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## Introduction

You are invited to explore Latvia and its business environment which provide great opportunities to meet your business needs. Historically, Latvia has been a transit point in both north-south and east-west directions – a natural outcome of its geographical location at the centre of strategically significant transportation flows connecting major world economies like the USA, EU, Russia and the Far East. Since Latvia acceded to the EU in 2004, that advantage as a transit point has been heightened. Latvia continues to provide transit services of a high quality now within the EU common market and customs territory, and fully harmonised with EU legislation.

Transit is one of Latvia's most dominant industrial sectors, a fact recognised by the government which has named it as one of the country's economic priorities.

Full integration into the overall European transportation system is well under way, thus meeting the needs of people and the national economy for high quality freight transport services, as well as increasing options and flexibility in the carriage of passengers and cargo.

Latvia has successfully met EU requirements for road transportation and introduced legislation fulfilling the

main conditions on access to passenger and cargo transportation markets, driving and resting regimens for professional drivers, the technical parameters of road transport vehicles and traffic security conditions, organisation of dangerous cargo road transportation, and control of road transportation amongst others.

Latvia has recognised that the development of an efficient, secure, multi-modal, balanced, environmentally-friendly and competitive transport system is a priority. The main goal for the sustainable development of Latvia's transport system is to fully integrate the country's transport infrastructure with the Trans-European multi-modal transport system. Particular attention is being paid to developing coastal shipping and combined transportation. The promotion of ferry traffic in the Baltic Sea is being given more emphasis by the involvement of Latvia's ports. Another priority is the construction and development of industrial and distribution parks. The following essential conditions have been set for the development of the EU's transport and energy infrastructure: the effective use of transport and energy networks; development planning from an economic point of view, taking into account established goods and passenger transport corridors and the development potential of economic relations between the European Union and neighbouring countries.



## The Transport & Logistics Sector in Latvia

Recognising the importance of transit and related services to Latvia's national economy, the government has paid particular attention to transit development. Almost 90% of the turnover of Latvian ports, 75% of railway cargo, and all oil and oil products transported via the trunk pipeline system are transit.

More than 8% of Latvia's employees are engaged in the transportation and servicing of transit cargo. The significance of the transport, transit and storage sector is confirmed by its substantial contribution to GDP at around 9-10%. Transit made up some 60% of services' export revenues in 2004.

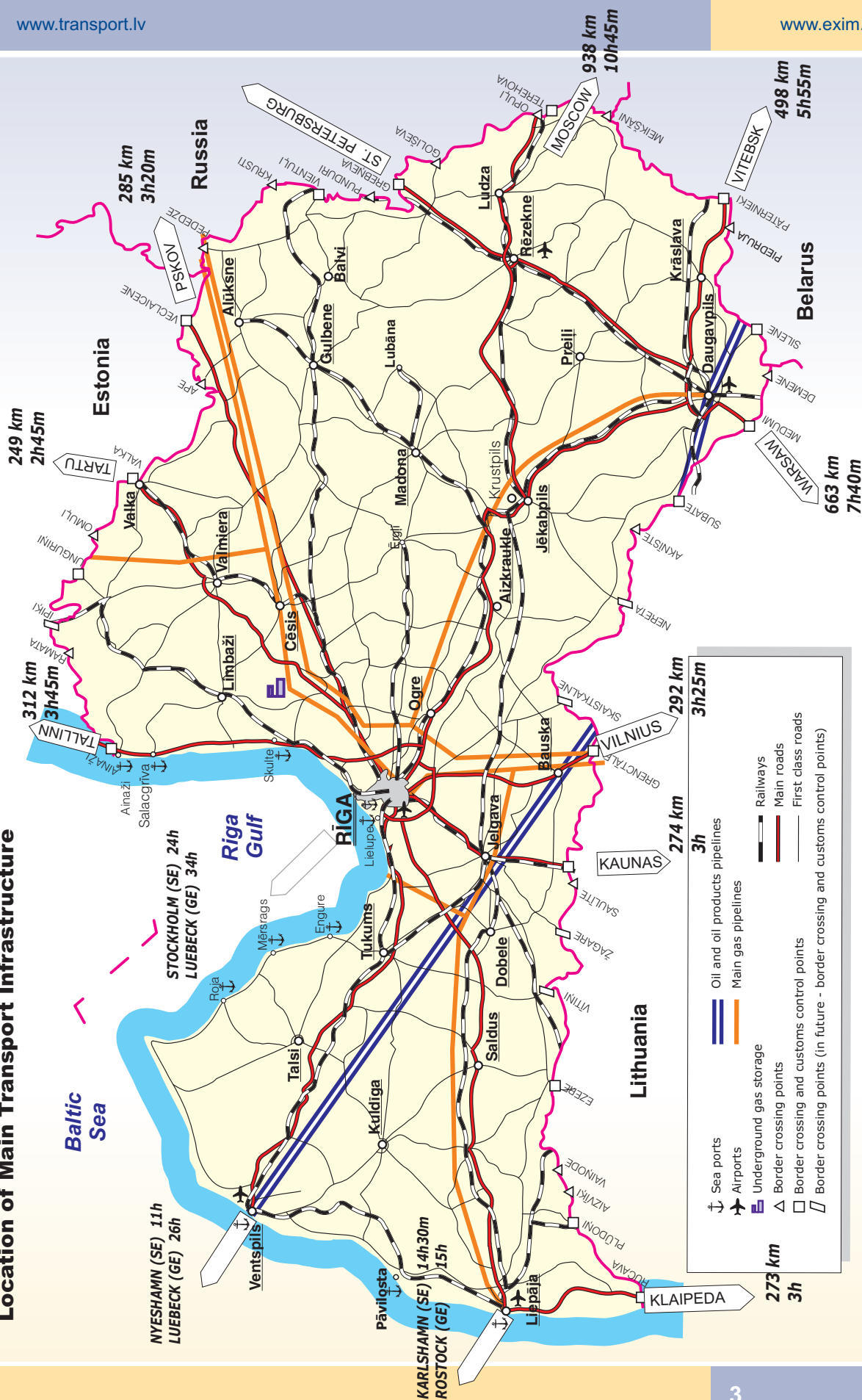
Furthermore, all of these figures have large growth potential, given Latvia's position between two major western and eastern markets. Latvia's ice-free ports, working under the added advantage of free economic zone legislation, and the highly developed road, railway and oil pipeline infrastructures, deeply integrated into international transport systems linking the Far East, Asia, CIS countries to western Europe and other continents all have capacity for growth.

