realize state policy in the field of civil aviation safety;<br>• to control secure and effective flight of aircrafts and usage of airspace. |
| Railway Administration | The State Railway Administration is responsible for issuance of cargo transportation licences. The last amendments to the Law on Railway also make the State Railway Administration responsible for infrastructure capacity allocation in cases where a railway infrastructure manager is also railway operator. |
| Railway Technical Inspection<br><br>State Stock Company Road Transport Administration<br>*www.atd.lv* | The safety certification is the responsibility of the State Railway Technical Inspectorate.<br><br>The Road Transport Administration is a state limited liability company. Main functions are:<br>• Licensing of entrepreneurship in the field of road transport (commercial carriage by road)<br>• Co-ordination of access to the road transport market<br>• Monitoring and control of compliance with requirements regulating road transport operations |

| **Authority** | **Role of the Authority regarding Transport Policy** |
|---|---|
| State Stock Company Road Traffic Safety Directorate *www.csdd.lv* | Registers transport vehicles, carries out the technical inspection of transport vehicles, and carries out road safety audits. |
| State Stock Company Road Administration *www.lad.lv* | Administrates state road network and its funding |
| Latvijas Gaisa Satiksme (LGS) State Stock Company of Air Traffic Organisation *www.lgs.lv* | The main goal of the State Joint Stock Company of Air Space Utilization and Air Traffic Organisation is to provide the users with the optimum Air Navigation Services in Riga Flight Information region (FIR). The main revenue sources for LGS are air navigation charges collected for the rendered service. There is no financing from the State budget, moreover, LGS is one of the largest tax payers in Latvia. |
| State Stock Company Latvian Railway *www.ldz.lv* | State Stock Company Latvian Railway “Latvijas Dzelzcels” – is main state railway operator in Latvia. Latvian Railways is a joint stock company 100% state-owned. Six subsidiary companies are being set up (freight, domestic passenger, international passenger, rolling stock repair, locomotive repair, one other) with the rest remaining as the infrastructure company. Since 2003 “Latvijas Dzelzcels” only operates freight trains. It owns all diesel locomotives.<br>Passenger trains are operated by subsidiary "Pasazieru Vilciens" (in English -"Passenger Trains"). "Pasazieru Vilciens" is the domestic passenger services joint stock company, currently 100% state-owned. It was not given any rolling stock assets from “Latvijas Dzelzcels” upon creation but are negotiating for this transfer now. They are also keen to establish a system of passenger service obligations as a way of obtaining an operating subsidy from Riga City. |
| State Stock Company Maritime Administration *www.jurasadministracija.lv* | Main functions are:<br>• to supervise the compliance to safety requirements of the ships registered in Latvian Ship Register; to approve technical plans of ship’s construction and modification and to issue ships’ certificates;<br>• to approve ship’s documentation;<br>• to implement Port State Control on foreign ships;<br>• to control compliance with the International Safe Management Code regarding the ships included in Latvian Ship Register;<br>• to investigate and analyze maritime accidents;<br>• to control the observance of the procedures of furnishing information on passengers and on dangerous and pollutant cargoes on board ships while in Latvian waters;<br>• to align the port regulations on maritime safety and control their observance;<br>• to issue certificates of competency to pilots and Vessel traffic service operators;<br>• to carry out seamen registration and issue Seaman’s Books, as well as to maintain the data base of Latvian Registry of Seamen;<br>• to assess seamen professional programs, to organize seamen qualification assessments and issue professional qualification certificates;<br>• to certify simulators;<br>• to register ships and ship’s mortgages, to issue relevant legal instruments;<br>• to maintain the data base of Ship Register and Fishing |

| Authority | Role of the Authority regarding Transport Policy |
|---|---|
| | Ships Register;<br>• to supervise the locating and functioning of lighthouses, buoys, other aids to navigation and systems in Latvian waters;<br>• to control hydrographical surveys and investigations in Latvian waters;<br>• to organize preparing, printing and distribution of navigational publications;<br>• to publish and distribute Navigational warnings and Notices, and act as the national co-ordinator;<br>• to co-ordinate raising and removal of sunken property in Latvian waters;<br>• to co-ordinate projects of hydro-technical constructions in ports and ship routes from the point of view of maritime safety, to participate in the project approval commission's work;<br>• to participate in the work of International Maritime Organisation, Helsinki Commission, International Hydrographical Organisation and other international organisations;<br>• to draw up proposals to prepare normative acts. |

Table 22 Authorities at Regional Level

| Authority | Role of the Authority regarding Transport Policy<br>Formal Relations to other Authorities |
|---|---|
| State Stock Company Roads of the Central Region<br>www.crc.lv | Main functions:<br>• Maintaining , repairing and building of roads, streets and parking territory,<br>• Road marking;<br>• Provision and delivery of sand, gravel and dolomite materials;<br>• Lease of road building equipment and road transport services.<br>*Formal relations to other authorities:*<br>Institution subordinate to the Ministry of Transport and Communications of the Republic of Latvia |
| State Stock Company Roads of Kurzeme | |
| State Stock Company Roads of Vidzeme | |
| State Stock Company Roads of Latgale | |

Table 23 Authorities at Local Level

| **Authority** | **Role of the Authority regarding Transport Policy Formal Relations to other Authorities** |
|---|---|
| The Freeport of Riga www.freeportofriga.lv The Freeport of Ventspils www.portofventspils.lv | *Formal relations to other authorities:* Institution subordinate to the Ministry of Transport and Communications of the Republic of Latvia |
| The Port of Liepaja www.liepaja-sez.lv | |
| Salacgriva Port www.sop.lv | |
| Skulte Port www.skulteport.lv Mersrags Port www.mersraga-osta.lv | |
| Roja Port | |
| Engure Port | |
| Pavilosta Port | |
| Lielupe Port | |

*Objectives of transport development*

The long-term objective of the Latvian transport development policy is to create an effective, safe, competitive, environmentally friendly, balanced and multimodal transport system, which is fully integrated in the European transport system, and satisfies economic and social needs of Latvia for passenger and cargo transportation in domestic and international traffic. The improvement of the quality of the transport system is one of the main pre-conditions for re-industrialisation and for the development of an innovative economy in Latvia, since it encourages regional development and improves the competitiveness of Latvian companies at the European and international market.

*National Programme for Transport Development and Priorities of the Ministry of Transport and Communications*

The main directions of Latvian transport policy development are identified in the National Programme for Transport Development 1996-2010 (updated in 2000-2006). The National Transport Development Programme is a medium term strategic planning document in the transport sector. Its implementation is of vital importance and indispensable for the purpose of the balanced development of the society and the national economy of Latvia. For the full implementation of the National Transport Development Programme there are a range of tasks to be accomplished. Among these tasks are: maintenance and development of environmentally friendly transport infrastructure, increasing of traffic safety, promoting and ensuring an increasing performance efficiency of national and international passenger- and freight-transport operations, developing transit operations and transit corridors as well as ensuring the integration and competitiveness of the transport system of Latvia in the European transport system.

The National Transport Development Programme (1996-2010) is a most general document of plan character, which constitutes the activities (actions, tasks) of economic, organisational, and institutional nature. It is worked out for a 15 years period.

The National Transport Development Programme consists of nine sub-programmes:

- Maintenance and development of transport infrastructure
- Improvement of transport services
- International (export, import, transit) transport operations. Transport corridors, co-operation with neighbouring countries and integration into the European transport network
- Integration of transport systems
- Traffic safety
- Establishment of an environmentally friendly transport system
- Transport statistics and information infrastructure
- Transport legislation and institutional regulations
- Education and science

The Sub-Programme N3 of the National Transport Development Programme has two main parts - for passenger carriage and goods transport.

The aim of the first part of the Sub-Programme N3 is to establish a united passenger transport system in the country and to provide qualitative and accessible public transport services. The principal set of activities included in the first part of the Sub-Programme N3:

- introduction of a united state and municipality order for different modes of domestic passenger carriage;
- establishment of a united subsidy system;
- development of the legal framework;
- development of passenger service administration.

The aim of the second part of the Sub-programme N3 is to increase safety, sustainability, and effectiveness in freight transport operations by making the utmost use of all the available resources and all the possibilities for establishing a safe and economically effective goods transport system. The principal set of activities included in the second part of the Sub-Programme N3:

- development of domestic and international goods transport operations;
- development of combined transport operations;
- development of national transport service standardisation, certification, licensing and legal and technical control system;
- improving of the transport operations safety system;
- development of the legal framework.

Priorities of the Latvian Ministry of Transport and Communications:

- An optimum use of the Latvian potential as a transit state upon increasing transit through ports, promoting the interstate economic co-operation and protecting the interests of Latvian carriers in accordance with the international acts.
- A maximum efficient use of the EU funds for the development of the transport infrastructure in order to create a safe and balanced transport system that would comply with the modern market requirements.
- Attainment of a regular increase of financing of the road branch. Commencement of construction of the Latgale road section Ogre - Jēkabpils as a qualitative section of the East- West corridor, provision of the regional development upon reconstructing of 1st class state roads.
- A raise of the traffic safety level upon making changes in the legal acts, introducing a recording system of infringements of traffic regulations that would raise the driver's individual responsibility. Provision of preventive activities within the traffic safety, as well as improvement of the road conditions.
- Formation of a state financed transport control system thus ensuring an effective protection of the branch and state interests.
- In the field of passenger transportation - formation of a modern public transport infrastructure throughout the whole country upon ensuring a united public transport administration system, stabile and adequate state financing, a tax system that would protect both users' and operators' interests.
- The development of the railway infrastructure, promotion of the renewal of the rolling stock so as to increase passenger transportation by rail thus improving the environment. An increase in the rail-transport safety.
- In the maritime field, further implementation of international acts and requirements so as to improve the vessel safety, decrease a

risk of pollution of the environment from ships on the Baltic Sea and optimise the maritime traffic.

- A more active involvement in the preparation works of the Rail Baltica project upon performing project feasibility studies.

Table 24 Transport related associations

| **Name of the Association**<br>*Contact details* | **Transport related activities/role** |
| --- | --- |
| Latvian Maritime Law Association<br>*11 Miesnieku street, Riga.*<br>*Chairman of the Board:*<br>*Māris Lejnieks*<br>*tel. 7 22 91 86*<br>*e-mail: grocijs@lanet.lv*<br>*http://vip.latnet.lv/LJTA* | Aims of the Association:<br>• to promote the research and improvement of maritime and trade law;<br>• to discuss and work out proposals for the unification of maritime and trade law together with other Latvian and foreign organisations;<br>• to act as a discussion-forum for various legal problems in which the members of the Association are interested in;<br>• to summarise and disseminate the information on shipping and maritime law to its members;<br>• to promote co-operation between the organisations and the individual experts working in the field of maritime law;<br>• to contribute to the development of Latvia as a maritime state. |
| Latvian Transport Development and Education Association (LTDEA)<br>*President – Andris Gutmanis*<br>*Gogola 3, Riga, Latvia*<br>*Phone: (+371) 7028295; (+371) 7028294*<br>*E-mail:*<br>*gutmanis@sam.gov.lv* | LTDEA co-ordinates research and educational programmes in the area of transport on the basis of an agreement between the LTDEA, Latvian Ministry of Transport and Latvian Ministry of Science and Education.<br>The goals of LTDEA are:<br>• to define results and recommendations from research projects as well as demonstration and pilot activities which will further the process of revitalising the transport business;<br>• to recommend activities (including new proposals) for implementation. |
| Latvian Transit Business Association (LTBA)<br>*President - Aivars Lembergs*<br>*Exutive director – Maris Ankalnins*<br>*Phone: (+371) 3601101; (+371) 5834050;*<br>*ltba@vm.ldz.lv* | The main purpose of the Association is the implementation of economic, organisational and legal measures, which further<br>• cargo transit through Latvia;<br>• competitiveness of Latvian transit businesses;<br>• growth of prestige for Latvia as a stable economic partner;<br>• growth of the state income and welfare of people due to the development of the transit business. |

