



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 Dansk Industri conference in Copenhagen, 20 September 2001

Mr. Christensen,
Your Excellencies,
Ladies and gentlemen,

It is a great pleasure for me to be addressing this distinguished audience of investors, entrepreneurs, bankers, and other professionals in the beautiful capital of Denmark, a country that is one of Latvias most significant friends and allies. My thanks to Dansk Industri for inviting me, and my thanks to all of you for your interest in Latvia.

Denmark was one of the first countries to visibly express its support for Latvia even before it had regained its independence from the Soviet Union. The first official visit of Danish parliamentary deputies to the Baltic countries in 1990, along with the foundation of the Danish Culture Institute in Riga and the Baltic Information Centre in Copenhagen, was deeply appreciated in Latvia, as a clear sign of Denmarks support in our aspirations to freedom.

Denmark was also one of the first countries to officially recognize Latvia as a sovereign state following its declaration of independence in August of 1991, and we are thankful for Denmarks continued assistance during the decade of remarkable economic and social transformations that has followed the recovery of Latvias statehood.

Latvia and Denmark share many common traits that have served to strengthen the ties of friendship and affinity between our two countries. Both of our nations are small and resilient, and have successfully maintained our identities in the shadow of much larger neighbours. Both of our people share a belief in the primacy of freedom, democracy, and the rule of law. Both of our countries lie in a common Baltic Sea Region that promises to become one of the most dynamic areas of economic growth in Europe, particularly after Latvia joins Denmark as a full member of the European Union and the NATO Alliance. And finally, both of our nations wish to see a united Europe that free of artificial divisions between East and West or North and South, between democratic and undemocratic or between rich and poor.

Regional stability through the EU and NATO

Ladies and gentlemen,

The accession of the three Baltic countries to the European Union and the NATO Alliance will finally lay to rest the devastating consequences of the Molotov-Ribbentrop pact, which relegated Latvia, Estonia and Lithuania to the Soviet sphere of influence and fifty years of brutal occupation behind the Iron Curtain. Our accession to these two organizations will turn the Baltic Sea from a barrier that divided the haves and the have-nots, the free and the subjugated, into a unified area of peace and welfare in Europe.

Our accession also promises to further increase foreign investors' confidence and will contribute to the security of their investments in our countries. It should also lead to improved relations with Russia, as has already been the case following the accession of Poland, Hungary and the Czech Republic to the NATO Alliance. Full EU and NATO membership for the three Baltic countries will augment the stability of the Baltic Sea Region as a whole and hasten a reduction in the development gap between the Baltic States

and their Western neighbours. That is why we are grateful to the government of Denmark and those of other NATO member states for their support of Latvia's accession to the Alliance as rapidly as possible.

EU enlargement under the Danish presidency

Latvia is strongly committed to completing its accession negotiations to the EU before the end of 2002, during the Danish presidency of the Union. We admire Denmark's commitment to the enlargement of the EU, and are pleased to see the completion of accession talks as a central aim of the Danish presidency. The day that the motto From Copenhagen to Copenhagen becomes a reality will be a historical day for Denmark as well as for the rest of Europe. Latvia's relatively small size is likely to make its accession into the Union less complicated and incur smaller costs than the accession of larger candidate states and we are certainly right on target in following the road map of our accession negotiations.

On the threshold of the Danish EU presidency, during the European days in May 2002, we plan to hold various events to inform Denmark's inhabitants about Latvia's economy, culture and society. I hope that you will be able to participate in them.

Latvia's success

Ladies and gentlemen,

Latvia can already feel the positive results of the Euro-integration process, which has accelerated our country's successful transition from a planned to a fully functioning market economy, as well as the re-establishment of a democratic, parliamentary political system. These considerable accomplishments have all occurred within the short decade since Latvia recovered its independence, and have received due recognition in the European Commission's progress reports on Latvia.

Latvia's resilient economy has proven strong enough to overcome a banking crisis in 1995, as well as the spill over effects of the Russian financial crisis in 1998. Today Latvia has one of the fastest growing and dynamic economies in the world. Last year's **GDP growth rate of 6.6 %** has been surpassed and reached **8.2 %** during the first quarter of this year, and provisional results for the second quarter indicate a growth rate of around **9 %**.