The bulk of transit cargo movement, mainly oil and oil products, comes from the eastern border with Russia and Belarus and leaves Latvia by ship with numerous destinations in western markets. Latvian railway and port services play a key role in the transit trade.

Three major Latvian ports, Ventspils, Riga and Liepaja, are important gateways for Russian and other CIS countries' imports and exports. Total freight turnover in Latvian ports was 57.4 million tonnes in 2004 (increase by 4.8% compared to 2003), of which a dominant share was oil and oil product exports from the CIS, amounting to 23.07 million tonnes.

Latvia is also developing as a gateway for the other Baltic States, Estonia and Lithuania. The strategic location of Riga as an important industrial and consumption area within the Baltic States, and the ice-free ports of Ventspils, Riga and Liepaja offer good conditions for development of transit and transport services for the other Baltic States, adjacent to the CIS.

## Location of Main Transport Infrastructure



Assumed average speed: 90 km/h  
Distances are from Riga

Source: Ministry of Transport and Communications of the Republic of Latvia



## Transport Services

The Latvian transport infrastructure is well-developed with an extensive railway network directly connected to the CIS railway system and, through the Trans-Siberian Railway, connection to the Far East. There

are good road connections with the CIS, EU countries and the other Baltic States. There are also two pipelines connecting the Free Port of Ventspils to Russia for the transfer of crude oil and oil products.

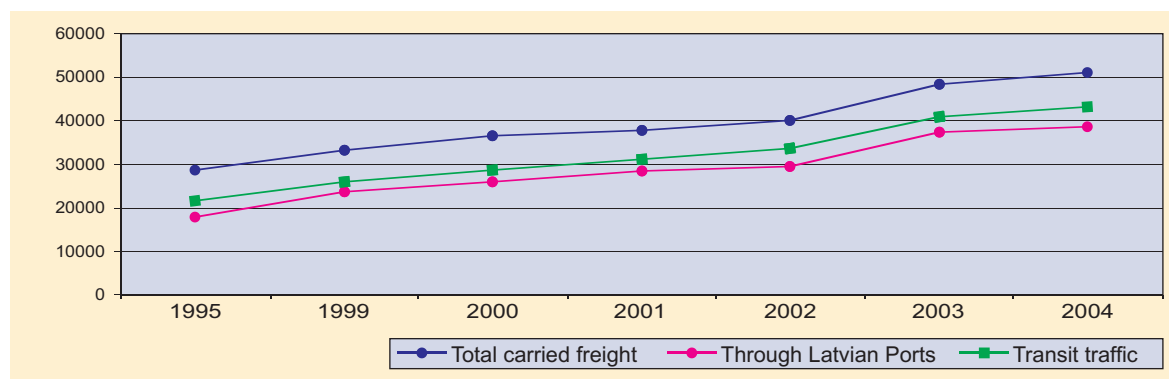
## RAILWAYS

Railways link Latvia with Russia, the CIS, the neighbouring Baltic States, and, through Poland, the rest of Europe. Latvia's rail cargo transportation is operated by the Latvian Railways company (*Latvijas Dzelzceļš*).

Latvia possesses a dense rail network connecting the country to destinations as far as the Russian Far East, wherever the former Soviet railway gauge standard is in operation. There are additional opportunities for trade connection with Japan and Southeast Asia. Currently, the Latvian railway system serves mostly as a transit trunk-line with as much as

Latvia competes with the other Baltic States, Estonia and Lithuania, for the transit of cargo flows to and from the CIS, as well as with Finland and direct movements via the port of St. Petersburg. Discriminatory discount policies by Russia on railway cargo in the east-west direction have put Latvia at a disadvantage against its competitors in the past. According to *Latvian Railways*, the tariffs for cargo transportation by rail within Latvia are lower than for analogous shipments in Russia. Additionally, apart from the port of St. Petersburg, Latvia's ports have the shortest railway connections between the Baltic Sea and Moscow. Other advantageous transit connections that Latvia can offer include to and from

### Transit Cargo Volumes by Rail, 1994-2004 (thousand tonnes per annum)



Source: SJSC Latvian Railway

75% of total freight volumes being transit moving via Latvian ports and 60% of freight rolling-stock being tanker wagons. Movement in the opposite direction to Moscow and other parts of Russia and the CIS countries is dominated by container cargo. Rail shipments consist mainly of oil and oil products, chemicals and fertilisers, metals, timber, sugar and cotton. There is enough capacity to substantially increase the volume of cargo transported by rail. At present, the east-west railway corridor has the capacity to transport 50 million tonnes of cargo annually.

the Caucasus and central Asian countries, as well as from China and other Far East countries like Japan and Korea through Trans-Siberian railway routes.