| **Name of the Association** *Contact details* | **Transport related activities/role** |
|---|---|
| Latvian Association of Freight Forwarders (LAFF)<br>*Secretary general - Vladimirs Žerebcovs*<br>*50 Ventspils street, Riga, LV-1002, Latvia*<br>*Phone 7603483, fax 7601319*<br>[laff@dtg.lv](mailto:laff@dtg.lv)<br>[www.laff.lv](http://www.laff.lv) | LAFF basic activities are:<br>• Represent interests of freight forwarders and the keepers of the Customs Warehouses in Latvia and at the international level;<br>• Take part in the preparation of legislative documents in the fields of tax policy, the customs, etc.;<br>• Consult members of LAFF in the customs and tax legislation, relation with clients, insurance, juridical and other questions;<br>• Solve specific problems of freight transportation organized by members of LAFF;<br>• Represent the freight forwarders` interests in state institutions, in the customs and businessmen consultative council and in Latvian Chamber of Commerce,<br>• Help with founding new business contacts with partners abroad;<br>• Co-operate with the national freight forwarders associations of other countries in the matters of freight forwarders' services, cargo transportation and of other mutually interesting questions;<br>• Co-operate with other professional associations in Latvia and take part in the Co-operation council of Latvian business associations;<br>• Organize the classes of professional education and certification for freight forwarders. |
| Latvian Association of International Road Haulers (Latvijas Auto)<br>*President -Valdis Trezins*<br>*Vesetas 9, LV-1013, Riga, Latvia*<br>*Phone: (+371) 7389267*<br>*e-mail:* [lauto@lauto.lv](mailto:lauto@lauto.lv)<br>[http://www.lauto.lv/](http://www.lauto.lv/) | «Latvijas Auto» Association embraces Latvia's freight and passenger transporters and forwarders and extends to them the privileges offered by international conventions and treaties regarding the international transport.<br>In 1992, the Association became a full-fledged member of the International Road Transport Union, IRU, and since then it has been the national guarantor of the T.I.R. system in Latvia.<br>The activities of the Association are focussed on the East-West and West-East routes. In the eastern direction, the busiest transport routes are those leading to CIS states, while the main destinations in the West are Germany, the Netherlands, Belgium, France, Italy, Denmark and Eastern European countries. |
| Transport Mutual Insurance Association (TT Club)<br>*K. Valdemāra ielā 21, Rīgā, LV – 1010. Latvija* | Transport Mutual Insurance Association (TT Club) gives cargo additional protection against transport related risks. Members of the TT Club offer to members of the transit the full range of services: credit insurance, insurance against financial risks, property insurance, third party liability insurance, motor insurance, transportation insurance and insurance of cargo.<br>The insurance market of Latvia has evidently developed and stabilized. It has grown both in quantity and quality, capable to offer its customers services according to the European standards. Due to the growing competition, the TT Club member |

| **Name of the Association**<br>*Contact details* | **Transport related activities/role** |
|---|---|
| Logistics and Customs Brokers Association of Latvia (LCBA)<br>*Chairman: Aivars Tauriņš*<br>*aivars.taurins@schenker.com*<br>*Phone: 7373300, fax: 7373317*<br>*www.lmba.lv* | companies continue to enlarge the variety of offered services in order to meet the needs of their customers.<br>LCBA's main goals are:<br>• Create and develop business logistics and customs clearance fields in Latvia both theoretically and in practice;<br>• Establish an effective co-operation platform for all interested parties regarding business logistics and customs clearance;<br>• Define qualification and education standards in the fields of customs clearance and business logistics. |
| Association of Railway International Electronic Documents Circulation Operators (AED)<br>*President – Sergey Shvedov*<br>*Phone:+ 371- 5834949.*<br>*Fax: + 371 – 5834949.*<br>*E-mail: aed1@dzeltr.lv*<br>*www.aedrail.net/* | The aim of AED is to create a uniform information-environment for all participants of international freight transportation process – consignors, ship and port agents, railways, customs and other authorities of border and territorial control, logistic and forwarding organisations, customs brokers and other participants of external economic activity. |
| National Association of Latvian Shipbrokers and Shipping Agents (NALSA)<br>*General secretary-Raimonds Toms*<br>*Phone:(+371) 7233429; (+371) 9999555*<br>*E-mail: nalsa@apollo.lv* | Basic activities of NALSA:<br>• Introduction and implementation of minimum standards for Latvian shipping agents based on recommendations of United Nations Conference on Trade and Development - UNCTAD;<br>• Introduction and implementation of co-operation agreements related to the matters of shipping agency between Association and Latvian port authorities of the ports of Riga Ventspils, Liepaja and Salacgrlva;<br>• The evaluation of professional skills and requirements for the shipping agents with the intention to secure the sufficiently high professional level of their services rendered to the ship-owners / -charterers;<br>• Intervention with international and national organisations on matters concerning the trade policy of the shipping agency industry;<br>• Protection of professional interests on national level;<br>• Distribution of information related to the shipping agency business. |
| Latvian Stevedores Association<br>*President - Andris Unbedahts*<br>*Brīvības iela 85, Rīga, LV – 1001*<br>*tel./fax.: + 371 7842135*<br>*e – mail: unbedahts@one.lv*<br>*www.stividori.lv* | The Association has been established as an instrument for professional dialogue between the stevedoring companies, operating in the Latvian ports, and governmental authorities. The purpose of this Association is to ensure the effective operation of the ports and their dynamic and stable development; and to develop the transit through Latvian ports. The Association protects general interests of stevedoring companies, and provides favourable conditions for their operation in Latvian ports.<br>The Association:<br>• represents the interests of its companies- |

| **Name of the Association**<br>*Contact details* | **Transport related activities/role** |
|---|---|
| | members in the Latvian ports;<br>• provides assistance to its members regarding contacts and professional development;<br>• consolidates businessmen, whose operation refers to ports;<br>• co-operates with other associations in matters of mutual interest. |
| Association of Small Ports of Latvia<br>*Phone: (+371) 9238127*<br>*E-mail:* megnis@apollo.lv | The Association has been established by the authorities of the smaller ports of Latvia: Salacgriva, Roja, Mersrags, Skulte, Pavilosta, Lielupe and Engure; with the purpose of co-ordinating joint efforts in the development of the infrastructure of these ports, attraction of investments and promotion of entrepreneurial activity. The Association consolidates the efforts of ports' structures and businessmen, taking into account that the smaller ports of Latvia are the natural centres of economic activity of adjoining regions, because they provide the export resources of these regions with exit to the foreign markets, and they also play the role of distributing centres for imported goods to local markets.<br>Activity of the Association strengthens the possibility of the smaller ports in the area of presentation and marketing, and also for co-operation with state authorities. The Association takes an active part in the development process of national programmes of transport development, representing specific problems of the smaller ports. |

*Links to BSR/EU associations*

Latvia has the next links to Baltic and European organisations and networks:

- Council of the Baltic Sea States (CBSS)
- Baltic Sea Parliamentary Conference (BSPC)
- Baltic Sea States Sub-regional Cooperation (BSSSC)
- Conference of Peripheral Maritime Regions of Europe (CPMR)
- Helsinki Commission
- Agenda 21 for the Baltic Sea Region - Baltic 21
- Nordic Council and Nordic Council of Ministers
- The Baltic Assembly
- Baltic Sea Chambers of Commerce Association (BCCA)
- VASAB 2010
- Baltic Sea Tourism Commission
- Baltic Ports Organisation (BPO)
- Baltic Development Forum
- Baltic Sea Forum

- Baltic Sea Region INTERREG III B
- Congress of Local and Regional Authorities of Europe (CLRAE)
- United Cities and Local Governments (UCLG)
- Council of European Municipalities and Regions (CEMR)
- EUROCITIES
- Baltic University Programme (BUP)
- ARS BALTICA
- "The Islands of the Baltic Sea"
- BALLERINA
- Conference of the Atlantic Arc Cities
- Forum of Adriatic and Ionian Cities & Towns
- Medcities
- International Association Cities and Ports
- United Nations Centre for Human Settlements (UN HABITAT)
- European Association Historic Towns and Regions
- The International Network for Urban Development (INTA)
- International Council for Local Environmental Initiatives (ICLEI)
- Association of Cities and Regions for Recycling (ACRR)
- Energie-Cités
- Climate Alliance
- World Health Organisation (WHO) Regional Office for Europe
- Baltic Region Healthy Cities Office
- Advisory Committee on Protection of the Sea (ACOPS)
- Global Islands Network
- The Alliance of Maritime Regional Interests in Europe
- The International Federation for Housing and Planning (IFHP) and others

## 5.3 Social and environmental issues in the transport sector

*Trade unions*

On May 25th 1990, 24 branch trade unions got together and established the Latvian Free Trade Union Federation to co-ordinate free and independent co-operation of the trade unions of Latvia. At present there are 28 branch trade unions and professional employees unions representing more than 250 thousand trade union members. Latvian Free Trade Union Federation unites trade unions for the implementation of common tasks, to protect labour, economic and social rights and interests of trade union members and take part in the development of legal state and the democratic society.

Latvian Free Trade Union Federation and its member organisations have co-operation with the International Labour Organisation (ILO), Nordic Trade Union Council (NFS), and trade unions in Sweden, Finland, Germany and other countries. Latvian Free Trade Union Federation is the founder of the Baltic Trade Union Council, observer of European Trade Union Confederation (ETUC) and the member organisation of International Confederation of Free Trade Unions (ICFTU).

Free Trade Union Confederation of Latvia (LBAS) unites 24 different branch trade unions or professional trade union organisations:

- Federation of Trade Unions of Civil Aviation
- Nursing and Health Care Personnel Trade Union
- Trade Union of Construction Workers
- Road Workers Trade Union
- Railway Workers Trade Union
- Trade Union Energija
- Book Industry Trade Union
- Industrial Workers Trade Union
- Education and Science Workers Trade Union
- Trade Union Federation for People Engaged in Cultural Activities
- Trade Union of Agriculture and Food Industry Workers
- Trade Union Latvijas metals
- Metallurgic Workers Trade Union of Liepaja
- Metal Workers Trade Union
- Forest Sphere Workers Trade Union
- Trade Union of Local Governments
- Trade Union of Public Service Employees LAKRS
- Communication Workers Trade Union
- Trade Union of Commerce
- Seafarers Union of Merchant Fleet
- Water Transport Trade Union Federation
- Trade Union of Employees of State Institutions, Self-governments and Finance Sector
- Unite Trade Union of Policemen

*Social regulation, special social programs (e.g. 50Plus)*

Since 2001 once in two years Latvia worked out a national action plans for combating poverty and exclusion. On 2003 Latvia worked out the Joint Memorandum on Social Inclusion and this document was adopted by the government. According to the Social Development Plan and the Law on Social Services and Social Assistance, the number of social workers with an appropriate education should be increased up to 1 worker per 3,000 inhabitants in 2008.

Improving and developing the state policy within employment, social services (social care and social rehabilitation), social assistance, social insurance, and gender equality fields, as a result of welfare reform it is planned to improve:

- balance of social insurance budget,
- administration of social insurance fund,
- servicing of social insurance clients,
- quality of social services,
- information degree of the Parlament, the government and the population on the proceedings of social policy in Latvia.

Social policy issues apply to the whole society and therefore cooperation between various institutions and resident groups has a substantial role. The LVSADA is negotiating with the Ministry of Welfare on working time, working conditions, and salaries for social care workers. There was the General Agreement concluded in 2004, and thanks to continuous collective bargaining it has been upgraded in 2005 and 2006.

The periods of economical transition, together with the process of accession to the European Union, have caused deep and lasting changes in the Latvian’s life, especially challenging those socially who are under-protected and living in rural areas. When communities have a “poor health”, when apathy, despair, mistrust and insecurity prevail, sustainable development can not take place. In order to meet the goals of modernization of social care services, a special attention was paid to the aspect of added value in service quality and accessibility at local level.

At present, there is growing number of successfully operating departments of social services, day-care centres, homes for homeless people and very young single mothers, and municipalities take part in providing services of institutions mentioned above. The reforms in social services will be continued and all long-term state social care and social rehabilitation institutions will be reorganized in municipality institutions till end of 2007.

The LVSADA is going to express a certain concern in this regard because the regional reform is still not finished, and because the remuneration system for social workers to be applied after the reorganisation is still not established.

Key national laws and regulations from the field of equalities and OSH legislation:

- Law on Medical and Social Protection of Disabled
- Labour Law
- Labour Protection La
- Cabinet Regulation No 379 "Procedures for the Performance of Internal Supervision of the Working Environment" (adopted 23 August 2001)
- Cabinet Regulation No 125 "Requirements for Labour Protection in Workplaces" (adopted 19 March 2002)
- On State Social Insurance
- Cabinet Regulation No 1017 "Regulations on Social Tax Pay-in Levels for Types of Social Insurance in 2005"

National programs covering problems of people with disabilities:

- Policy Guidelines for Reduction of Disability and its Consequence sand Program for Professional Social Work Development (2005-2011), prepared by the Ministry of Welfare in cooperation with:
- "Apeirons", Unity for people with disabilities and their friends;
- Latvian Association of the Deaf;
- Latvian Society of the Blind;
- "Rūpju bērns", Latvian organisation of disabled children
- Latvian Association of Disabled People;
- Latvian Association of Rehabilitators;
- Latvian Association of Ergotherapists;
- "Sustento", Latvian Umbrella Body for Disability Organisations.
- National action plan for support of employability, 2004,
- National programme "Support for the implementation of active measures for employability" projects:
    - Training of unemployed and jobseekers for increase of their competitive capacities;
    - Training of social risk groups, including informative and communicative technologies for disabled,
    - Re-qualification and vocational education of unemployed,
    - National programme "Labour market surveys"

*Tripartite agreement concluded in transport sector*

Social dialogue in the freight and passenger transport sector has resulted in the conclusion of a tripartite agreement on socioeconomic partnership between the trade union representing public service workers, Latvia's Ministry of Transport and two employer organisations. Under the agreement, a consultative tripartite cooperation council is to be established. The agreement represents an important step towards improving industrial relations in the transport sector.