The promising perspectives for Latvia's continued economic growth are based on the strong performance of the country's processing industries, construction, freight transit, retail trade, as well as on ITT and hi-technology manufacturing. A steady influx of foreign investment, along with the prospect of EU structural fund assistance and a continued improvement of Latvia's business environment, should help to ensure a sustained and high rate of **long-term economic growth**.

Latvia is currently undergoing a transition from a labour-based economy to a knowledge-based economy, and we believe that our qualified specialists in such knowledge-based high-technology sectors as software engineering, equipment industry, pharmacy and biotechnology will help Latvia to close the development gap with its Western European neighbours. According to traditional extrapolations, this aim would require 30-40 years to be achieved, provided that Latvia's GDP grows by 6% each year. We intend to do everything in our power to reduce the gap much faster than that.

We are ensuring that the dynamic growth of the Latvian economy takes place within a **stable macroeconomic environment** secured by **tight fiscal and monetary policies**. Latvia's banking system has overcome its initial growing pains and is now internationally recognized and reliable, with no restrictions on capital movements. Latvia's pre-war currency, **the lat, has been stable** against the SDR currency basket since its introduction in 1994. The Bank of Latvia foresees no hurdles to joining the European Monetary Union after Latvia accedes to the European Union. Latvia's annual rate of inflation has been one of the lowest in Central and Eastern Europe for several years running. Last year's inflation rate was only **2.6 %**, which comes very close to complying with the Maastricht criteria.

The maintenance of a **state budget deficit** that does not undermine Latvias macroeconomic stability has always been on the top of the government's agenda. Latvias high GDP growth rate is facilitating the gradual reduction of the budget deficit, which rose from **zero** in 1997 to **4.2 %** of the GDP in 1999, partly as a result of the Russian financial crisis. This year the budget deficit is expected to be at about **1.8 %** of the GDP, which is well below the Maastricht limit. The Latvian state debt, at **13%** of the GDP, is also comfortably within the Maastricht criteria.

Two major challenges face all of the Central and Eastern European economies. These are a **large current account deficit and unemployment**. Fortunately, Latvia has managed to reduce its current account deficit from **-11%** in 1998 to less than **-7%** in the year 2000. The countrys unemployment rate is also gradually decreasing, and stood at **7.8 %** at the end of last year.

As a result of Latvia's increasingly close ties with the European Union, nearly two-thirds of Latvian exports (65.2 %) and over half of Latvian imports (52.4%) are with the EU member states, which have become Latvias most significant trade partners. Denmark is Latvia's eighth largest single trading partner, with **4.6 %** of the total turnover. While exchanges with Russia and the CIS now account for only **9 %** of Latvia's total trade turnover, the transit of goods to and from these countries is an important revenue earner for Latvia. Latvia is also making serious trade overtures to Kazakhstan, China and Japan.

Foreign investment

Ladies and gentlemen,

The annual growth in foreign investment, which averaged almost 19% per year between 1995 and 2000, is a good indicator of Latvia's promising economic potential. The largest **Danish** investments have come from *Hydro Texaco Latvia* in trade and oil products and from *House of Prince* in the production of cigarettes and tobacco products. Danish investments have also been made in Latvias national airline company *Air Baltic*, which is a partner of SAS, and in the *Lattelekom* telecommunication's monopoly.

Latvia has managed to attract nearly **2.3 billion EUR** (2.1 billion USD) in accumulated foreign direct investment, or **949 EUR** (880 USD) per inhabitant, which is one of the best results among the Central and Eastern European countries. Last year alone Latvia attracted the equivalent of **500 million EUR** (464 million USD) in foreign direct investments.

Latvias favourable business climate for foreign investors was fostered by the **privatisation** of the countrys small and medium-sized state-owned enterprises, which was in its final stages as early as 1998. Last year the private sector accounted for more than two thirds of Latvias GDP, which is now dominated by the service industries.

The privatisation of the countrys remaining large-scale enterprises, such as the *Latvian Shipping Company*, the state share of the *Lattelekom* telecommunications monopoly, the *Latvenergo* energy grid and the state capital share of the *Ventspils Nafta* oil transit company, is in the planning stages.

The steady influx of foreign investment has been promoted by **excellent credit ratings** [BBB and Baa2] on Latvias long-term foreign currency debt by such international agencies as *Moody's*, *Standard Poors*, and *Fitch IBCA*.