The railways are still state-owned; however plans exist to set up separate organisations to manage infrastructure and operations, with liberalisation of rail operations for private sector participation to follow. To facilitate north-south trade flows, it is planned to implement a pan-Baltic railway route with Estonia and Lithuania, connecting Finland to central Europe. This project would also be the first step in Latvia's transition to European railway gauge technical standards.



## PORTS AND SPECIAL ECONOMIC ZONES

Latvia has three major ports - Ventspils, Riga, and Liepāja, and seven minor ports - Salacgrīva, Lielupe, Engure, Mersrags, Roja, Kolka and Pavilosta. In 2004, Latvian ports handled 57.4 million tonnes of cargo, of which 23.07 million tonnes were oil and oil products. These figures reflect the importance of Latvia's position in the transit of cargo from east to west. Latvian ports offer the following advantages:

- Variety of equipment for handling different cargoes
- Well developed transport infrastructure
- Servicing of ships in any weather conditions
- Real estate and sites available for development
- Excellent conditions for the development of industrial and distribution parks

### Cargo Flows Through Latvian Ports in 2000 - 2004 (million tonnes)

	2000	2001	2002	2003	2004
<b>Dry bulk</b>	<b>9.382</b>	<b>13.008</b>	<b>15.193</b>	<b>19.073</b>	<b>23.593</b>
Chemicals	6.557	6.449	6.432	6.816.5	5.967
Coal	0.468	2.776	3.938	6.988	13.388
<b>Liquid bulk</b>	<b>30.760</b>	<b>33.733</b>	<b>26.784</b>	<b>24.563</b>	<b>23.068</b>
Crude oil	13.631	14.986	7.566	3.579	2.396
Oil products	15.967	17.680	18.460	19.357	19.251
<b>General cargo</b>	<b>11.701</b>	<b>10.174</b>	<b>10.178</b>	<b>11.119</b>	<b>10.740</b>
Containerized cargo	0.911	1.063	1.316	1.386	1.493
TEU	88692	103353	125626	150880	149761
Ro-Ro cargo	0.572	0.754	1.059	1.719	1.533
Ro-Ro units	32195	38939	51962	83167	88770
Wood materials	6.100	6.130	6.251	6.492	6.382
Thousand m <sup>3</sup>	7411	7674	7719	7816	7694
Metal products	3.192	1.455	0.940	0.791	0.870
<b>TOTAL</b>	<b>51.843</b>	<b>56.915</b>	<b>52.155</b>	<b>54.755</b>	<b>57.400</b>

Source: Ministry of Transport and Communications of the Republic of Latvia

The three major ports have been afforded favourable incentive regimes to help them attract new business. Ventspils and Riga ports are Free Ports whereas the

entire city and port of Liepāja form a Special Economic Zone.

#### Free Ports established at:

- Riga
- Ventspils

#### Special Economic Zones in:

- Liepāja
- Rēzekne



- ✓ 80 - 100 % rebate on real estate and corporate income taxes
- ✓ VAT 0 % for goods and services provided in freeports and SEZ
- ✓ VAT, excise tax and customs duty exemptions on import for companies operating in freeports and SEZ
- ✓ Application of 0 % VAT to majority of services
- ✓ Special procedure of paying customs duties, VAT and natural resources tax



### The Free Port of Ventspils

The Free Port of Ventspils and its vicinity has plenty of space available for value-added distribution and assembling. An industrial park, logistics park and distribution centre are among the business proposals put forward by the Free Port of Ventspils Authority. A new multi-purpose multi-modal transport terminal built for USD 70 million serves the Russian market in west-east directions. The project is a joint investment of the Belgian company *Noord-Natie* and the Free Port of Ventspils Authority. Examples of other business activities in the port include: *Ventspils Nafta*, a crude oil and petroleum product terminal; *Ventbunkers*, handling dark and light oil product transshipment for import and export; *Ventamonjaks*, handling liquid chemical cargo including ammonia, methanol, ethanol, naphtha and other petroleum products; *Kalija Parks* handling the transit of potash and fertilisers through its terminal; *Ventspils Commercial Port* which has invested in a ferro-alloy crushing plant and a dedicated cotton warehouse with 16.000 tonnes of storage capacity. Cargo coming to Ventspils from the east by rail and pipelines includes oil and oil products, potassium fertilisers, ferro-alloys and metals. The excess return rail capacity to Russia is partly used for transporting raw sugar, grain, and some building materials.

### The Free Port of Riga

Riga's Free Port incorporates several port trading and handling areas, managed by the Free Port of Riga Authority, of which *Riga Commercial Free Port* is the largest, handling some 40% of total cargo throughput. The port has an excellent reputation in terms of productivity and limiting damage to cargo. The multimodal transport services offered for containers are of a high standard. There are two shuttle trains to Moscow every week and regular container liner service connections with European satellite ports in the Baltic and North Seas. The port itself was developed in the 1970s as the end-station for

containers traversing the Trans-Siberian railway route. The container terminal is still the most competitive dedicated container terminal in the Baltic States. The Russian economic situation directly affects cargo turnover within the Free Port of Riga, as 80% of its business is to and from Russia (eastwards: sugar, flour and foodstuffs, high value consumer products; westwards: steel, timber and cotton). New investment projects include additional cold storage facilities which will be constructed as soon as the Russian and CIS markets for refrigerated products recover.

### The Port of Liepaja

Liepaja was a military base for the Soviet navy and the port requires considerable reconstruction. The ice-free port handles dry and liquid bulk cargoes, general cargo, non-ferrous metals and timber. The city has a population of about 100.000. Because there is a need to stimulate employment, Liepaja has been allocated special economic zone (SEZ) status. The special economic zone is an area of 3000 ha, of which 1996 ha is available for purchase. The majority of foreign investment in Liepaja comes from Ireland, Sweden, Germany, USA, Denmark and the Netherlands. The Liepaja SEZ Authority's marketing plan now emphasises the Scandinavian countries, Central Europe and the CIS as regions to which to promote its services. The activities targeted for future investment are transportation, warehousing and distribution, value-added logistics services, sub-assembly, textiles, meat and dairy processing, wood processing, metal working, and shipbuilding and repair.