On June 13th 2006, the Latvian Trade Union of Public Service Employees (Latvijas Sabiedrisko pakalpojumu darbinieku arodbiedriba, LAKRS), affiliated to the Free Trade Union Confederation of Latvia (Latvijas Brivo arodbiedribu savieniba, LBAS), concluded an agreement on socioeconomic partnership with the traffic department of Latvia's Ministry of Transport and two employer associations, namely the Latvian Association of International Road Carriers (Latvijas Auto, Lauto) and the Association of Latvian Passenger Carriers (Latvijas Pasažieru parvadataju asociacija, LPPA).

The primary aim of the agreement is to promote the reform of the freight and passenger transport sector, along with its sustainable development and increased competitiveness in local and international markets. The agreement also aims to create more favourable social conditions, as well as a more democratic, open and fair approach to decision making by considering both employer and employee rights.

Under the agreement, a consultative tripartite cooperation council is to be established, comprising two representatives from each of the parties involved. All parties will consult with each other on the improvement and implementation of national policy in the sector with regard to the following aspects:

- promoting fair competition and business, including a taxation policy;
- developing professional education and re-qualification opportunities, according to the requirements of the industry and the labour market;
- improving the effectiveness of public administration in relation to the transport industry;
- prioritising and improving employees' job security and the social security system;
- organising the transport process more effectively, taking into account issues such as border crossings, visa regimes and customs procedures.

The parties have also agreed to jointly and equally participate in discussing national and EU draft legislative acts, by establishing and strengthening a mechanism of mutual approval when representing the industry in the decision-making institutions.

The parties to the agreement have acknowledged the importance of social dialogue in the transport sector, along with the need to establish trade organisations and to conclude collective agreements. The social partners have also agreed to conduct an analysis of the industry's labour market, as well as studying the consequences of the introduction of legislative acts and devising solutions for other topical issues.

LAKRS is the fourth largest trade union in Latvia, representing 15,500 members from some 225 trade organisations. As well as being affiliated to LBAS, the largest non-governmental organisation in Latvia, LAKRS is also a member of several international organisations.

The aim of Lauto is to help develop the transport sector and to increase its effectiveness, while taking into account the interests of its members. However, the functions of the employer organisation are not indicated in its documentation; neither is the LPPA a typical employer organisation.

*Regional development framework at the national level*

At the national level, the main regional development policy maker is the Latvian Ministry of Regional Development and Local Government (MRDLG). It bases its policy on two guiding documents: the Law on Regional Development (last amended in June 2006) and the Basic Guidelines for Regional Development regulating regional policy for the next 10 years (passed in April 2004 by the Cabinet of Ministers).

MRDLG heads the elaboration process of the National Development Plan (NDP), which is Latvia's contribution to the common EU member state strategy and towards the implementation of the Lisbon programme. The current NDP (2007-2013) focuses on the following three priority areas:

- An educated and creative individual;
- Technological excellence and flexibility of companies;
- Development of the science and research.

Responsibility for planning of the activities in the respective industries to ensure the achievement of NDP objectives lies with the line ministries. The work of three ministries is particularly related to the scope of the LogOn Baltic Project: those of Economics, Transport and e-Government Affairs.

In the realm of the Ministry of Economy are business support measures, made operational in the programme "Promotion of Entrepreneurship and Innovation 2007 – 2013" (draft published on March 29th 2007) with an annually updated Action Plan.

The programme has three main objectives:

- Ensure favourable conditions for the development of entrepreneurship in all Latvia to promote the competitiveness of commercial organisations, especially SMEs;
- Promote the capacity and effectiveness of the national innovation system;
- Encourage the application of innovative technologies and modern management practices to increase competitiveness and productivity of the manufacturing sector.

The Ministry of Transport plans and organises the improvement of transport and communications infrastructure, development of the transport and transit sector. One of the areas of activity included in the ministry's Action Plan for 2007-2009 is "Availability of competitive transit services with a high added value" with a long-term objective (until 2013) of increasing the volumes of transit cargo and attraction of higher added value cargo to Latvia.

To achieve this objective, the outlined tasks include introduction of modern logistics and IT solutions, as well as increasing the competence level of logistics specialists. These tasks are among the responsibilities of the Ministry's Department of Transit Policy.

The Ministry of e-Government Affairs (its official name is the Secretariat of Special Assignments' Minister for Electronic Government Affairs) develops the policy and legislative basis for the implementation of e-Government services.

The plans of the Ministry of e-Government Affairs for the promotion of information society and e-government in Latvia are summarised in the "Guidelines for Information Society Development 2006-2013". In the short run this programme focuses on improving the ICT infrastructure in all parts of Latvia and making ICT financially more accessible both for SMEs and citizens. In the longer run the guidelines set an objective of increasing the use of ICT in enterprises (including financial support measures for the purchase of ICT applications and training in the application of ICT) to improve companies' efficiency.

NDP also serves as a basis for programming the allocation of Structural Funds and Cohesion Fund financing, a process led by the Latvian Ministry of Finance in cooperation with line ministries. Implementation of the respective support measures (national programmes and grant schemes) is managed by agencies such as the Latvian Investment and Development Agency (for measures aimed at enterprises), the Vocational Education Development Agency (further education-related initiatives) and others.

*Development system in the planning regions*

As mentioned earlier, in the context of Latvia regional development relates to the promotion of balanced territorial socioeconomic development considering the priorities and specifics of the five Latvian planning regions: Riga Region, Vidzeme, Latgale, Zemgale and Kurzeme.

Strengthening the capacity of the regional layer of the public administration has been one of the priorities of the current administrative reform. An important milestone in this process is the passing of the amendments to the Law on Regional Development in 2006, which have finally given the planning regions an official status in the public administration system. This has corrected the situation when the public administration functions defined in the Law on Regional Development were implemented by non-governmental bodies, namely the regional development agencies which exist since late 1990s.

Planning regions are now legal entities. Their role is to undertake planning of the development in the region and to ensure a link between a region’s development priorities and industry development plans at the national level, promote cooperation and coordination among the municipalities and other public bodies in the region.

Every region has a decision authority – Development Council – with a mandate from district and local authorities of the particular region and an executive body – Planning Region Administration. Development agencies have either been liquidated or act as contract agents for the Administrations; they also continue to work and finalise those projects, which have been started before the official establishment of the Administrations.

There are a range of planning documents in each region, usually a land-use plan and a development strategy, however, there can be more than one strategic development document. These documents are normally interlinked with the national development perspective and include priorities on promotion of information society and ICT application, entrepreneurship.

At the district and local levels of the development system are district and local municipalities. Latvia is currently undergoing an administrative territorial reform, the aim of which is to create economically viable economic territories. In practice this means merger of smaller municipalities (in 73% of municipalities the number of inhabitants is less than 2000). There are 26 district and 527 local municipalities in Latvia, including seven national centres.

The planning documents at this level include a land-use plan and a development strategy or plan that should be in line with the regional development priorities. The situation in each of the five planning regions is detailed below.

*Riga Region*

The development of Riga Region is governed by the following planning documents:

- Riga Region development Plan 2005 – 2011;
- Riga Region Innovative Development Plan 2005 – 2010;
- Riga Planning Region Spatial Plan 2005 – 2025.

Like in all planning regions, following the amendments to the Law on Regional Development, Riga Planning Region Administration was established that took over the main executive function in the region from Riga Regional Development Agency.

Obviously the strongest of the municipalities in the region and also the whole of Latvia is the city of Riga whose development activities often bear a national and not only local or regional importance.

*Problem fields*

Unfortunately transport research and business and transport policy do not have very close links in Latvia. Freight transit is the main part in Latvia’s transport sector. There is a large internal competition between different transport enterprises (e.g., sea ports) and between different modes of transport (e.g., road and rail transport) in Latvia. The profit of transport companies, involved in this transit business, is mainly depending upon political decisions of neighbouring countries but not upon optimisation and logistics decisions. Due to this situation the investments in research as well as correlations between research results and ‘real-life’ business are very small.

The idea of logistics centre is at early stage of development in Latvia and now is not included in any official documents.

The development of freight terminals and warehouses should be promoted at crossings of transport corridors. In this process the development of logistics is of high importance. As a rule freight distribution centres are developing as joint ventures of private and respective municipal companies.

In the future it is planned to set up freight distribution centres in Riga, Ventspils, Liepaja, Rezekne, Daugavpils and at other principal transport junctions.

It is regarded that one of the most important issues for peripheral regions development is the development of logistics and distribution centres focused on attracting freight from Asia and the Far East. Latvia can serve as a distribution centre for cargo from Asian countries (e.g. China, Korea) not only in the Baltic States but also with equally successful results in Russia and the CIS countries. But today the idea of logistics centre is at early stage of development in Latvia. State spatial planners have not vision on development of logistics centres.

## 5.4 Logistics industry: characteristics

Within the frame of LogOn Baltic project the logistics survey was carried out. The survey was one of four tools for primary data collection, reflecting the current status and needs of logistics in the business community in the region. Three versions of the survey have been used, focusing on the following three types of companies:

a. Manufacturing/construction companies
b. Trading companies
c. Logistics service providers

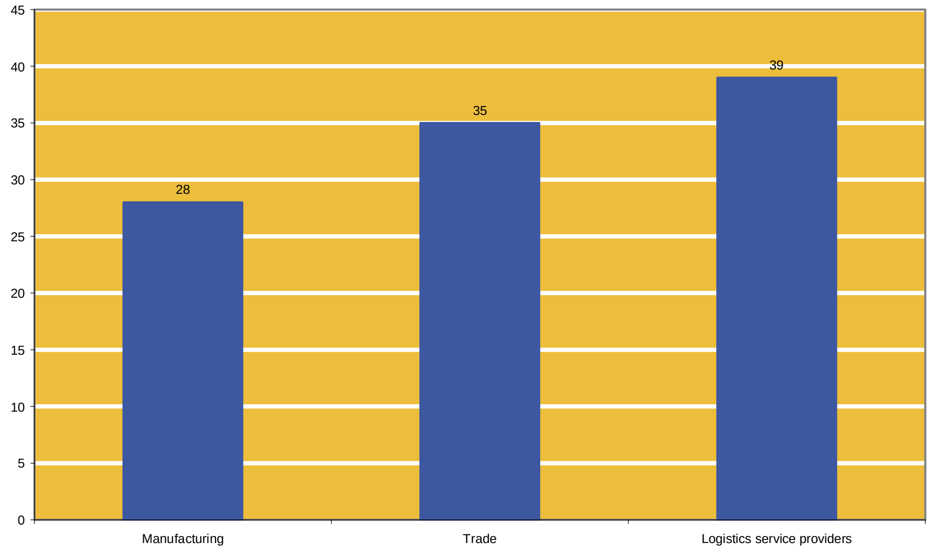



Figure 36  Number of respondents according to main industry

Businesses in the sample are also classified by their main activities according to the targets of researches (survey): ~38% are logistic providers, ~34% – trade and ~28% - production companies. This time this way of companies distribution is typical for Latvia to some extent, because during last years the logo of public and private circles, the two of main Latvian strategic economical directions are “Latvia is the country of transit” and “Latvia is the bridge between West and East”

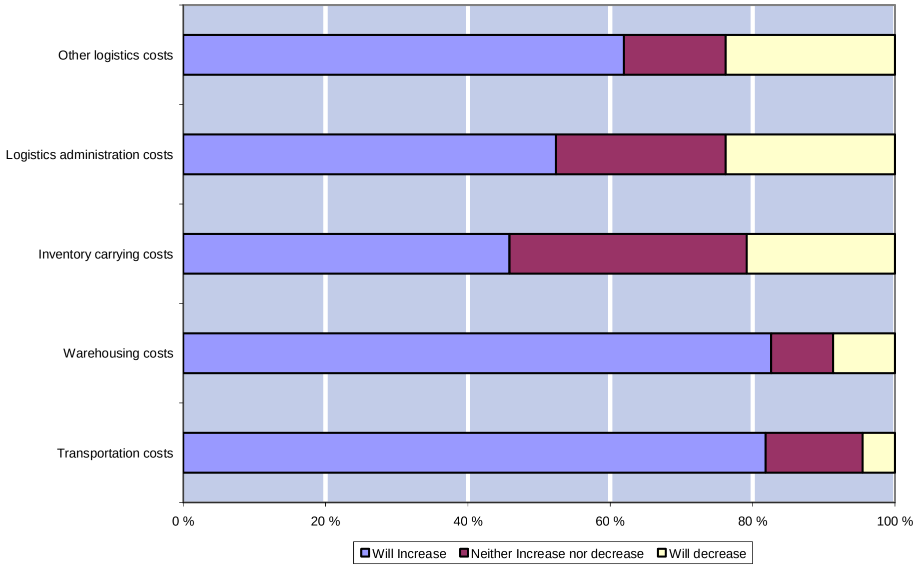



Figure 37 Estimate of the development of logistics costs, manufacturing companies

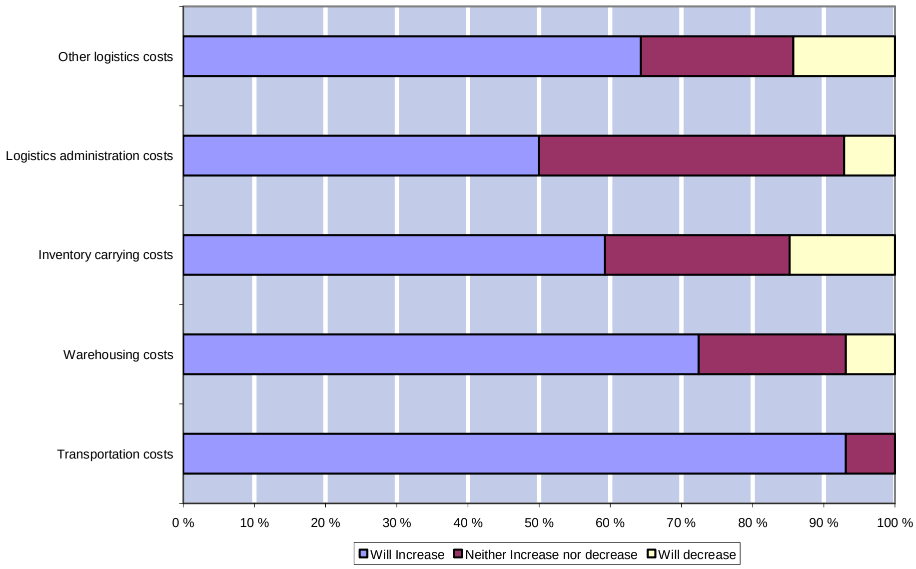



Figure 38 The estimate of the development of logistics costs, trading companies

Manufacturing companies that have incoming and outgoing material flows believe that the price of transport and warehouse services will increase (more than 80% of respondents' answers). Other logistic services will become more expensive as well – more than 50% of people interrogated agree with that. Only the category of expenses, which is connected with stock, in 50:50 percentage means both insignificant growth and insignificant reduction of stock expenses. This reflects the global tendencies that are connected with the use of Just – In-Time -technology, improvement of planning and respective reduction of stock.