Economic co-operation between Latvia and Denmark

The excellent relationship between Latvia and Denmark has also manifested itself through considerable Danish investments in Latvia. Denmark is Latvia's **second largest investor**, with over 300 Danish enterprises operating in the country, and is actively participating in almost all spheres of the Latvian economy. Investors from Norway, Sweden and Finland also figure among Latvias top ten investors.

The interest of foreign investors in Latvia is still continuing to rise. Last year foreign investment increased in Latvia by **22%** and accounted for **5.7%** of the countrys GDP. One **successful investment** example involves the Danish company *Nordeka*, which has invested in bus modernization and now holds over one-third of the long-distance bus market in Latvia, as well as major international routes between Latvia and her neighbouring countries.

Latvias advantages

Ladies and gentlemen,

There are several reasons why Danish investors have been gearing their interest to Latvia:

High taxes and production costs in Denmark have motivated Danish entrepreneurs to move their businesses to Latvia, where such expenses are lower. The Latvian government is continuing to do its utmost to provide major tax benefits to investors.

Latvias basic Corporate Tax Rate (CPT) is **25%**. This is one of the lowest CPT rates in Europe East or West and the government is committed to reducing it even further. Companies producing high-tech products, including hardware and software, will be granted a 30% CPT reduction if three quarters of their output is in these product areas, and if the company has ISO 9000 certification. The tax liability can be further reduced through provisions such as accelerated depreciation schemes, including 100% depreciation in Year 1 in development areas.

The Latvian government has introduced a body of laws and regulations that provide a strong pro-business economic climate. These regulations ensure that the foreign investor has rights and duties equal to those of local investors. A foreign company is entitled to buy land and property, and may be the sole founder and owner of a company in Latvia, which is not always the case in other Central and Eastern European countries.

After-tax profits and investment capital may be freely repatriated. More than 100 multilateral agreements and conventions have been concluded since Latvian independence including double-taxation agreements with 24 countries, including EU members and the United States.

Latvia has two **Special Economic Zones** in Liepja and Rzekne, where investors will enjoy an 80% reduction in the CPT until 2017, provided that not more than 20% of their output is sold within Latvia.

A new **Riga Airport Business Park** is currently in the planning process and will be located about 10 km from downtown Riga. Other projects of particular interest to the investor include the liberalization of the telecommunications market in 2003, and the construction of the new National Library of Latvia, which we hope will become the most advanced information centre in Northern Europe, with a world-class information infrastructure.

Latvia's **comparative advantages** include a highly skilled and qualified labour force, comparatively lower labour and production costs, established traditions of scientific and research work, and a well-developed infrastructure, which together with the countrys ice-free ports has helped Latvia become **one of the leading transit countries of the region**.

Ports

Latvia has 10 ports and handles the largest volume of transit trade in the Baltic Sea region. Its three largest ports of **Ventspils, Riga and Liepja** are ice-free and accessible to year-round shipping traffic. About **90%** of Latvias transit goods pass through these three ports, mainly from the CIS countries to the West. Data for the first seven months of 2001 show that the cargo turnover in Latvias largest ports increased by an average of 13% compared with the same period last year.

Latvias ports have the capacity to handle a wide variety of cargo, including oil, coal, machinery, grain, and sugar.

Oil and oil products account for over half (54.55%) of the total cargo turnover. Latvias ports have an extensive cargo processing capacity of up to 70 million tonnes per year, and extensive territories for entrepreneurial development. They also have excellent pre-conditions for the development of value-added distribution and assembling. Denmark, Norway, and Germany, for example, are currently engaging in wood and metal processing. Latvias major ports have either Free Port or Special Economic Zone status, and can offer potential investors special conditions, such as tax holidays.

The Ventspils Free Port is the largest port on the Baltic Sea and the 15th largest port in Europe in terms of cargo turnover (34 million tonnes per annum). Nearly 70% of all Latvian cargo is reloaded in Ventspils. Ventspils is a leading ice-free port and a well-known international centre for the transit of oil products, chemicals, potassium chloride and metals. The reloading of oil and oil products makes up over 71% of the ports turnover.

The Riga Free Port ranks **eighth on the Baltic Sea** and ships out about two-thirds of Latvias timber. Riga has the largest container terminal in the Baltic countries, with a well-developed logistics infrastructure.