All three major Latvian ports possess regular Ro-Ro connections with Sweden, Finland and Germany.

The cargo turnover in 2003 of Latvia's three major ports compared to other major Baltic Sea ports is shown in the table below.

**Cargo Turnover in Baltic Sea Ports in 2003-2004** (million tonnes)

Port	2003	2004
Ventspils	27.316	27.805
Riga	21.722	23.99
Liepaja	4.857	4.474
Klaipeda	21.192	20.246
Butinge	10.792	6.820
Primorsk	17.685	44.565
Tallinn	34.916	37.422
St.Petersburg	42.044	51.182
Kaliningrad	12.583	13.875
Gdansk	21.293	23.315
Gdina	9.748	10.745

Source: Ministry of Transport and Communications of the Republic of Latvia

## ROADS

Latvia's road network is well developed and a further improvement process is underway utilising state and EU funds. Latvia's government is aware of the need to

improve the road infrastructure and attain road safety levels that will meet internationally agreed requirements.

## State Road Network



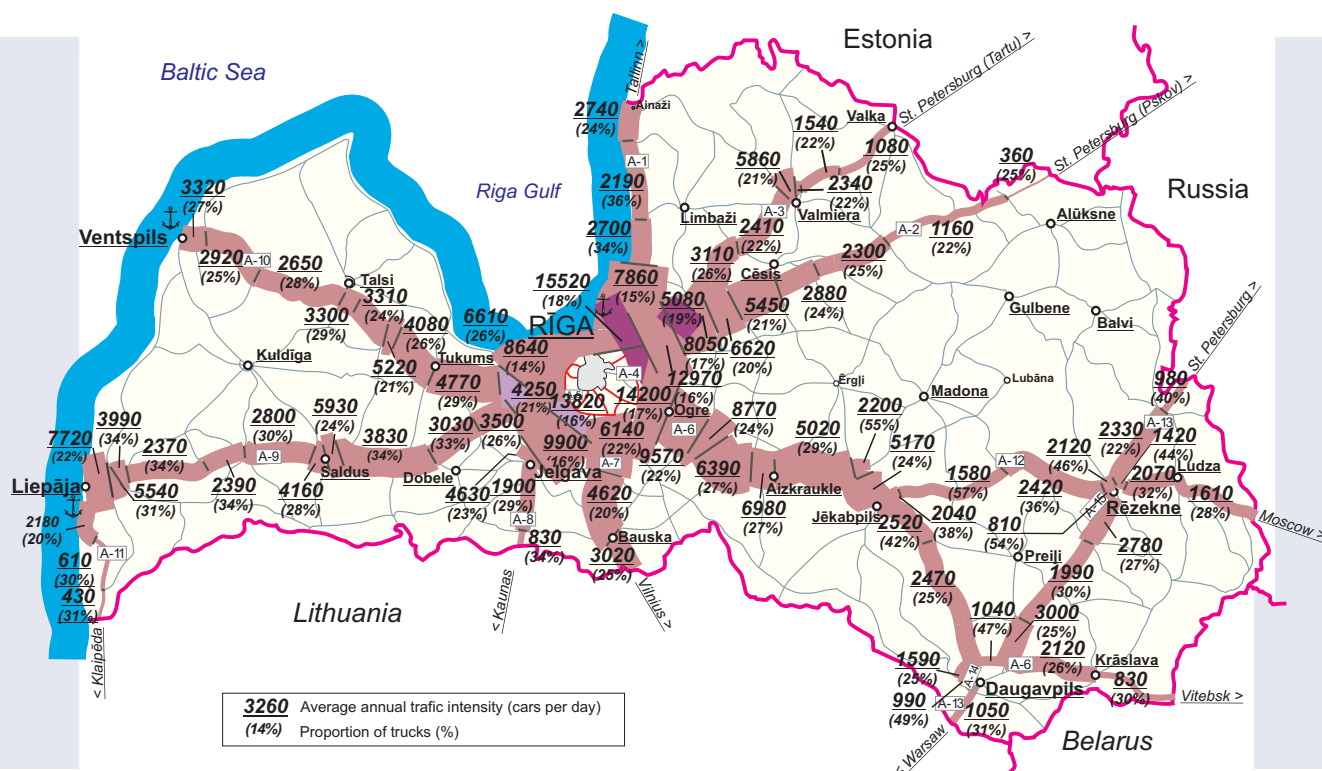
Road infrastructure facts:  
 Territory of Latvia 64 589 km<sup>2</sup>  
 69 532.4 km of roads and streets  
 The average density of the roads network is 1.077 km/km<sup>2</sup>  
 \*local roads are managed by municipalities  
 Source: SJSC Latvian State Roads

The road network unifies throughout the country. All locations in Latvia are within easy reach of road transport. Traffic is light, with very little traffic congestion, the exception being morning and evening peak hours in the capital city, Riga. The

Russia's case, are a subject of intense negotiations. Road transportation is offered to/from Russia, CIS, the other Baltic States, Scandinavia, Central and Western Europe. Trucks coming from Russia are frequently empty. The larger companies, active on the

### Average Annual Traffic Intensity on Main Latvian Roads During 2003

Average (cars/24hrs)  
(% age of heavy transport)



Source: SJSC Latvian State Roads

overall low level of traffic is a great advantage for transit flow and interrupted driving. An additional advantage for road users is that there are no roads, bridges or tunnels requiring the payment of tolls.