There is a high level of agreement among the trading businesses. More than 50% of respondents suppose that all types of logistic expenses will rise, and more than 90% of companies think that transport costs will grow. Unlike manufacturing companies, trading companies consider that stock expenses will also grow, which can be explained by the specific character of this sphere.

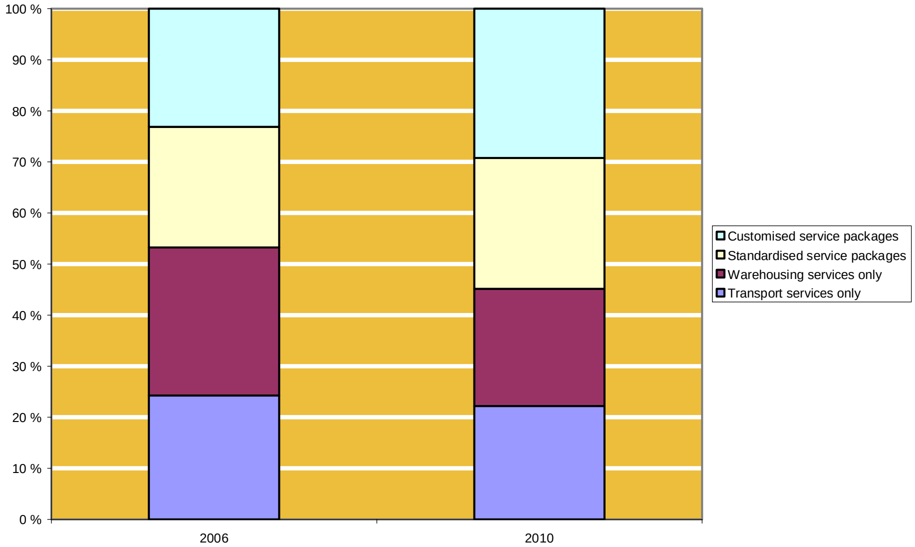



Figure 39 Distribution of turnover in logistic services companies for different types of services 2006 and 2010 (estimate)

Five-year long tendencies and changes in turnover of the logistic companies are not big. Transport and warehouse facilities are reducing from 52% to 45%. Approximately by the same amount, that is, by 5%, customized service packages are estimated as “growing”, but standartised service packages operations are estimated as “do not change”. This situation may be interpreted as satiation of the market of logistic services. It is possible that respondents tried to take into account macro economical and political relations.

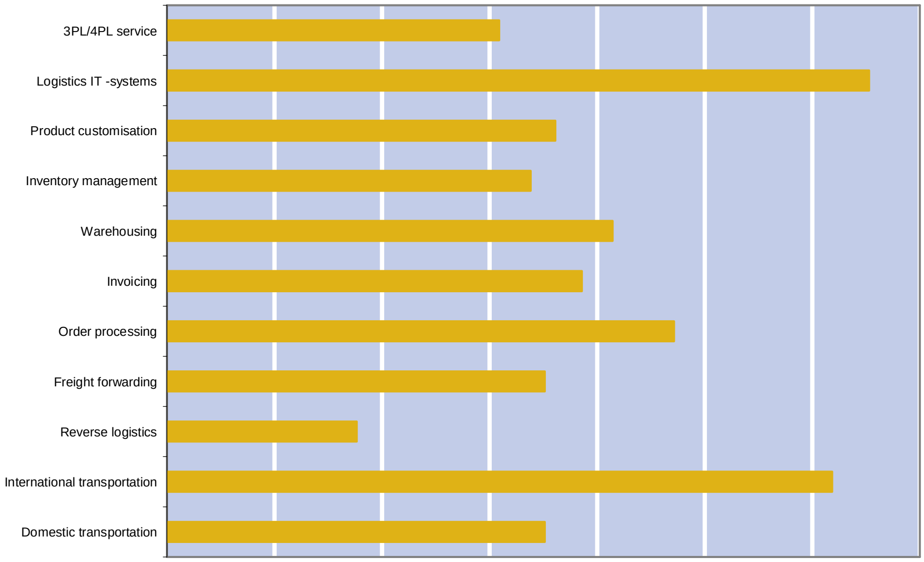



Figure 40 The relative trend of outsourcing, logistics service providers in Latvia

Practically all components are essential (domestic transportation, freight forwarding, order processing, invoicing, warehousing, inventory management, product customosation,3PL/4PL service); tendencies in demand exceed 35%, while for international transportations and logistic information systems – more than 60%. The reverse logistics only is about 20%.

## 5.5 Logistics sector development and outlook

The key trend emphasised by the experts is the globalisation process, which causes the supply chains to become increasingly longer. As supply chains for goods stretch from China to the West, favourable opportunities emerge for Latvia to utilise its geographic position on the eastern borders of the EU. Another key event was Latvia becoming an EU member state in 2004, which has made deliveries within the EU easier, more predictable and precise, although somewhat complicating the connections with countries outside the EU. Among the negative trends noted by several experts is the shortage of workforce in Latvia.

The distribution of business connections in the Baltic Sea Region is quite wide. An interesting fact here is the fairly low number of cooperation with partners in Russia, which suggests an upward potential. Asked to identify cultural or institutional obstacles in cooperation with partners in other countries, experts replied that dealing with difficulties is a matter of business; hence they are not really perceived as obstacles. Cultural and institutional differences exist, without doubt, but companies see them as a task rather than a problem.

Key regional development issues identified by the experts are insufficient physical and communications infrastructure, the quality of education in logistics-related disciplines, and the need for coordination among the different stakeholders to the regional development process. As regards the division of responsibility for the regional development process, majority believes that initiative should come from both the public and the private sectors. Public sector is seen as responsible for creating the necessary conditions, while business will enter the scene with investments, jobs and tax payments when the conditions are right.

Strengths of the region include the favourable geographic position of Latvia on the East-West axis, existing infrastructure, qualified and relatively lower-cost workforce, government support for the promotion of information society and the positive development trends of both logistics and ICT markets in Latvia.

Weaknesses include the poor condition of the physical transport infrastructure, some legislation and practice issues in tax and customs, limited capacity of the public sector to deal with logistics issues, and lack of coordination and cooperation among businesses, which contributes to unnecessary internal competition.

According to the experts' assessment, the level of logistics competence in companies and the region is on average acceptable, with blue-collar workers having a lower, white-collars a higher and management the highest level of competence. This progression holds true also for ICT competence, although it is on average seen as being on a lower level than logistics competence. This, however, can be explained by the fact that the majority of interviewed experts work in logistics not ICT.

In terms of the future outlook, two key expectations voiced by the experts are improved physical infrastructure, and modernised education and training in logistics-related disciplines. Other expectations are of an increased understanding by the state of the importance of logistics sector, and increasing the public sector capacity to promote the development of this sector. The state should also continue to promote the application of information technology in the society and business.

Experts noted the need for new forms and instruments for a dialogue between the private and the public sectors. It was suggested that innovative solutions could be learned from the experience of ‘old’ EU countries.

# 6 ICT IN THE REGION

## 6.1 General ICT infrastructure in the region

With a yearly growth of 20-30% in the last decade, the IT industry is Latvia’s fastest growing economic sector. Exports of the sector have risen rapidly in recent years, growing annually by approximately 15%. The industry’s main asset is its highly qualified workforce. The competence of the Latvian IT industry has been proven by the successful outsourcing activities of IT giants like IBM, Microsoft, and Unisys, and by the acquisition of Latvian companies by Exigen, TietoEnator and others.

The software industry and market is well developed and organised in Latvia. Microsoft Windows enjoys a 77% market share, ahead of Linux (10%) and UNIX (8%). The sector is not much different from other EU countries, except for the importance of the government as the largest customer. Unlike some other EU countries, the Latvian government does not promote open-source software over Microsoft. Experts foresee an increase in new software sales as government and companies will have to upgrade their software in the next 2-3 years.

In the short to medium term, software development outsourcing will remain the most important target area of Latvia’s IT industry. Over 100 companies, employing around 4000 people, are currently involved in software development in Latvia. The development and hosting of e-commerce solutions, web-design and web hosting are additional areas of interest. High-tech manufacturing is well suited to a country such as Latvia because of its qualified and affordable workforce, low production costs, good transport infrastructure and access to the EU market. Two additional factors encouraging foreign investment in this sector are the liberalisation of Latvia’s telecommunications market in 2003 and the lowering of the corporation tax rate levied on companies producing high-tech products, which came into effect in January 2001.

Information Society Indicators:

- Percentage of households having internet access to the Internet at home, 2005: 31%; 2006: 42%

- Percentage of households with a broadband connection, 2005: 14%; 2006: 23%
- Percentage of individuals (16-74 years old) using the Internet at least once a week, 2006: 46%
- Percentage of individuals (55-74 years old) using the Internet at least once a week, 2005: 8%; 2006: 12%
- Percentage of individuals (16-74 years old) having ordered/bought goods and services for private use over the Internet in the last 3 months, 2006: 5%
- Percentage of individuals (55-74 years old) having ordered/bought goods and services for private use over the Internet in the last 3 months, 2005:0%; 2006: 0%
- Percentage of individuals ( 16-74 years old) using the internet for interacting with public authorities, 2006: Obtaining information 22.6 %, downloading official forms 7.7%, returning filled forms 6.1%
- Percentage of individuals ( 55-74 years old) using the internet for interacting with public authorities, 2005: Obtaining information 3.6% , downloading official forms 1.6%, returning filled forms 2.2%; 2006: Obtaining information 4.4% , downloading official forms 1.5%, returning filled forms 1.0%. (Source: Eurostat and Central statistical Bureau of Latvia)

Access to broadband in cities and other urban areas is realized successfully by the business sector but the development of broadband in the rural areas with low population density and low economical development is slow. According to the data of the Central Statistical Bureau of Latvia, 22.5% of all households in Latvia had access to the broadband in 2006. There were significant differences between regions: in Riga 38% of all households had access to broadband, but in the Latgale region – only 8,6% (% from the total number of households in particular region).

According to the Broadband Development Strategy for 2006-2012 (adopted in December, 2005), the aim is to ensure the access to broadband for all (citizens, public institutions, businesses) covering 85% - 95% of the state territory by 2012.

## 6.2 ICT industry: characteristics

The survey of ICT in companies was conducted in the framework of the LogOn Baltic Project financed from the EU Interreg III B programme. Its aim is to present solutions to improve the interplay between logistics & ICT competence and spatial planning and strengthening the competitiveness of small and medium enterprises in the Baltic Sea Region (BSR).

The main results of survey concerning use of ICT systems, use of Internet and E-Commerce / E-Business are reflected in Figures 44-46.