The Port of Liepja is located in the Liepja Special Economic Zone to help it develop from a naval to a multifunctional commercial port. The principal goods handled are metals and wood products, with timber making up over one quarter (27%) of the ports cargo turnover. Latvia also has seven smaller ports of local importance, which ship out wood products and receive fish and fish products.

Regional cooperation

Ladies and gentlemen,

Latvia recognizes the importance of **regional co-operation** for its economic development and is actively fostering the implementation of **infrastructure projects** significant for the development of the Baltic Sea region, such as the Via Baltica road link, and the creation of Baltic Sea energy and natural gas networks. The importance of co-operation in Northern Europe, including the Baltic Sea region, has also been recognized by the EU, which has adopted **the EU Northern Dimension initiative**. Latvia is an active supporter of this initiative.

New business opportunities

Latvia offers **new business opportunities** for potential Danish investors in ITT and telecommunications, the hi-tech industries engineering and logistics, the food and drink industry, real estate, wood processing, metal processing, machine building, as well as the textile, chemical, and pharmaceutical industries.

Denmark, with its highly developed production facilities as well as a stable and well-established business environment, has all the necessary preconditions to transfer technologies and know-how to Latvia. Let me now briefly elaborate on some of the most promising areas for Danish investments.

Latvias extensive forest cover is one of its most important national resources and there is a good basis for the development of the **wood processing industry**. Every third Latvian wood processing enterprise has exported its production to Denmark at one time or another. Among the best-known Danish-Latvian wood processing enterprises are *Amber Furniture*, *Latvia Timber International* and *Eastwood*.

Latvias skilled labour force and the experience of Latvian entrepreneurs in the **metal processing, machine building and electronics industries** has been a driving force for Latvian enterprises to reorient their production to new markets all around the world. Several Latvian metal processing companies regularly export their products to Denmark.

The most successful Latvian-Danish investment projects in this sector are *REBIR*, *Baltic Zinc Tehnics*, the *Talsi Metal Processing Factory* and others.

The long-term experience of Latvian **light industry** producers has permitted Latvian textile companies to compete successfully in Western markets and to create jobs for Latvian employees. The textile exports of several Latvian companies are competing successfully in Danish and European markets. The largest Danish investments in this sector are from *Saiva* and *Ranlet Production*.

Danish investments are growing gradually and we hope that more and more enterprises follow the recent example of the *Codan* insurance company or use the advantages provided by the Liepja Special Economic Zone. Last year the Danish enterprises *Pumac Liepja*, *Scan Plast Latvia* and *Kjellerup Steel* began their operations in the *Liepja SEZ*.

Information technologies and communications

Ladies and gentlemen,

Information technology is one of the most promising fields of development in the Baltic Sea Region, and Latvia aims to become one of the principal producers of components for the telecommunications and computer industries in Northern Europe. Latvia has already become a reliable and reputable exporting country of information products and software services, and is gradually increasing the proportion of value-added exports in relation to such raw materials as timber.

Latvia offers a wide range of opportunities for the IT investor, particularly in software-development outsourcing, high-tech manufacturing and assembly, the hosting of E-commerce and Internet-based solutions, call centres and telemarketing.

With the assistance of the EU's PHARE programme, Latvia hopes to establish an industrial cluster that will employ **5000** people and generate an annual export value exceeding **539 million EUR** (500 million USD) **by the year 2010**. A number of hi-tech multinational companies have already been showing an active interest in Latvia's ICT potential. The Finnish telecommunications' company *Sonera*, for example, has invested over **323 million EUR** (300 million USD) into the modernization of Latvia's telecommunications monopoly *Lattelekom*.

Other well-known multinationals, such as *IBM*, *Hewlett-Packard*, *Siemens Nixdorf*, *Unisys*, and *Nokia*, have contracted out large software development assignments to several Latvian IT companies that have established a solid international reputation as reliable and stable partners. Seven Latvian software and hardware companies have obtained ISO quality certificates, and one of these, *DATI*, is now the largest software developer in Eastern Europe. The Latvian IT services sector has grown to include over **500 private companies** during the past decade, mainly based in the capital, Riga. **The top 20 companies employ over 3000 workers**. The total investment in the Latvian telecommunications infrastructure and IT technologies during the last three years is estimated at **700 million EUR** (650 million USD).