The Via Baltica is the most important transport corridor traversing Latvia in the north-south direction. Via Baltica is the European transport corridor also known as route E67. It connects such European cities as Helsinki, Tallinn, Riga, Kaunas and Warsaw, as well as Riga, Kaliningrad and Gdansk. The most significant investment in the development of the Via Baltica route has come from European Union pre-accession financial instruments PHARE and ISPA.

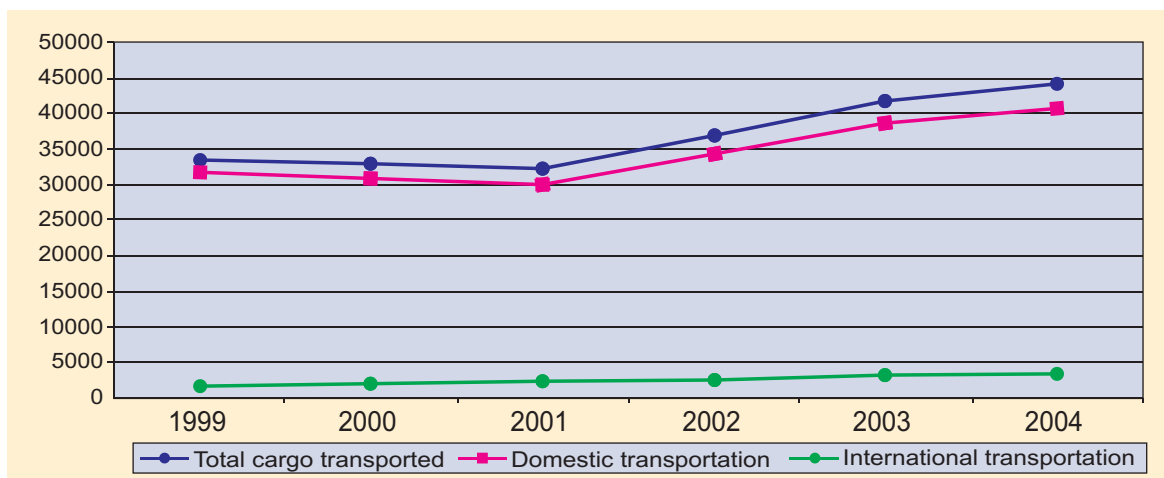
At the beginning of 2004 there were 1000 road transport operators in Latvia licensed to transport goods internationally. To operate in international transport, Latvian carriers require permits which, in

international market, have modern trucks that meet European regulations to deliver cargo (wooden materials, furniture, textiles, foodstuffs, consumer and white-goods) to and from Western Europe. The more modern companies, often subsidiaries or joint ventures of western transport companies, use trucks with satellite navigation and communication.

The Ministry of Economics reports that, essentially, the structure of the road transport industry has not changed in recent years. After small reductions over several years, the volume of freight transportation increased in 2000 and has continued to increase since then. In 2004, the total road cargo transported was 44.2 million tonnes, 5.8 % more than in the previous year. Both international and inland transportation have increased continuously.



### Cargo Volume and Cargo Turnover in Road Transportation, 1999 - 2004 (thousand tonnes)



Source: Ministry of Transport and Communications of the Republic of Latvia

In 2004, it is mainly domestic transportation, so international cargo transportation by road makes only 7.9% of the total transportation volume. Although domestic transportation prevails, the situation in cargo turnover is different - the proportion of international transportation is 67.9%. The average distances of cargo transportation are much longer in international transportation and in distinction to domestic transportation mainly commercial transportation dominates. In 2004 48.4% domestic cargos and international cargos were transported for own needs.

Incoming and outgoing international cargo flows are similar in terms of volume. There are no real differences between flow in different quarters, so it is consistent throughout the year.

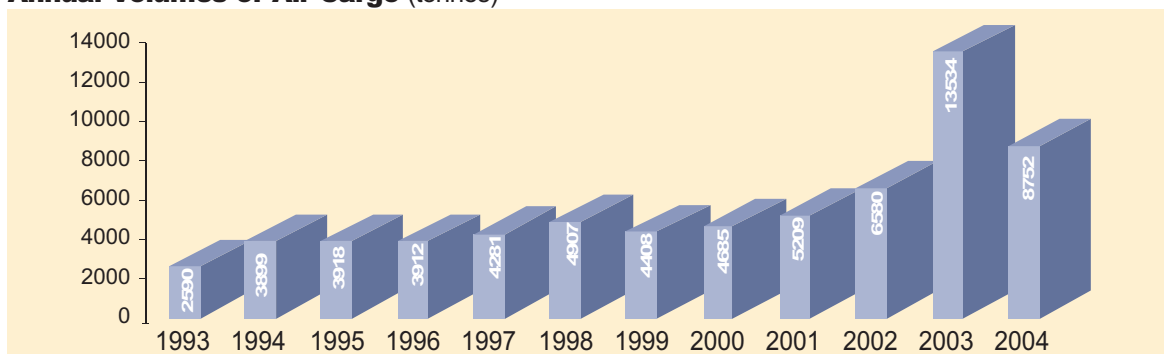
Analyses of cargo transportation indicate future growth in cargo volumes. Forecasts for increases in the total rate of domestic production in the period 2000-2005 mean that increases in cargo volumes transported by road could be high - an average of 15% per year and could reach 82.5 million tonnes by 2006. Thereafter, volumes may decrease.