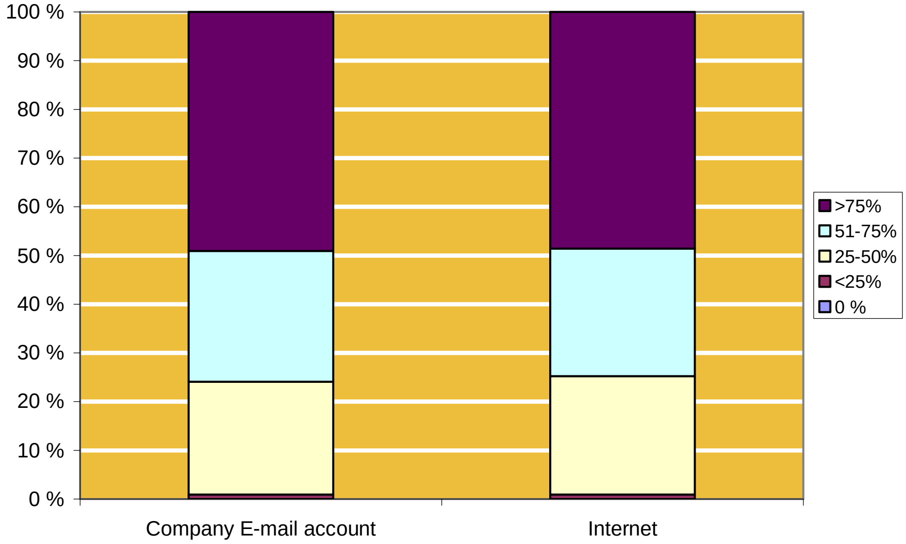



Figure 41 How many percents of employees have access to E-mail and Internet

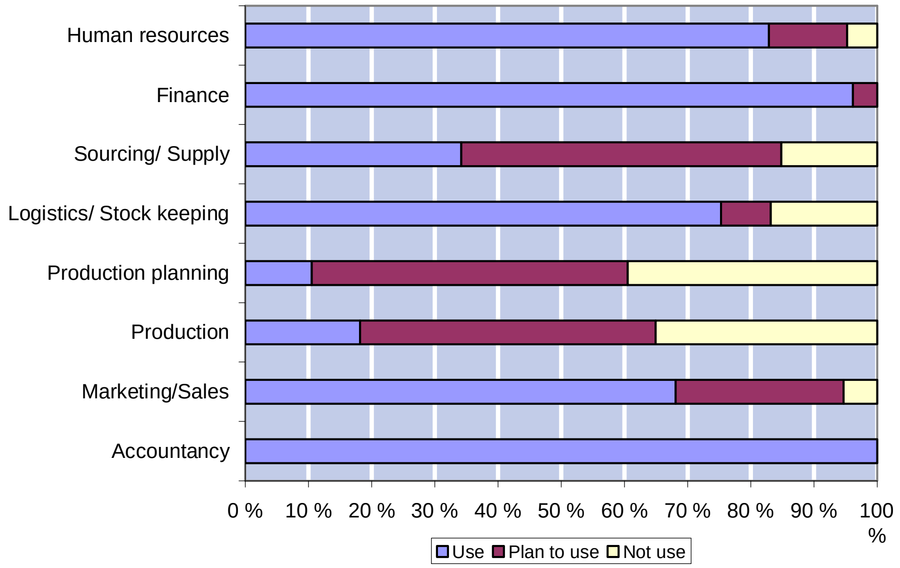



Figure 42 On which areas of business the companies are using ICT

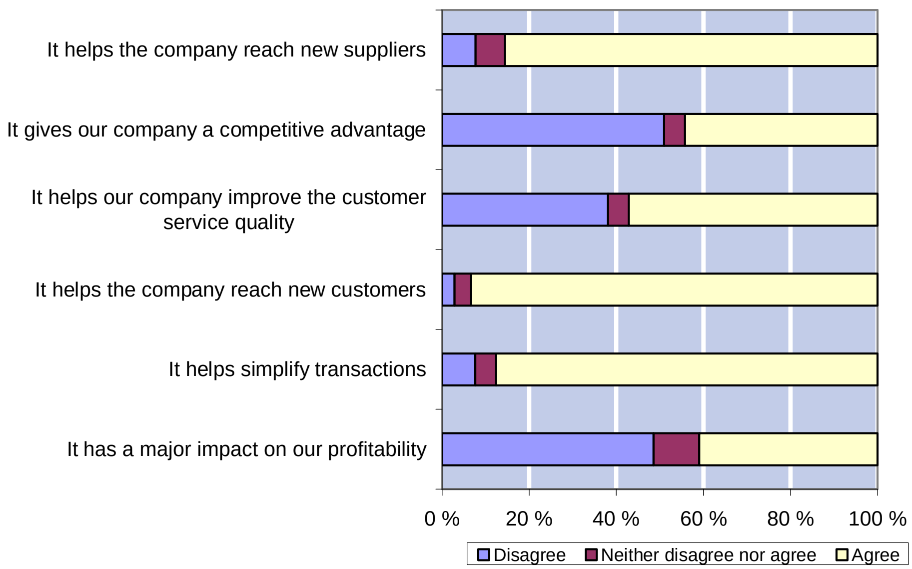



Figure 43 Companies views on the importance of E-commerce.

## 6.3 ICT sector development and outlook

Latvia has witnessed a rapid growth in the ICT sector since 1996 and particularly in 2001/2002, however this has largely been due to liberalisation of telecommunications market rather than production (ICT manufacturing accounting for only 1% of total turnover of the private sector with employment concentrated in a few larger firms) or advanced ICT services (however a number of Latvian IT companies are active in providing software development services to international clients (notably DATI Exigen Group). More generally, Latvia is ranked 56th out of 104 countries, in the 2004-2005 Networked Readiness Index (NRI). The index is designed to measure the degree of preparation of a nation or community to participate in and benefit from ICT developments.

For the purposes of comparison, the key information society statistics for Latvia, EU-15 and EU-25 Member States are presented in Table 25.

Table 25 The key information society statistics for Latvia, EU-15 and EU-25 Member States

| Indicator | Latvia | EU-15 | EU-25 |
|---|---|---|---|
| Percentage of households having access to the Internet at home | 15% | 47% | 43% |
| Percentage of households with broadband access | 5% | 18% | 15% |
| Percentage of individuals regularly using the Internet | 27% | 41% | 38% |
| Percentage of individuals having ordered/bought goods or services for private use over the Internet in the last three months | 2% | 21% | 17% |
| Percentage of enterprises having access to the Internet | 74% | 90% | 89% |
| Percentage of enterprises with broadband access | 45% | 55% | 52% |
| Percentage of persons employed using computers connected to the Internet in their normal work routine | 17% | 26% | 26% |
| Percentage of enterprises having received orders on-line over the last calendar year | 1% | 15% | 13% |
| Percentage of enterprises having purchased on-line over the last calendar year | 1% | 29% | 27% |

These figures tend to suggest that Latvia is lagging in a number of key indicators notably in terms of access to broadband but also in terms of e-commerce and e-business development, with low relative rates of internet usage at home and even in workplaces. Observers point to problems related to higher relative prices, low connectivity outside urban areas as well as need for training related to new internet and information technologies. ICT related innovation is largely confined to software applications and systems, with ICT manufacturing confined to assembly.

*Progress regarding e-Government*

According to the 2004 study completed by Economist Intelligence Unit on E-government in Central Europe: Rethinking public administration, Latvia is ranked in 8th position and is behind Estonia, the Czech Republic, Slovenia, Poland, Hungary, Turkey and Lithuania. In terms of online sophistication of public services and percentage of services that offer a complete electronic case handling, Latvia's score is the lowest in the EU-25 Member States.

For the purposes of comparison, the main e-Government indicators for Latvia, EU-15 and EU-25 Member States are presented in the Table 26. These confirm that the use by citizens of e-Government services is very low which is to be expected given problems related to connectivity and access to internet. The situation in terms of enterprises is somewhat better but could be significantly improved.

Table 26 The main e-Government indicators for Latvia, EU-15 and EU-25 Member States

| **Internet usage by individuals for interaction with public authorities** | **Latvia** | **EU-15** | **EU-25** |
|---|---|---|---|
| Percentage of individuals who used Internet, in the last 3 months, for obtaining information from public authorities web sites | 12.1% | 24.1% | 21.2% |
| Percentage of individuals who used Internet, in the last 3 months, for downloading official forms | 4.2% | 11.1% | 9.8% |
| Percentage of individuals who used Internet, in the last 3 months, for sending filled forms | 3.6% | 6.3% | 5.6% |

| **Internet usage by enterprises for interaction with public authorities** | **Latvia** | **EU-15** | **EU-25** |
|---|---|---|---|
| Percentage of enterprises using Internet for interaction with public authorities - for full electronic case handling | 3% | 15% | 16% |
| Percentage of enterprises using Internet for interaction with public authorities - for obtaining information | 38% | 43% | 45% |
| Percentage of enterprises using Internet for interaction with public authorities - for obtaining forms | 33% | 40% | 41% |
| Percentage of enterprises using Internet for interaction with public authorities - for returning filled in forms | 15% | 26% | 29% |

*Source: Eurostat (2005).*

Latvia's national e-government strategy was set out in the document "Latvia's e-Government Conception" adopted by the Cabinet of Ministers on 20 August 2002. In February 2005, the draft Information Society programme "e-Latvia 2005–2008" was presented. The aim of the programme is to ensure the dynamic development and competitiveness of the country in the knowledge-based economy.

Priority areas include e-Government, e-Learning, e-Business and welfare, e-Health, broadband and access to services, and security.

# 7 HUMAN KNOWLEDGE BASE

## 7.1 Professions and their qualifications

*Logistics*

The opening of the previously closed countries in the eastern part of Europe means a completely new market for logistics providers, as well as the occurrence of new competitors who are producing transport services at low cost today but are perhaps less logistically advanced.

What is new in the application of conceptual logistics models and the concurrent interactive activities of policy making, systems development and research, as compared to traditional, disciplinary research and its applications, is that research money will not flow directly into disciplines but rather be tied to the need to create knowledge improving the ability of the fund-holder to solve specific application problems.

The work on this application problem must be carried out in parallel to the scientific work of the researcher. This will require an intense lateral communication process, again at the same time stimulated by and requiring the support by advanced information technologies.

Concerning transport, especially goods transport – still many people see it as a simple task that can be managed by people with no or low formal education. This might be so, but it will not hold long ahead. Transport is quickly being acknowledged as an important human activity that will require extensive academic training and disciplinary research. Accessibility manifested as mobility is an intrinsic quality of life. It must remain a postulate that by relevant academic training and research the need for mobility can be made compatible with the need for sustainability.

Training and education is objectively at the meeting-point between research, technological and organisational systems.

*ICT*

Latvian government has announced ICTE education as a priority since 2001. As a result, an increase of about 17 % state budget funded and 34% privately funded students studying towards their first degree has been experienced. Due to lesser enrolment in previous years it is not correct to directly compare numbers of enrolled and graduated in 2001. However, we observe (see Table) dramatic disproportion – only 29% first grade graduates comparing to those enrolled in 2001 (36% comparing to enrolled in 2000). Obviously, the problem is not to enrol more, rather the problem is to lessen enormous drop-out.

Table 27 ICTE students (at 9 institutions of higher education)

| | Enrolled in 2000: | Enrolled in 2001: | Graduated in 2000 | Graduated in 2001 |
|---|---|---|---|---|
| **Riga Technical University** | | | | |
| Studying towards first diploma : | 611/154 | 564/180 | 332 | 300 |
| Total : | 1017/211 | 1003/290 | 456 | 486 |
| **University of Latvia** | | | | |
| Studying towards first diploma : | 76/56 | 138/123 | 45 | 53 |
| Total : | 122/91 | 183/149 | 75 | 88 |
| **Transport and Telecommunications Institute** | | | | |
| Studying towards first diploma : | 0/323 | 0/400 | 112 | 76 |
| Total : | 0/403 | 0/453 | 137 | 108 |
| **Daugavpils University** | | | | |
| Studying towards first diploma : | 38/4 | 50/15 | 34 | 22 |
| Total : | 38/4 | 50/15 | 34 | 22 |
| **Liepaja Pedagogy Academy** | | | | |
| Studying towards first diploma : | 28/33 | 50/12 | 15 | 34 |
| Total : | 28/33 | 50/12 | 15 | 34 |
| **Latvian Agriculture University** | | | | |

| | | | | |
|---|---|---|---|---|
| Studying towards first diploma : | 25/36 | 50/46 | - | - |
| Total : | 25/36 | 50/46 | - | - |
| **Rezekne University College** | | | | |
| Studying towards first diploma : | 27/19 | 25/29 | 14 | 19 |
| Total : | 27/19 | 25/29 | 14 | 19 |
| **Vidzeme University College** | | | | |
| Studying towards first diploma : | - | 13/17 | - | - |
| Total : | - | 13/17 | - | - |
| **Riga Technical College** | | | | |
| Studying towards first diploma : | 25/0 | 50/0 | - | - |
| Total : | 25/0 | 50/0 | - | - |
| **Totally in Latvia** | | | | |
| Studying towards first diploma: | 830/625 | 990/837 | 552 | 516 |
| Total: | 1236/797 | 1432/1011 | 697 | 757 |

## 7.2 Education and training

Latvian firms have gone through certain paths of strategic choices in arranging their logistics activities in the Baltic States until today. Various operating models have presumably included different measures in order to achieve desired market accession, cost efficiency and customer service level. The EU membership significantly changed the business environment and firms now have new opportunities to enhance logistics, which often requires integrating supply chains internationally with customers, suppliers and logistics providers. It is therefore important for providers of logistics education and training to recognize the needs of the users in order to further develop their services.

The analysis shows that from 12 reviewed academic study programmes only 2 are directly concerning with logistics. Other programmes are distributed among transportation (1 programme), economics and management (8 programmes) and information technologies (1 programme).