Software design is the most significant segment of the IT sector in Latvia. Software maintenance, integration, consulting and training are other rapidly growing areas. Outsourcing has become a core competence of Latvian software-development companies, which have gained significant experience from large-scale software-development projects undertaken for major international companies. **Latvia is now a net exporter of these services**.

The industry is undergoing restructuring in the wake of mergers and acquisitions and there is **space for more investors**. For example, in 1998, the *Tieto Corporation* of Finland announced the acquisition of the Latvian company *Konts*. In 1999, *Tieto Konts* merged with *Enator AB* of Sweden and the *TietoEnator Corporation* was born, becoming one of Europe's leading IT companies.

Two Latvian companies, *Fortech* and *VAR*, have recently merged with the Estonian company *Microlink*, making it the largest IT holding in the Baltic region with annual sales of 70 million USD.

Latvian universities and institutes are currently conducting research for such well-known corporate giants as *Boeing*, *IBM*, *Siemens* and *Telecom Italia*. These Latvian specialists are being joined by a steady stream of university-educated computer science graduates, thanks to the Latvian government's policy of promoting education in the IT field.

Ladies and gentlemen,

Since IT specialists are in short supply the world over, the Latvian government has made a long-term commitment to substantially increase funding for IT education. Last year alone, the government increased state funding for IT education by 20%. As a result, the number of IT students is expected to increase by one third within a very short time.

Latvia is also involved in a joint project with Denmark, which should see the formation of a Danish-Latvian IT college in Riga, Latvia's capital city. This college would serve to educate highly qualified IT specialists not only from Latvia, but also from the entire Baltic Sea region. The Latvian and Danish governments thus hope to promote the education of roughly 2000 highly skilled workers every year. This would indeed be a most welcome development for all of Europe, particularly when we consider that there are **over 1.6 million vacancies in Europe's IT labour market**, according to European Commission Chairman Romano Prodi.

ICT will certainly not be the magic wand to solve all of our economic problems. But we do hope that it will be a useful and powerful tool to promote worldwide economic growth and sustainable development. I therefore hope that many of you are planning to participate in the **Baltic Sea Region e-Business Forum** in Riga at the end of this month, where the whole Baltic Sea region will be represented.

The Prime Ministers and key ministers responsible for information society development from the Baltic Sea Region countries will meet during this Forum, and are expected to adopt a statement supporting the Action Plan of the Nordic e-Dimension.

Latvian government initiatives

Danish entrepreneurs are active members of Latvia's Foreign Investors Council, which engages in regular dialogue with the Latvian Government. The Latvian Government is attentive to the recommendations of this Council, and cooperation between the two has promoted a marked improvement of the business environment in Latvia. The continuing implementation of administrative reforms will also serve to create a more friendly business environment in the country.

Active measures are being implemented to reduce the likelihood of corruption in national and local government institutions. The creation of an anti-corruption unit that will report directly to the Prime Minister is being completed with the cooperation of experts from the USA. The EU's PHARE programme is also supporting a number of anticorruption initiatives, and NGOs are becoming increasingly effective as monitors of various state-funded economic activities.

A new draft *Law on the Financing of Political Parties* is being prepared by the Government in accordance with recommendations by the World Bank. It foresees direct state financing for political parties and the establishment of a control mechanism over their financial activities. New measures to improve the functioning of Latvia's customs control, as well as legal provisions for the initial fixation of property and legal presumption are also planned.

Ladies and gentlemen,

Last week's tragic events in the United States have vividly demonstrated the need for a united front among the world's nations in confronting a whole array of issues that require

international solutions. The accession of the three Baltic countries to the EU and NATO will be a positive step in this direction. It will ensure better coordination and greater efficiency in the worldwide fight against terrorism and organised crime. It will promote the economic development of the entire Baltic Sea Region and help to reduce the income gap between the rich and the poor. It will facilitate the pooling of efforts in the control of disease and the protection of the environment.

In concluding, I should like to pay tribute to the Danish people for their openness, their understanding, their sympathy and the unflagging determination with which they have been supporting the integration of Latvia, Estonia and Lithuania into European and transatlantic structures. The Danish Culture Institute in Riga, which has been operating successfully for the past decade, was a pioneer institution, which laid the foundations for renewed contacts between our nations.

We all stand on the threshold of a new, reunited Europe a Europe proud of its past but also devoted to the future, a Europe that is our common heritage and our common home.