## AIRPORTS

The Latvian government has invested more than USD 50 million in the modernisation of Riga International Airport, which is the largest air traffic centre in the Baltic States. More than a million passengers used Riga International Airport in 2004. There are regular direct flights from Riga to 17 countries. Among the airlines operating daily flights

are Air Baltic, SAS, British Airways, Lufthansa, Finnair, Aeroflot, CSA, Austrian Airlines, KLM, Ryanair and EasyJet. Cargo services are provided by a number of airlines such as Air Baltic, British Airways, Finnair, Lufthansa, CSA, Aeroflot, LOT and Austrian Airlines. International courier services are readily available, including DHL, UPS and TNT.

### Annual Volumes of Air Cargo (tonnes)



The decrease in volume of Air Cargo for 2004 is related to accession of Latvia to the EU, as well to the lack of information on the successive amendments to legislation.

Source: Riga International Airport

Latvia has also two other airports of regional significance, in Liepaja and Ventspils, strategically located near the Liepaja Special Economic Zone and Ventspils Free Port, respectively.

The capital of Latvia has developed over history into the regional centre of the Baltics. It has been the intersection of major land and sea routes since long ago. In more recent times, following EU Accession, it is the number of air routes which keeps increasing. Riga is the largest city in the Baltic States; hence Riga airport has handled the largest number of air passengers in the region over the past 10 years.

The number of passengers has doubled since 1993. London, Frankfurt, Copenhagen, Amsterdam and Berlin routes have the largest number of passengers.

Furthermore, direct flights link the capital of Latvia with more than 30 cities.

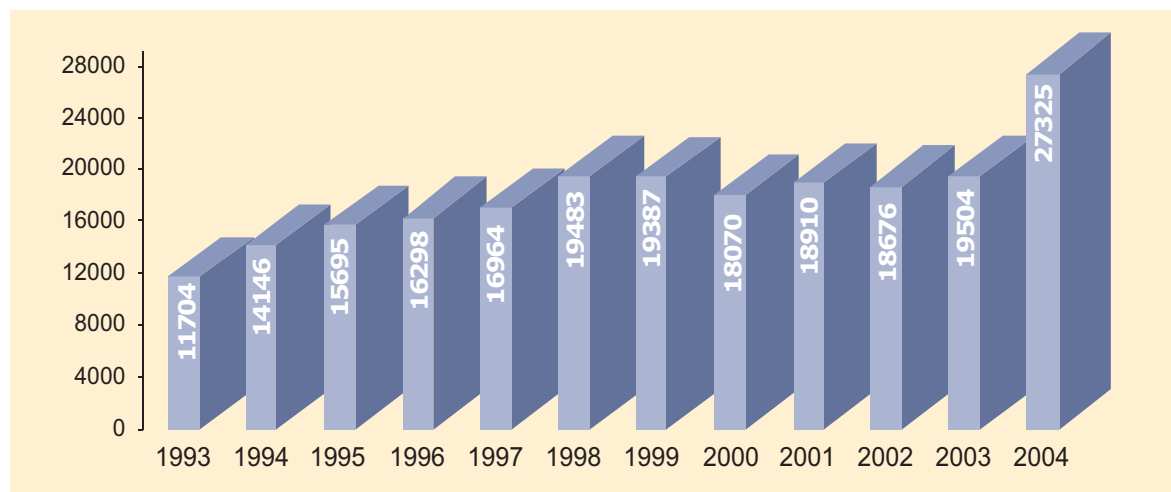
### Record Passenger Numbers in 2004

2004 became a special year in the history of Riga airport. More than one million passengers passed through the airport for the first time since the renewal of independence. The rate of increase in passenger numbers also exceeded 45% which is also a record. During the year, six new airlines started flights to Riga and 13 new direct routes were launched. Altogether, 30 destinations connect Riga with cities in Europe, Asia and the USA.

This has been an important precondition for further development of the airport. The next stage of terminal reconstruction and extension has already started. A new three-storey building will be constructed at the north end of the present terminal. Construction will be completed at the end of 2005 giving an increase in the airport's capacity to two million passengers per annum.



### Aircraft Movements



Source: Riga International Airport

### Recognition by the Global Aviation Industry

At the end of September 2004, Riga International Airport won the "Airport Marketing Award" in the "up to 5 million passengers" category at the annual *Routes* conference, the major aviation forum. Held in Madrid this time, the conference is an international gathering of representatives of international airports and the

world's main airlines. It is an event for aviation professionals to discuss the industry's topical issues and to meet for bilateral negotiations on routes and landing slots. Thus, *Routes* conferences are crucial to the planning of new flights.

## Logistics Services

The large global and European international transport companies have established leading positions in the Latvian transport industry. They operate either as joint ventures with local Latvian companies, or as independent subsidiaries. There are also a number of joint ventures between Latvian and Russian companies.

The type and range of services provided in transport and logistics include:

- transport of goods via road, rail, air or sea
- forwarding services like documentation, customs handling and clearing, organisation of transport and handling, communication and information services, insurance, fiscal representation
- warehousing (including bonded warehouses), pick&pack, assembling and storage of goods
- port handling activities such as stevedoring and shipping agency functions

There are 186 customs warehouses in Latvia. Their main businesses are the storage of in-transit goods and the provision of transit groupage services to Russia. Local retail chains also use (bonded) warehousing facilities.

In terms of Value Adding Logistics (VAL), activities include distribution of goods (mostly local or regional within Latvia), organisation of groupage services, some re-packing, labelling and division by countries/customising. There are some cases of logistics companies being contracted to manage the inventories of retail chains.

Examples of assembling activities that take place in Latvia include the mixing of certain paint colours in the *Baltic Paint Factory*, and the *Microlink* Company assembling computers for the domestic market.

Other VAL activities are being planned within projects to develop additional cold storage, and in Riga, retail distribution services are starting to be organised. There are also plans to provide VAL activities such as local/regional/national distribution, stock control, installation & repair, picking & packing services for the Baltic States market itself, as consumer markets and purchasing power develop.