Table 28 Education and training programmes in logistics

| Name of the organisation | WWW-address | Types of studies | Type of degrees | Study programme directly connected to logistics | Study programmes included courses on logistics | Separate courses concerning logistics |
|---|---|---|---|---|---|---|
| **Providers of Academic Programmes (Universities and Academic Institutes)** | | | | | | |
| Transport and Telecommunication Institute | www.tsi.lv | Undergraduate studies | Diploma | Transport and Business Logistics | | |
| | | | Diploma | | Business Administration in Transport | |
| | | | Bachelor's | | Management | |
| | | | Bachelor's | | Economics | |
| | | Postgraduate studies | Master's | | Management | |
| | | | Master's | | Economics | |
| | | | PhD | Telematics and Logistics | | |
| | | Continuing education | Certificate | | | Logistics in International Business |
| | | | Certificate | | | Fundamentals of Logistics |
| | | | Certificate | | | Transport Logistics |
| | | | Certificate | | | Financial Flows in Logistics |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | Certificate<br><br>Certificate<br><br>Certificate | | | Project Management in Logistics<br>Purchases and Reserves Logistics<br>Production Logistics |
| Riga Technical University | www.rrtu.lv | Postgraduate studies | Master's | | Information Technology | |
| Banking College of Higher Education | www.lba.lv | Undergraduate studies | Diploma | | Business Administration | |
| Rezekne Higher School | www.ru.lv | Undergraduate studies | Diploma | | Managemen | |
| Riga International School of Economics and Business Administration | www.rsebaa.lv | Undergraduate studies | Diploma | | European Business Studies | |
| Ventspils College | www.venta.lv | Undergraduate studies | Bachelor's | | Management | |
| **Providers of Training Courses** | | | | | | |
| Telematics and Logistics Institute, Ltd | www.tsi.lv/ page.<br>php?Lang=en&T<br>=4&M=0&ID=1254 | Continuing education | Certificate | | | Logistics and Telematics |
| | | | | | | Transport Logistics |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | Introduction to logistics |
| Komin, Ltd | www.kursi.komin.lv | Continuing education | Certificate | | | Supply Chain Management<br>IT in Supply Chain Management |
| Logistikas Partneri, Ltd | www.lp.lv | Continuing education | Certificate<br>Certificate<br>Certificate<br>Certificate<br>Certificate | | | Customer service and Logistics<br>Logistics considerations regarding Product<br>Forecasting regarding Logistics<br>Organisation of Logistics system<br>Control and Audit of Logistics system |
| Transport and Logistics Training and Consulting Centre | - | Continuing education | Certificate | | | Logistics of Transport Operations |
| Latvian Association of International Road Haulers (Latvijas Auto) | www.lauto.lv | | Certificate | | | Logistics of Transport Operations |
| Association of Railway International Electronic Documents Circulation Operators | www.aedrail.net | | Certificate | | | Information Technologies in Transport Logistics |

## 7.3 Development and outlook

The opening of the previously closed countries in the eastern part of Europe means a completely new market for logistics providers, as well as the occurrence of new competitors who are producing transport services at low cost today but are perhaps less logistically advanced.

Concerning transport, especially goods transport – still many people see it as a simple task that can be managed by people with no or low formal education. This might be so, but it will not hold long ahead. Transport is quickly being acknowledged as an important human activity that will require extensive academic training and disciplinary research. Accessibility manifested as mobility is an intrinsic quality of life. It must remain a postulate that by relevant academic training and research the need for mobility can be made compatible with the need for sustainability.

Training and education is objectively at the meeting-point between research, technological and organisational systems.

In such conditions the objective of the education on logistics is to offer the customers the best possible service in the field of the transfer of knowledge in harmony with the trend in logistics programme development.

For the decision of this global task of transport education harmonisation the Latvian Transport Development and Education Association (LaTDEA) was established. It is non-governmental, non-profit organisation under Latvian Legislation.

To the members of the Association are included Transport and Telecommunication Institute, Latvian Maritime Academy, Riga Technical University (Railway Institute, Automobile Department, Road Building Department), Latvian Agriculture University (Transport Department), Transport enterprise representatives (Latvian Air Navigation Service, Latvian Railway State Company, Commercial Sea Ports, and others).

LaTDEA is a coordinator of research and educational programmes in Latvian transport area in accordance with the Agreement between Association, Latvian Ministry of Transport and Latvian Ministry of Science and Education.

# 8 REGIONAL LOGISTICS AND ICT COMPETENCE

## 8.1 Regional key indicators

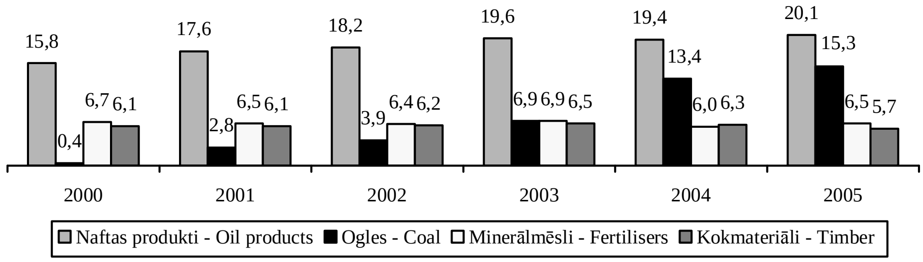



Figure 44 Cargo loaded at Latvia's ports by main commodity group (Million tons)

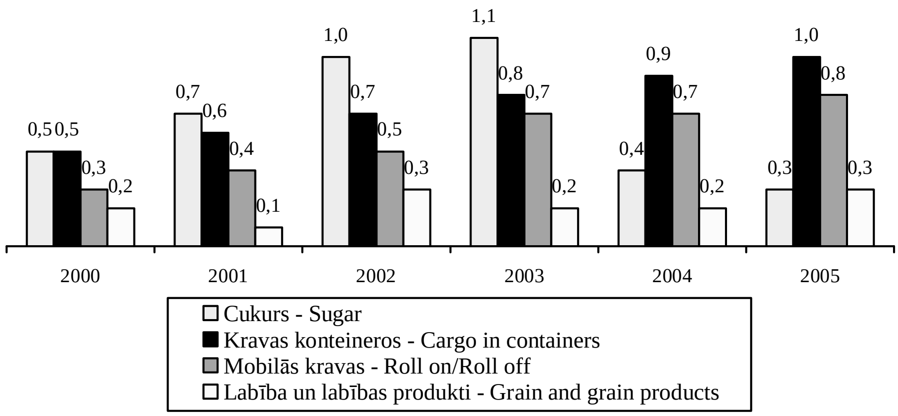



Figure 45 Cargo unloaded at Latvia's ports by main commodity group (Million tons)

Table 29 Cargo loaded into and unloaded from domestic and foreign vessels at Latvia's ports (Thousand tons)

| Year | Total | Rīga | Ventspils | Liepāja | *minor ports* |
|---|---|---|---|---|---|
| ***Cargo loaded*** | | | | | |
| 1995 | 36370.5 | 5482.5 | 29215.3 | 1287.8 | 384.9 |
| 2000 | 49275.5 | 11650.0 | 34330.3 | 2559.9 | 735.3 |
| 2001 | 54372.3 | 13265.4 | 37541.1 | 2762.1 | 803.7 |
| 2002 | 48735.2 | 15885.0 | 28150.9 | 3709.5 | 989.8 |
| 2003 | 50918.3 | 19384.9 | 26546.8 | 4223.1 | 763.5 |
| 2004 | 54100.8 | 22157.9 | 27111.8 | 3792.3 | 1038.8 |
| 2005 | 55890.3 | 22045.6 | 29034.2 | 3766.4 | 1044.1 |
| ***Cargo unloaded*** | | | | | |
| 1995 | 2614.8 | 1971.0 | 407.8 | 151.9 | 84.1 |
| 2000 | 2567.3 | 1701.7 | 425.0 | 404.7 | 35.9 |
| 2001 | 2546.1 | 1618.5 | 395.6 | 498.4 | 33.6 |
| 2002 | 3419.5 | 2223.3 | 552.8 | 608.6 | 34.8 |
| 2003 | 3836.9 | 2336.8 | 769.4 | 634.8 | 95.9 |
| 2004 | 3299.5 | 1833.4 | 693.5 | 681.8 | 90.8 |
| 2005 | 4151.6 | 2383.5 | 828.8 | 742.0 | 197.3 |
| ***Cargo turnover*** | | | | | |
| 1995 | 38985.3 | 7453.5 | 29623.1 | 1439.7 | 469.0 |
| 2000 | 51842.8 | 13351.7 | 34755.3 | 2964.6 | 771.2 |
| 2001 | 56918.4 | 14883.9 | 37936.7 | 3260.5 | 837.3 |
| 2002 | 52154.7 | 18108.3 | 28703.7 | 4318.1 | 1024.6 |
| 2003 | 54755.2 | 21721.7 | 27316.2 | 4857.9 | 859.4 |
| 2004 | 57400.3 | 23991.3 | 27805.3 | 4474.1 | 1129.6 |
| 2005 | 60041.9 | 24429.1 | 29863.0 | 4508.4 | 1241.4 |

Table 30 Freight transport by rail

| Year | *Freight transported, thsd t* | *Freight turnover, mln ton-km* | *Average distance length per ton of freight, km* |
|---|---|---|---|
| 1990 | 84111 | 18538 | 220 |
| 1995 | 28840 | 9757 | 338 |
| 2000 | 36413 | 13310 | 366 |
| 2001 | 37884 | 14179 | 374 |
| 2002 | 40100 | 15020 | 375 |
| 2003 | 49401 | 17955 | 363 |
| 2004 | 55901 | 18618 | 333 |
| 2005 | 60068 | 19779 | 329 |

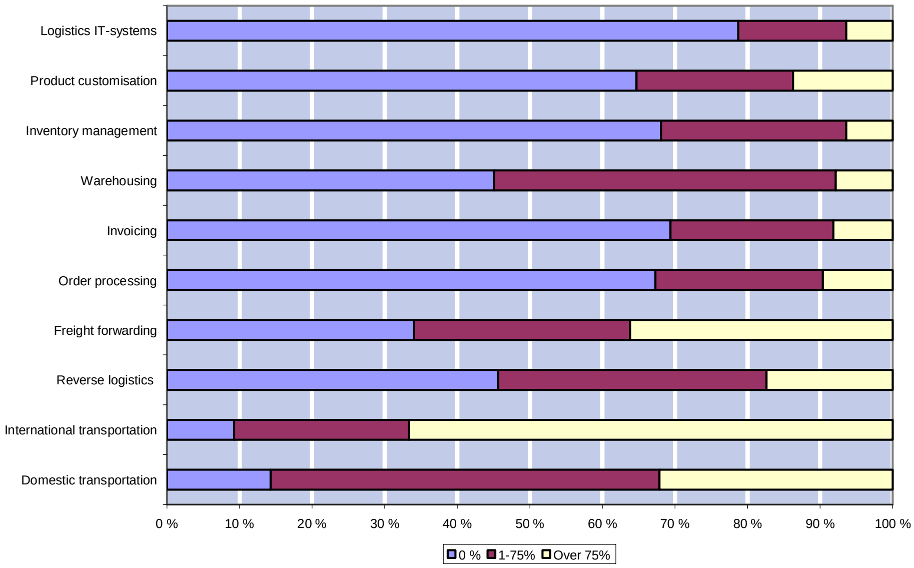



Figure 46 Outsourcing of different logistics functions, companies in Latvia

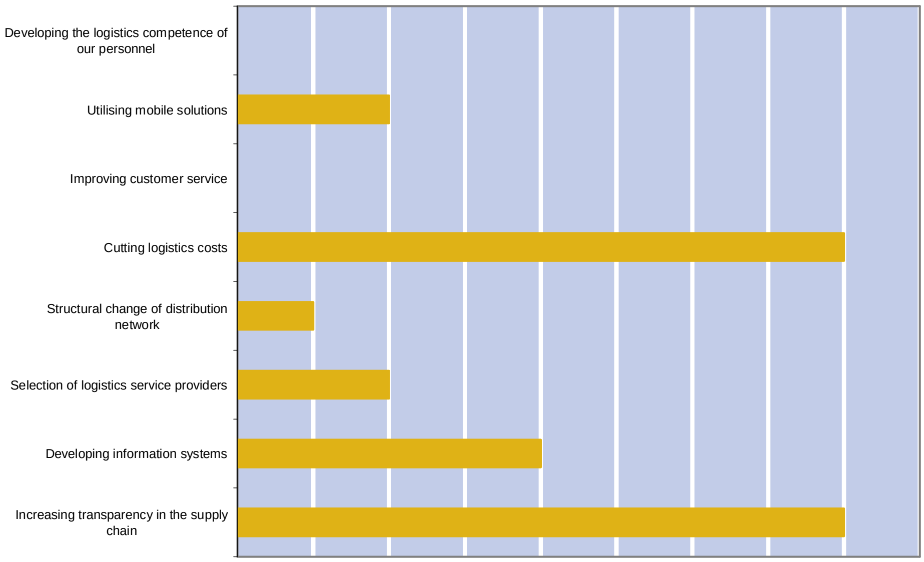



Figure 47 The most important future development needs of manufacturing companies

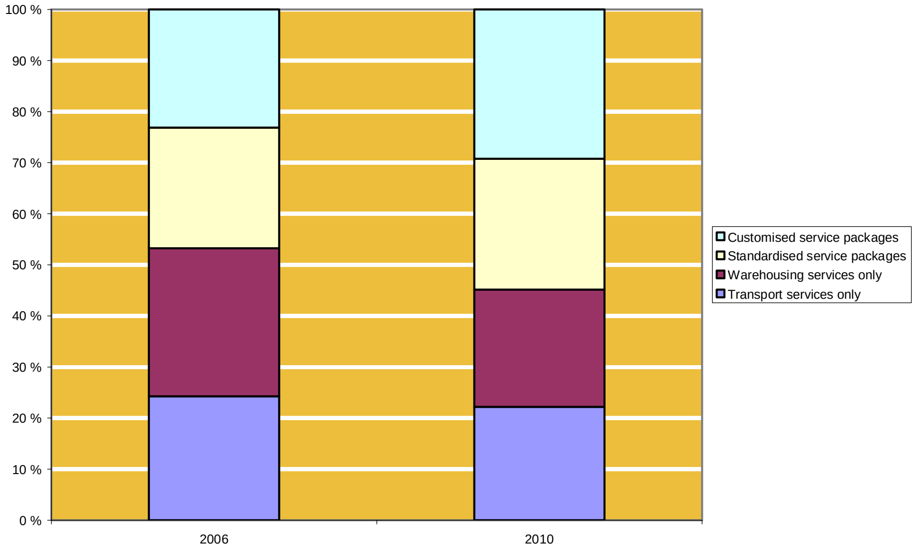



Figure 48 Distribution of turnover in logistic services companies for different types of services 2006 and 2010 (estimate)

