



Latvijas Republikas Valsts prezidenta kanceleja Prezidenta preses dienests

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Address by H. E. Dr. Vaira Vike-Freiberga, President of Latvia, at the Latvian-Estonian Business Forum Riga, December 7th, 2005

Dear Mr. President (Arnold Rtel),

Ms. Blma, Excellencies,

Ministers,

Ambassadors,

Ladies and gentlemen,

Tere tulemast! I am truly pleased to address this distinguished LatvianEstonian business audience here in the Hansabanka building, which represents one of the largest foreign as well as Estonian investments in Latvia. Id like express Latvias warmest welcome to our Estonian friends, and take this opportunity to thank the Estonian and the Latvian Chambers of Trade and Commerce for their considerable efforts in making this business roundtable meeting become a reality. I sincerely hope that this forum will help to further strengthen existing partnerships between our entrepreneurs and it will lead to establishing new ones.

Both our countries Latvia and Estonia, as close neighbours with similar histories, are united by common aims both within the Baltic Sea area, the European Union and in the NATO alliance. Estonia is the country with which Latvia has traditionally developed the most active political co-operation. This is reflected in the growing importance of our trade relations, as well as in the increasing flow of investments between our two countries. In this age of increasing globalisation, the enterprises of both our countries are realising that they can increase their competitiveness and their economic potential by working together.

It is truly a pleasure to note that within the last two years the annual volume of trade between our countries has increased by more than 35%, and that is a quite impressive jump. At present, Estonia is Latvias 4th largest trade partner. Interestingly enough, our trade with the EUs newer member states and particularly with neighbouring Estonia and Lithuania has increased more following our accession to the Union than Latvias trade with the EU-15. This shows that our entrepreneurs are actively exploring the advantages presented within the context and framework of EU that we are able to find them in closer activities with the immediate geographical neighbours.

At present, Estonia is the fourth largest foreign investor in Latvia, I think that this is very impressive figure for a country of Estonia`s size. The considerable investments that have been made by Estonian companies, along with the presence of more than 1100 enterprises with Estonian capital in Latvia, that my colleague Estonia Mr. Ruttel already mentioned, - all this shows that the Latvian investment and business environment offers benefits that both Estonian and other foreign companies are seeking and finding here.

Small markets can be difficult places for doing business and investment. Estonia is a challenging market and investment target for Latvian entrepreneurs, who must compete with both local and large international companies. Nevertheless, a number of Latvian brands are well-known in Estonian households for their quality and for their special features. They are continuing to sell well in Estonian markets, and I am pleased that Latvian services in such sectors as banking and security are also finding a niche in Estonia.

Both our countries are interested in turning the Baltic Sea region into one of the most dynamic areas of Europe and, why not, in the world. That is why we must place great importance on the implementation of a number of projects of common interests, and this includes the projects which we have been talking over the years, which remain still actually important, and that means the Via Baltica road network, the Rail Baltica transport system, the Baltic Electricity Ring, and the further development of regional gas networks. The realisation of these projects would certainly help to establish a solid basis for an even stronger business exchange and there is certainly a lot to be done also to work in establishing a more diversification and more diverse sources for energy supplies. Collaboration among local governments in the exploitation of EU initiatives and programmes is obviously of paramount importance.

The recent announcement by both Germany and the Russian Federation of the construction of a new North European Gas Pipeline to run through the bottom of the Baltic Sea is a highly sensitive issue not only for the Baltic countries, but for all of Europe, and its certainly merits further discussion within the framework of the EU, particularly in what concerns with environmental aspects of the project. I think we should continue to push forward and insist that environmental studies are carried out in a proper way, that insurances can be given by those who construct the pipeline and we will not be suffering irrefutable damage to the Baltic sea.

Excellences,

Ladies and gentlemen,

Along with the strengthening of our countries political and economic relationships, we have also seen an intensification of people-to-people contacts. It is a pleasure to see more and more students from Latvia choosing Estonian universities for their studies, and every year a greater number of Estonian students who are coming to study in Latvia. In addition, the number of Latvian and Estonian tourists visiting each others countries has been consistently high. Last year more than one quarter (27%) of all visitors to Latvia were from Estonia, and I hope that this trend will continue. To look at the figures, by the way, in all of these aspects you think that Estonia is very big country indeed. Today's business event is a clear indication of the active interest in continuing our exchanges from both sides.

Roughly a year-and-a-half since our accession to the European Union, we are experiencing remarkable developments. EU membership has resulted in falling interest rates, in increased foreign trade volumes, in increased inflow of funds, both in the form of domestic and foreign direct investment. As a result, the rates of economic growth in our countries are accelerating, and accelerating at the very fast pace. Latvia and Estonia are currently enjoying among the highest growth rates in the entire European Union and our room growth rate has exceeded 7% since the year 2000. Latvias GDP increased by 8.5% last year and this year much like seems the case in Estonia it is expected to reach a record high - up to 10% of GDP this year.

Sustainable economic growth, along with a steady rise in our GDP per capita, is crucial for our future development. It is no secret that the welfare level in our two countries is still well below the EU average. Latvias GDP per capita is only 43% of the EU average, Estonia also is 50%. Taking into account the considerable income gap with our more prosperous EU neighbours, we certainly cannot accept the reduction of EU financing to our countries, which is essential for the continuation of our structural reforms and for our further development and certainly cant be no question of us being able to accept any offer from the presidency that will result in per capita amount of funds being allocated to our countries that is lower that of long standing members who have been benefiting from EU structural funds for quite some years.

One negative side effect to our rapid economic growth has been a high inflation rate. Latvia and Estonia, as two of the most rapidly developing countries in the EU, also have inflation rates that are among the highest in the Union , and Latvia has unfortunately as

even higher than that in Estonia. In both of our countries, inflation has been abetted by oil price increases, by high domestic demand and by other factors, about the precise nature which I must admit that we are not truly clear enough, and I would be glad to see studies of economists analyses of the situation, which could point the finger precisely as to why inflation has been so high in the certain case of Latvia. However we must remain confident that with the implementation of the appropriate measures Latvias inflation rate will first of all stabilise, that is the first step to insure that it stops growing and then, of course, our next task is to see, that it keeps decreasing in order to reach the Maastricht criteria and that is going to be the challenge if we are going through the plan that we had for joining the Eurozone by the year 2008, similarly the case with Estonia having earlier accession date.

Excellences,

Ladies and gentlemen,

We can be pleased at the high level of contacts and exchange that has been established between our two countries, remaining in effect since the renewal of their independence. The political and economic relations between Latvia and Estonia are strong, they are dynamic, and I truly believe that we can look forward with optimism to an even closer relationship in the years to come. To all who are assembled here for this forum, I wish you every success in order of endeavours, I offer my best wishes for continuing, making your companies grow, seeking path of innovation and looking for partners across the borders, and I am sure it is just a matter of finding the right ones, and then together you can have synergy that will be to the benefit for both sides. I wish you all the greater success.