The development of VAL activities for the Latvian export and export-transit markets, mainly to Western Europe and Scandinavia, like palletising, packing and bundling, labelling, and re-configuration has commenced. The basis for this is mainly the export of raw or semi-finished materials from Latvia or the CIS (e.g. wood products).

## EU Accession

EU accession has brought more trade and competition. Competition between railways, ports and international road carriers in the three Baltic States has increased. As an EU member, Latvia now has more bargaining power with Russia in trade, border crossing and road transportation permit issues. In addition, tax harmonisation measures, e.g. for fuel, may level the international playing field within the transit business sector.

An important benefit of the accession process for the transit trade has been Latvia's adoption of the EU Customs code. A further advantage of EU membership will be an increase in investor confidence, since disputes will be settled according to European legislation. It is expected that this will lead to an increase in foreign inward investment (FDI), as occurred when Finland received major inflows of FDI after it became an EU member.

Full integration in the EU market will encourage economic activities in which Latvia already possesses comparative advantages. This will indubitably stimulate the transit sector and related business services. Changes in employment in the transport and logistics industry after integration are expected to be positive, if Latvia continues to specialise in transit and related services. Large foreign companies will provide dynamism and innovation and through partnerships and co-operation will boost the productivity levels of small and medium Latvian entrepreneurs currently engaged in the sector.

## Government Policy

The transit and logistics industry has been declared a priority sector by the Latvian government. The Government has an open policy: both port and railway operations have been opened up to the free market.

The Latvian government has consistently supported the transit, transport and logistics industry: the government has been improving and developing infrastructure and substantial investments are planned in ports, railways and roads over the coming years. Latvia's infrastructure needs in the European context have been identified up to the year 2015, based on forecasts on the future development of multimodal transport. Additionally, the bureaucratic environment and facilities are being improved by e.g. customs services and the establishment of free ports and special economic zones. The Ministry of Transport has established a Transit Policy Department to co-ordinate and promote the transit, transport and logistics industry.

Most training within the transit and logistics sector is on-the-job and in-house, but several business consulting companies have successfully started short-term open courses on supply chain management. It is clear though, that training will be needed over a wider range of business processes in the sector.

## Business Opportunities

The strong points of the transit, transport and logistics industry in Latvia are:

*Latvia's geographical location between the east and west, being the EU's external border with Russia and Belarus. This applies particularly to the Russian market, but also to the potential transit function of Far East cargo via the Trans-Siberian Railway connection to Western Europe. The strategic location of the capital Riga, and its own sizeable consumer market potential, offer the best opportunities for development within the Baltic States and are the reason that a number of international companies have already sited their Baltic States head offices there.*

*The quality and level of transport and logistics services is improving, led by major international transport companies who have the capability and expertise to organise value-added activities.*

*The quality of road, rail, and maritime infrastructure is appropriate. Transport connections for maritime*

*cargo flows in containers, the quality of railway and road transport are good.*

*The availability of skilled labour is good. Larger companies provide staff training.*

*Multilingualism is, on average, at EU levels. Most workers in the sector have knowledge of 3 foreign languages (mostly English, Russian and German)*

*The level of technology in Latvia in the transport industry is good, with use of modern IT and data systems, Internet connections, and the development of Electronic Data Interchange. The adoption of technology is being stimulated by the presence of major international transport companies.*

*Government support for the development of the transit, transport and logistics sector is adequate, customs and tax legislation has been considerably improved during recent years, so both customs and tax authorities have established good communication and information systems.*

## Trans-Siberian Railway Line

Currently, export companies in the Far East (notably Japan and Korea) are faced with more and more capacity shortages at shipping lines (including container lines) between the Far East and Western Europe. Co-operating with western European import companies, they are now seeking transport alternatives, and this has led to an initiative to revive the Trans-Siberian Railway land route across Russia. A number of trial transports of containers to Berlin via the Trans-Siberian Railway have been successfully carried out by the German railway operator *Transfracht*. If the quality and reliability of the Trans-Siberian Railway line can be maintained and improved, it would provide opportunities for Latvia, in particular Riga and Ventspils, to develop as an alternative distribution hub for Far East companies exporting to Scandinavia and western Europe, as long as the quality and reliability of transport or distribution network from Latvia is properly managed, and optimal use is made of Latvia's location. Manufacturers or trading companies in the Far East may further stimulate the development of VAL activities or the supply of related logistics services, such as transit warehousing, Just-In-Time delivery, logistics chain or network control, information or IT/Data services.

## Tax Issues

During the last year Latvia, in close co-operation with the European Commission, has succeeded in developing national legislation that meets all the requirements of international transit flows and the operators involved.

### Importation of goods from third countries to the EU via Latvia

- Option to release goods for free circulation in Latvia by paying only customs duty (VAT is only payable by the final recipient in any EU country)
- The final recipient of the goods calculates all taxes as for a regular EU transaction, which means that VAT is not actually paid, but declared in a VAT report
- There is no need to apply transit customs procedures to the transport of goods from the point of importation (Latvia) to the final recipient (and no customs guarantee is required)