Practically all components are essential (domestic transportation, freight forwarding, order processing, invoicing, warehousing, inventory management, product customisation, 3PL/4PL service); tendencies in demand exceed 35%, while for international transportations and logistic information systems – more than 60%. The reverse logistics only is about 20%.

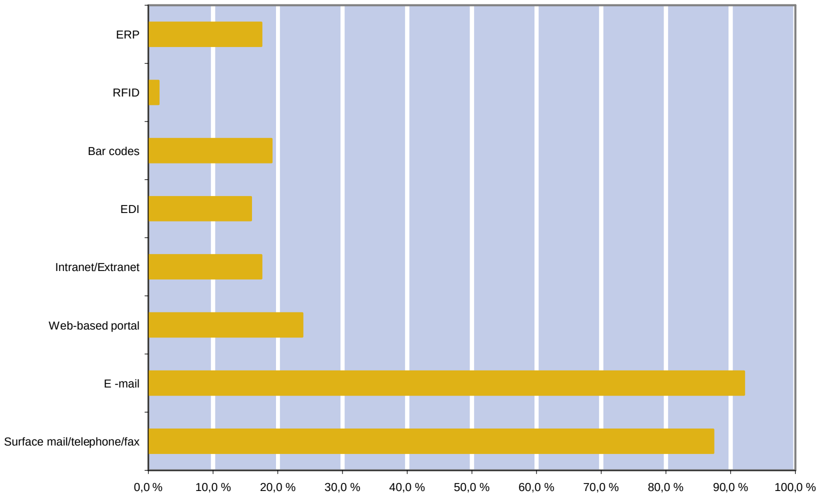



Figure 49 The usage of different ICT-systems, manufacturing and Trading companies in Latvia

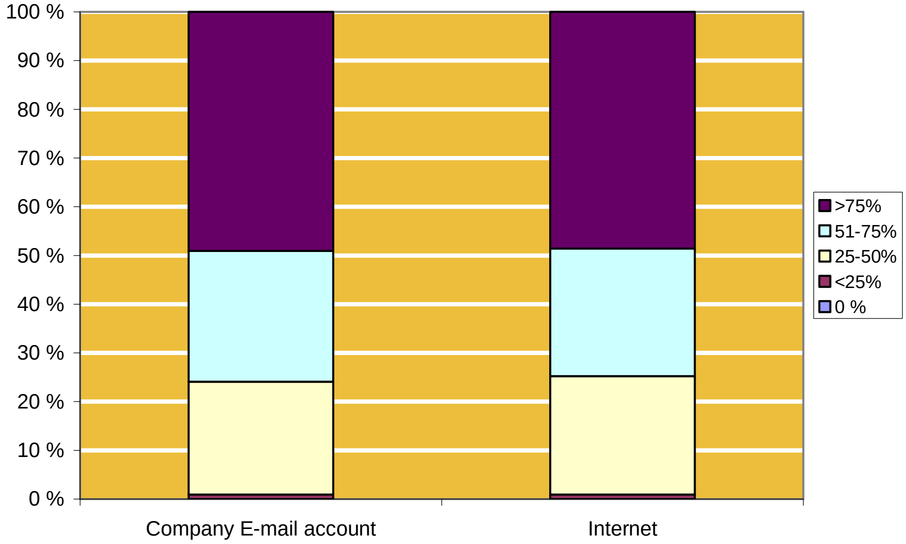



Figure 50 How many percents of employees have access to E-mail and Internet

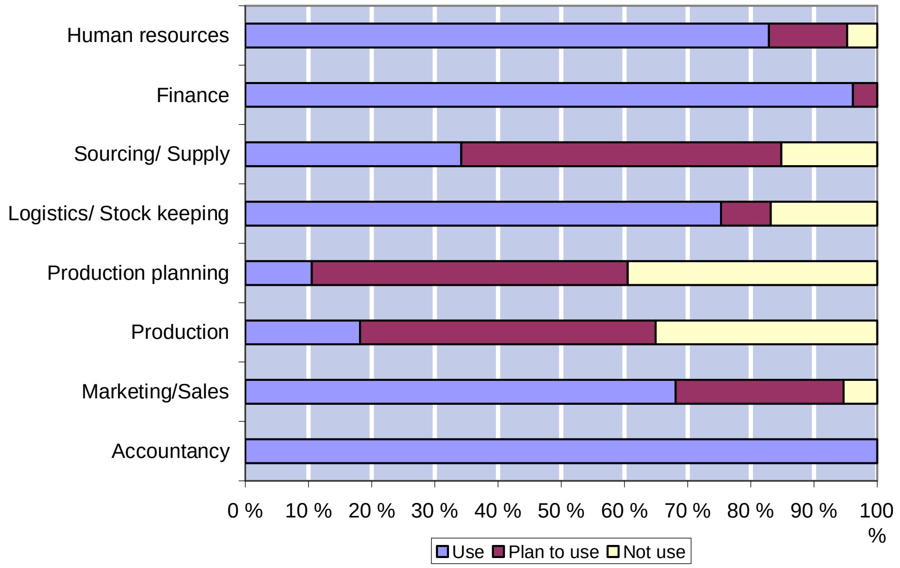



Figure 51 On which areas of business the companies are using ICT

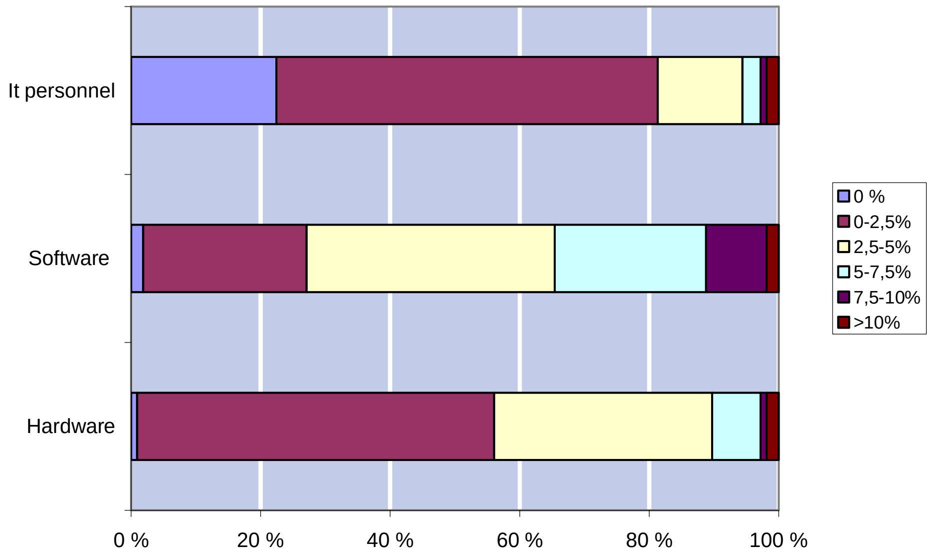



Figure 52 ICT expenses as a percentage of company turnover

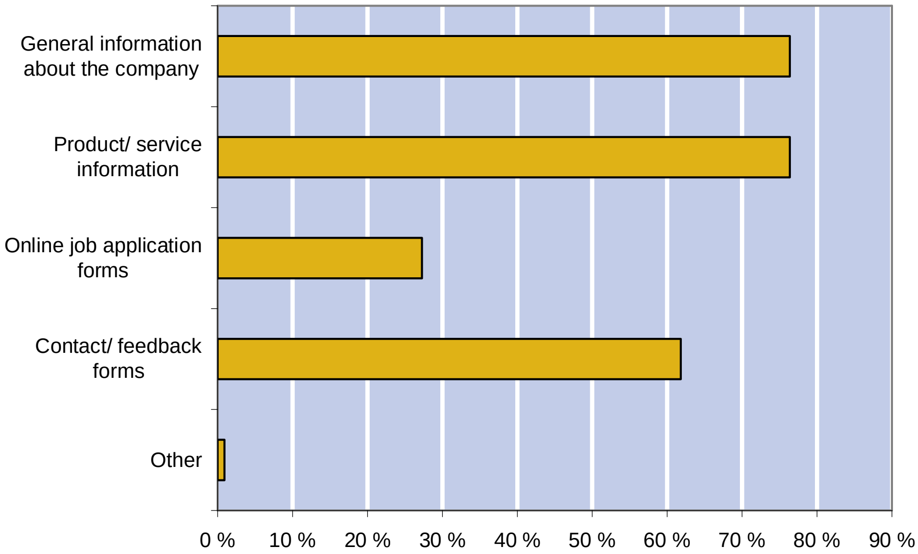



Figure 53 Different type of features that the company website includes

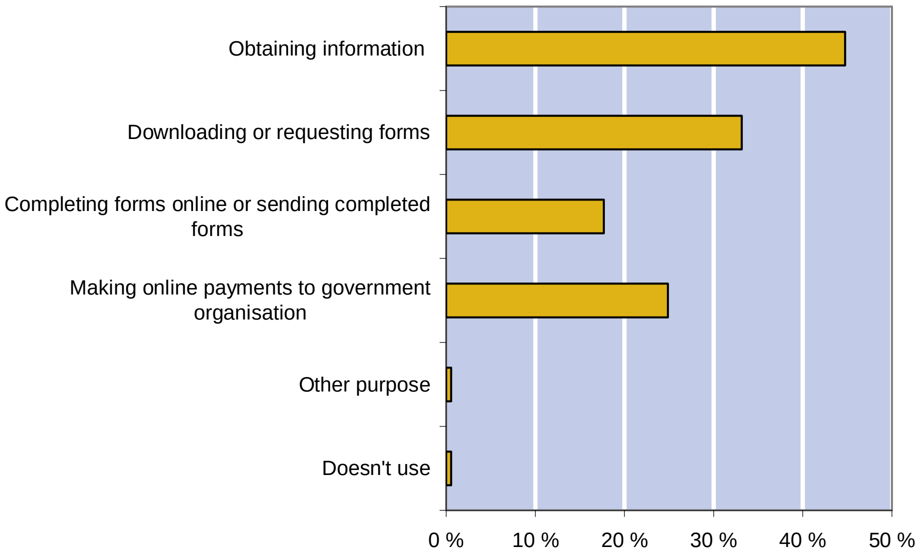



Figure 54 The different purposes companies use the Internet to interact with public authorities and government organisations

## 8.2 Needs

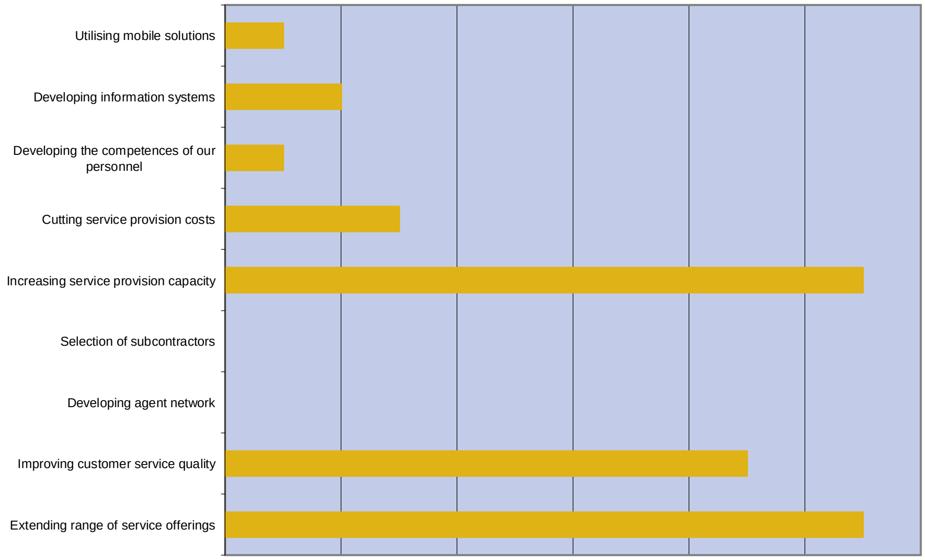



Figure 55 The most important development needs of the future, logistics service providers

As the result of estimation of the future needs we could see as the main direction – services (near 50%) It is necessary to develop the assortment of services, raise the quality of service, lower prices for services. Only 10% respondents pointed on the need of information systems developing, including the mobile ones. It is interesting that none of respondents pointed on subcontractors and agents net developing. It may be interpreted that there are subcontractors and agents nets and problem is the quality of their work.