## Importation to EU via Latvia

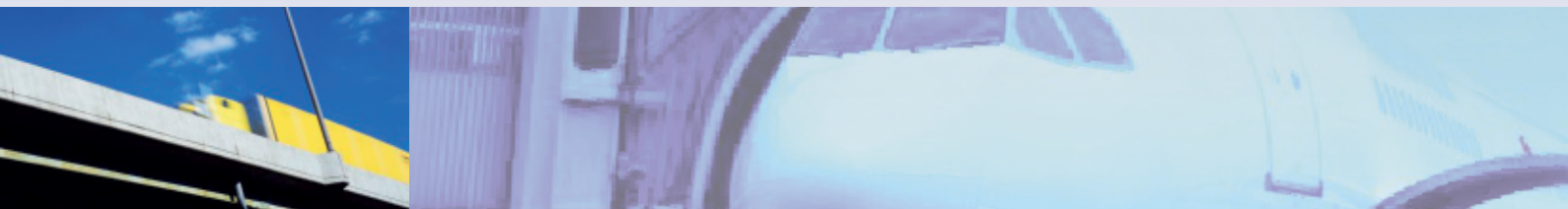


### Exportation of EU goods to Russia/CIS via Latvia

- Option to finish (close) the export customs procedure which was started in any EU country (including Latvia)
- Option to sell and buy specified goods (after export customs procedures are applied) in a Bonded Warehouse or Free Zone in Latvia without VAT being applied. No obligation for the companies involved to be registered as VAT payers in Latvia
- After the transaction described above, the consignment is sent outside EU customs territory by applying transit customs procedures

## Exportation from EU to Russia / CIS via Latvia





## Independent Opinion...

One of World's best recognised consultancy companies Ernst&Young has carried out an analysis of the new enlarged EU market and the advantages of each member state in the logistics and transportation sector. This chapter will present some relevant information on business opportunities in Latvia and the business environment from the report of that research "EU Enlargement: European Distribution Centres on the move?" Key findings include:

### ***Changes in northern European regional distribution centre locations***

Estonia, Latvia and Lithuania will join the European Union in the northern European region. Since these countries are located close to existing EU countries Sweden and Finland and since these new countries can also be used as an operating base for exporting to the Russian market, we expect that regional distribution centres in northern Europe will increasingly be moved, especially to Latvia.

### ***Establishment of rail routes from Asia-Pacific through Russia into the eastern part of the European Union***

The Russian market will become a close neighbour of the new European Union (although Russia was also a close neighbour of Finland in the northern part of the EU). Countries like Latvia and Finland will be used as a starting point for export to the Russian market, but Russia will also be used as a passage for imported products from Asia-Pacific to the European Union as an alternative to sea transport to ports in Western Europe. This alternative import route might even grow in importance because of the continuing economic growth in China, a close neighbour to Russia. We expect that Russia will develop its transport routes (especially the rail network) from Asia-Pacific to the European Union to benefit from its

closer alignment with the EU market.

### ***Improved accessibility of Russian market***

Because European Union countries are neighbouring Russia it will become easier for European Union countries to do business with Russia. Latvia in particular promises to be an excellent location to locate regional distribution centres that serve both (part of) the northern European market as well as the Russian export market.

### ***Movement from one EDC-structure to a two-tiered distribution structure***

The new European Union however covers a much larger geographic region making it impossible to deliver within two to three working days to all EU countries. We therefore expect that many companies will be moving back to a two-tiered European distribution structure consisting of a central European Distribution Centre (EDC) together with regional distribution centres in Northern Europe, UK/Ireland, Southern Europe, Eastern Europe and Italy/Greece.

### ***Advantageous position of sea ports in northern Germany***

We already described our expectation that regional distribution centres in northern Europe will be increasingly moving to Latvia. Due to the closer alignment of Russia to the new EU and the expansion of the northern European market with three new countries, we expect that transport from central Europe to northern Europe will increase. While road transport from the central European countries to northern Europe (especially Latvia and Finland) is possible, we also expect that sea container transport from Germany to Latvia and Finland will increase strongly. This will benefit the positions of the northern German ports of Hamburg and Bremen.



## Examples

### **RIMI Distribution Centre**



The *RIMI* distribution centre built in Dreilini in 2003 is the most modern distribution facility in the Baltic States. It ensures delivery of fresh products to *RIMI* hypermarkets and supermarkets, *Citymarket* and *Super Netto* stores.

As a result of the centre's establishment, suppliers' operations have been eased significantly, and freight transport flow in the centre of Riga has been reduced.

*BalDis*, a subsidiary of international logistics provider *Alpha Management*, supplies logistics services and personnel for the distribution complex.

Modern food warehouse with 12 500 Euro-pallet capacity

Refrigerated warehouses with 2 500 Euro-pallet capacity

Warehouse and transport logistics systems

35 000m<sup>2</sup> stand for cargo vehicles

### **VALDO Logistics Centre**





LATVIJAS INVESTĪCIJU UN ATTĪSTĪBAS AĢENTŪRA  
LATVIAN INVESTMENT AND DEVELOPMENT AGENCY

The objective of the Latvian Investment and Development Agency (LIDA) is to promote business development by facilitating more foreign investment, in parallel increasing the competitiveness of Latvian entrepreneurs in both domestic and foreign markets.

With more than 10 years experience in the attraction of foreign direct investment to Latvia and promotion of foreign trade, the Agency has worked continuously to improve the business environment and provided services appropriate to the needs of business.

At the same time, LIDA has been evaluating its own performance, comparing it with world best practices, and subsequently introduced new services and solutions for our customers.

The main priorities of the Latvian Investment and

Development Agency are to increase the competitiveness of entrepreneurs and promote further of foreign investment.

An ability to anticipate the rapidly changing needs of businesses and markets by offering new services characterises the Agency's own competitiveness, built on the knowledge and competencies of our experienced specialists.

LIDA has representative offices in London (UK), Hamburg (Germany), Stockholm (Sweden), Paris (France), Amsterdam (the Netherlands), Oslo (Norway), Copenhagen (Denmark), Alma-Ata (Kazakhstan), and Moscow (Russia), and an established network of representatives in Germany, Israel, Australia, USA, Ukraine and China.

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