## 8.3 Gap / portfolio / SWOT analysis

The main strengths in the field of logistics are:

- geographic position of Latvia. More specifically, the references included: centre of the Baltic States; located on the Trans-Siberian transport axis (direction East – West), on the East – West supply chain as resources are located to the East of Latvia and markets to the West; the sea coast and border with Russia.
- Existing infrastructure: good railway network (including the same rail width with Russia), existence of ports, development of airport,

roads (for wood products EU is the biggest export market and their transportation by road has cost advantages).

- Workforce, calling it qualified and relatively cheaper than in the Western Europe.
- The developing logistics sector: potential for private investments in logistics infrastructure projects, and the emergence of cargo transport companies focusing on the local market.
- Legal framework, highlighting good tax policy (which, however, is at times inadequately applied)
- Large number of inhabitants in Riga.

Logistics weaknesses:

- Poor infrastructure: inferior road quality, underdeveloped transport infrastructure, lack of warehousing space and large-scale logistics distribution centres.
- Various attributes of <u>logistics services</u> in Latvia: lack of a unified strategy for development of the sector; very fragmented freight carrier market that causes excessive internal competition and hinders development; focus on export logistics; services of Latvian freight companies expensive in comparison with Lithuanian and Polish competitors.
- Public sector capacity and support as an issue: lack of state support for logistics projects; lack of intellectual resources in local government institutions to find the best solutions, suggesting that those could be increased by outsourcing professionals from the private sector; lack of internal cooperation, such as among ports of Riga, Ventspils and Liepaja or among border towns of Daugavpils and Rezekne; lack of support to introducing unified IS, which was attributed to a combination of a lack of systems and concepts and private vested interests.
- Legal framework: sometimes inadequate application of the legislation (at the executive level), poor VAT law, existence of bills of goods, contradictions of EU and Russian customs policies.
- Education in the field of logistics, companies need to spend their own time and resources to retrain the newcomers.
- Shortage of workforce, in particular low- and medium-skilled blue-collar workforce.

In the field of ICT, the main strengths of the region are:

- Workforce: qualified and competent and relatively cheaper than in Western Europe.
- The market: there are a number of good IT companies offering modern IT solutions and that the de-monopolisation of the communication and internet services has helped to reduce costs and improve the range of services.
- Infrastructure with the existing communication networks, the relatively high level of education in the field of IT and the political/public sector support and government's interest to develop e-business and e-services was brought up by one expert each.

ICT-related weaknesses:

- insufficient availability of technology: limited application of up-to-date technology in the logistics sector.
- unavailability and/or long lead-times for latest technology.
- high prices (like the high costs of e-signature for citizens)
- underutilisation of technology possibilities (even of that technology that is already in use).
- public support in the field of ICT. It should be more support from the state for the application of latest IT solutions.
- underdeveloped ICT infrastructure and insufficient throughput capacity, especially during peak hours.
- language problems, specifically the transcription of Latvian language in the electronic environment.

Table 31 SWOT analyse

| | |
|---|---|
| **STRENGTHS**<br>**Geographical location and connections**<br>- Gateway between the EU and Russia.<br>- Transportation connections between The Baltic Palette corridors.<br>- The corridors connect capital regions and growth centres of the area.<br>- All corridors have strategic EU status.<br>**Trade**<br>- Historical trade connections.<br>**Human resources** | **WEAKNESSES**<br>**Geographical location and connections**<br>- Remote location from the rest of the EU.<br>- The Baltic Sea as a physical barrier.<br><br>**Trade**<br><br>- Small market in value and tons.<br>- Cost level differences.<br>- Lack of harmonised laws.<br>**Infrastructure**<br>- Standard of railroads.<br>- Transportation bottlenecks.<br>- Limited financing resources.<br>**Human resources**<br>- Small population. |
| **OPPORTUNITIES**<br>**Geographical location and connections**<br>-The increasing importance of the Nordic dimension in the EU.<br>- Policies to favour sea transportation.<br>- Decreasing logistical costs and faster delivery times.<br><br>**Trade**<br>- Increasing demand for products and services in the eastern part.<br>- Internationalisation of business operations.<br>**Infrastructure investments**<br>- Increasing interest of the investors.<br><br>**Growing interaction**<br>- Tourism development possibilities.<br><br>- Co-operation among the regions.<br>- Lobbying for common interests.<br>**Developing know-how**<br>- Utilisation of information technology.<br>- Openness for innovation.<br>- Use of value-added logistical services. | **THREATS**<br>**Transportation**<br>- Development of competing transportation corridors.<br><br>- Increasing cost level in the maritime transports.<br>**Trade**<br><br>- Lacking capital. **Politics**<br>- Unstable development of Russia.<br><br>- Dependency of Baltic States on Russia.<br>**Environmental effects**<br>- Increased road traffic and thus emissions and accidents.<br><br>- Cargo flows through residential areas and towns.<br>- Environmental effects due to congestion as and high costs delay infrastructure investments.<br>**Social Development**<br>- Unequal development of regions.<br>- Uncontrollable migration.<br>- Increasing (international) crime. |

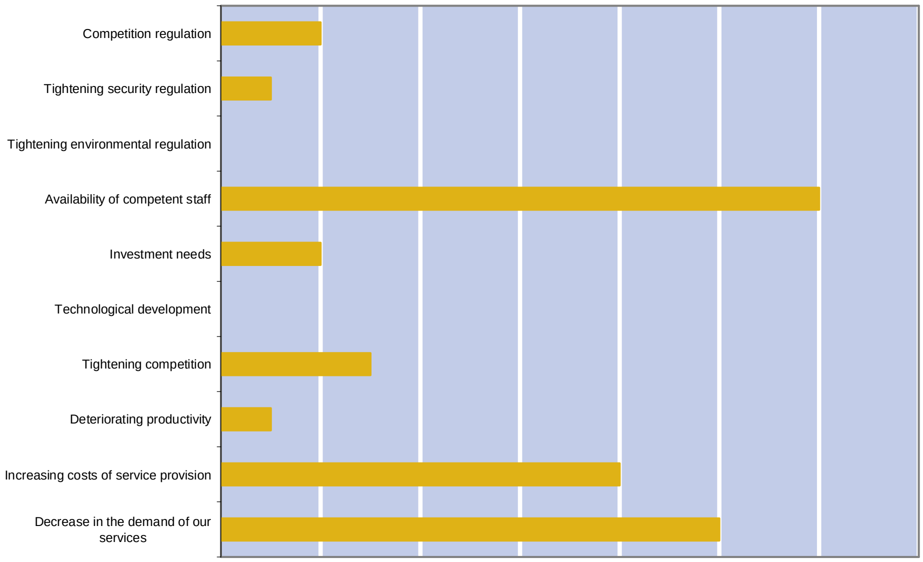



Figure 56 Largest threats to business, logistics service providers

The biggest stress (up to 60%) is made on skilled personnel availability. Obviously, it is connected with the significant part of personnel capable of working leaving for EU countries and natural ageing of population. The growth in service costs and reduction of the demand for services is stressed (probably because of rising competitiveness).

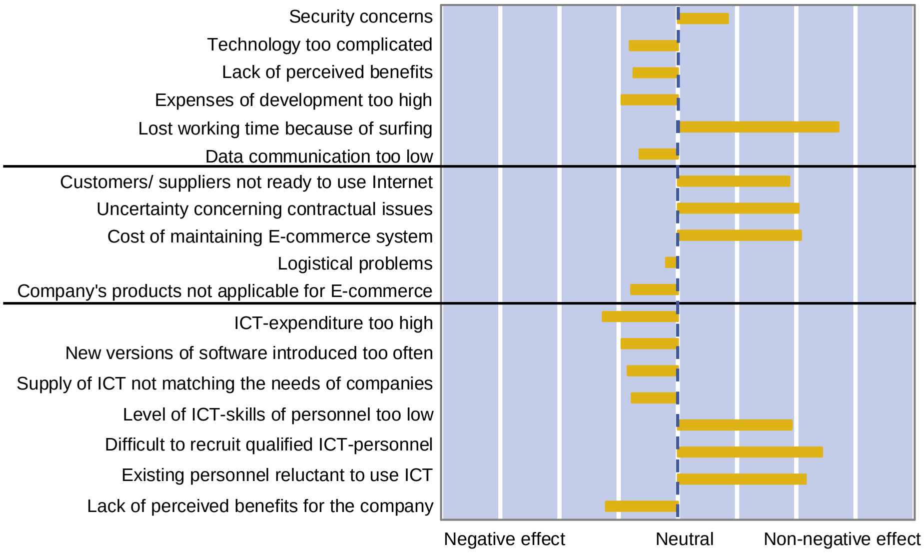



Figure 57 The effect of different barriers on the use of Internet, e-commerce and ICT in general.

## 8.4 Regional outlook

Transport issues are of special interest to the Region's policy makers. Now, the enlargement of the EU in the Baltic Sea region creates a unique opportunity for the development of a transport sector adapted to modern needs. Ferry connections are of special importance in the Region.

The development of cargo transportation by the creation of an efficient transport chain in the Region promoting combined means of transportation and establishing the Baltic Sea Region as a central transportation link between West and East should be supported. Integral to this should be the creation of new sea transportation routes, thus increasing the capacity of West-East transportation corridors by combining sea and road transport.

There are at least three reasons why integration with Russia could be a special niche for the economy of the Baltic Sea Region and why the momentum is right now.

First, the Baltic Sea Region already is the arena for the most active interaction between the EU and Russia. The Region is the only place where Russia and EU are physical neighbours. In near future the central European route to Russia will present a serious challenge for the Baltic Sea Region. If we want the Baltic Sea Region to act as the major transition-route to North-West Russia, we must act now.

Second, Russia has a huge potential in acting both as an accelerator of the Region's industrial production by offering possibilities for production with lower costs, and as a huge growing market for the goods that are produced in the region.

The economies of Western Europe tend to linger in 1-2% per annum growth. The Russian economy is already in its seventh year of growth at a speed of more than 5% a year. The Russian middle class is emerging. Its consuming capacity is growing fast. For example, Finnish export to Russia grew 25% in 2004 and more than 30% in the first quarter of 2005. Since 2000, North-West Russia has experienced stronger growth than Russia as a whole. With its 6.8 million inhabitants, the Saint-Petersburg region is clearly the biggest metropolis of the Baltic Sea Region with the biggest economical potential.

Third, there is a certain open window for regional integration with Russia right now. The EU and Russia agreed on the 10th May, 2005 on a road map for the common economic space. This very comprehensive map includes tens of concrete goals from an EU-Russia investment agreement to the harmonisation of legislation to create a common market. The problem is that the concrete solutions are all open-ended.

Special attention should be paid to the problems existing at national border crossings.

# 9 LOGON BALTIC INITIATIVES

## 9.1 Regional LogOn Baltic initiatives

The most important regional LogOn Baltic initiatives are:

- investigation of Development Measure Impact Analysis (DEMIA) on regional development related to logistics and ICT in Latvia. The analysis was based on interviews with a number of experts from government ministries, local governments and non-governmental organisations, desktop research, and the results of a roundtable expert discussion,
- expert interviews conducted with 12 experts representing manufacturing and retail industries, logistics consultants and services providers, research institutions, as well as local authorities and support initiatives in Latvia,
- logistics survey which main task was to have opinion about the actual state of the logistic services market in Latvia and the tendencies of its development for the next 5 years,
- ICT survey which purpose was the improvement of the regional development and spatial integration in various regions by means of reception of the information and knowledge in the field of ICT.

## 9.2 Links to the LogOn Baltic project

Latvia today is well positioned to develop as an important logistics hub for the flows of goods between Western Europe and the rapidly growing economies of China and Russia. However, geography and history alone do not guarantee success in logistics, and Latvia is no exception.

Infrastructure development plans need to be driven by reliable forecasts of future flows of cargo and people. Those can in turn serve as the basis for creation and growth of local services, especially in the less developed parts of Latvia on its eastern border.

To coordinate development efforts in logistics, there is a need for new structures and forms of dialogue between the national and local governments on the one hand, and businesses on the other.

In this case investigations within the LogOn Baltic project play an important role in understanding of key driven factors for logistics and ICT development.

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