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ACCESSION OF LATVIA

Memorandum on the Foreign Trade Regime

Addendum

Services Regime

1. Market structure

The Ministry of Finance of Latvia estimates that in 1994, total Latvian Gross Domestic Product (GDP) was approximately Ls 1.9 billion (approximately US\$3.5 billion), Ls 0.95 billion (US\$1.74 billion), or 49.9 per cent of which was derived from services activity.

The attached chart illustrates Latvia's trade in major services sectors. Unfortunately, Latvia does not yet have the ability to collect services trade information broken down by countries or geographical areas. However, it is likely that the geographical composition of Latvia's services trade is similar to the composition of its goods trade, which has been reported on in the Memorandum.

Export and import services - 1994

(Chart is based on Latvia's balance of payments statistics and therefore its sectoral classifications do not fully match those in the WTO services sectoral classifications list. Information in chart is based on preliminary data for 1994.)

(US\$ million)

	Exports		Imports		Balance
	Value	As per cent of total services exports	Value	As per cent of total services imports	
Total Services	623.3	100	204.7	100	418.6
Transportation	511.5	82.1	130.1	63.6	381.4
Tourism/Travel Related	17.3	2.8	26.8	13.1	-9.5
Communication	3.6	0.6	1.5	0.7	2.1
Construction/Related Engineering	9.8	1.6	0.3	0.1	9.5
Financial Services excluding Insurance	4.1	0.7	2.0	1.0	2.1
Insurance	0.1	0.0	12.9	6.3	-12.8
Royalties and license fees¹	0.4	0.0	0.0	0.0	0.4
Other Business Services²	71.5	11.5	6.1	3.0	65.4
Computer and Information Services	0.7	0.1	0.7	0.3	0.0
Personal, Cultural Services³	0.1	0.0	0.04	0.0	0.06
Government services⁴	4.2	0.6	24.3	11.9	-20.1

¹The royalties and licence fees are derived in part from activity related to other sectors of the chart.

²Other business sectors are comprised of intermediate trade operations (wholesale trade services), advertisement services, professional business services, leasing with operators, market research, map making, etc.

³Personal and cultural services include audio-visual services and recreational, cultural and sporting services.

⁴Government services are comprised of income and expenditure of Latvian embassies abroad, services provided by the Latvian Government in the process of withdrawal of Russian Army, services related to the SDR account, and technical assistance provided by foreign sources to Latvia.

Unfortunately, Latvia does not yet have the ability to collect information on the value and composition of stock of foreign direct investment in services, or on the direction of labour-related flows.

2. Policy Orientation

As the service sector is one of the most competitive sectors of the Latvian economy, Latvia pursues a very liberal policy regarding trade in services. For most service sectors, Latvia maintains no or few restrictions on market access or national treatment for the four modes of supply defined under the Uruguay Round Agreement on Services. Continuing this policy, Latvia does not intend to introduce any new restrictions in the service sector.

A. Regulatory framework

1. Relevant laws and other legal instruments

(a) Laws and other legal instruments applying to specific sectors:

The Resolution and Law "On Entrepreneurial Activity" (plus amendments) - 26 September 1990
Resolution and Law "On Banks" (plus amendments) - 19 May 1992
Law "On Insurance" - 12 January 1993
Regulations "On Securities" - 7 January 1995
Law "On Aviation" - 5 October 1994
Regulation No. 168 "Maritime Regulations" - 16 August 1994
Law "On Ports" - 22 June 1994
Draft Law "On Railways" - March 1995
Law "On Municipalities" - 19 May 1994
Law "On Posts" - 12 May 1994
Regulations No. 60 "On Works and Supplies for State Needs" - 1 March 1994
Draft Law "On Government Procurement" - October 1994
Regulation No. 41 "On Autotransport Conveyance" - 21 December 1993
Law "On Telecommunications" - 4 May 1993
Law "On Scientific Work" - 10 November 1992
Law "On Radio and Television" - 6 May 1992
Law "On Stock Exchange" - 28 January 1992
Regulations No. 40 "On Issuance and Turnover of Bills" - 21 February 1995
Law "On Lotteries and Gambling" - 16 June 1994

(b) Laws and other legal instruments applying to foreign direct investment in services:

Resolution and Law on Foreign Investment (plus annexes, amendments) - 5 November 1991

(c) Laws and other legal instruments applying to the entry and temporary stay of foreign natural persons supplying services:

Law "On Entry and Stay in the Republic of Latvia of Foreigners and Persons Without Citizenship" - 19 June 1992

3. Specific measures

(a) Cross-border trade

Latvia does not place any market access or national treatment limitations on cross-border services trade with the exception of air transportation. Access to air transportation in Latvia is based mainly on reciprocity (flight exchanges) or is subject to bilateral agreements on air transportation, which have been concluded with Austria, Denmark, Finland, Germany, Hungary, the Netherlands, Norway, Poland and Sweden.

Regarding the ability of foreign insurance companies to participate in insurance operations, the current Latvian legislation provides that foreign insurance companies may engage in insurance operations in Latvia provided that they either establish insurance stock companies or become the stock holders of such companies. Foreign insurers have the right only to reinsure if they have not founded insurance companies in Latvia.

(b) Consumption abroad

Latvia does not apply any market access or national treatment restrictions in this mode of supply.

(c) Commercial presence

Foreign direct investment requirements

Latvia maintains some restrictions or requirements on the ability of foreign service suppliers to establish a commercial presence in Latvia. Regarding the type of legal entity or joint venture that may be established in Latvia, the Law "On Foreign Investment" excludes establishment of partnerships. However, as an exception to the Law, Latvia's bilateral investment protection and promotion agreements may provide that investors of certain foreign countries may establish partnerships. Those countries are Denmark, Finland, France, Germany, Great Britain, the Netherlands, Norway, Poland, Taiwan, Sweden and Switzerland.

Regarding limitations on the participation of foreign capital in enterprises, the same Law prohibits foreign investors from gaining control of enterprises in the following service sectors: mass media (radio and television services, news agencies services, audiovisual services), national education (primary, secondary and higher), real estate services, organization and performance of lotteries and gambling operations, and port management (stevedore companies' services, ships' agent activities). ("Gaining control" under the Law is defined as gaining the right to control over the type of business activities and direction of the business development via voting shares or other means, but is not a prohibition of an investment.)

The Law also provided that the Cabinet of Ministers must approve the investment if the foreign investor (1) invests in a state enterprise; (2) obtains control over an enterprise or establishes a new enterprise whose capital worth exceeds US\$1 million. In the case of such a request, the Cabinet of Ministers shall take into consideration the impact of the investment on the economy of Latvia, including the use of local resources and services. (The United States, under the terms of the Latvia-United States bilateral investment Agreement, will not be subject to these provisions, when the Agreement is ratified by the Latvian Parliament.) This section of the Law is being considered for modifications to make it conform with the requirements of the Uruguay Round Agreement on Trade-Related Investment Measures.

Latvia maintains some limitations on the ability of foreign services suppliers to obtain privatization certificates and to engage in activities in the primary market for government securities.

According to Latvian legislation, the majority of the council members or credit institutions ("banks") must be citizens or permanent residents of Latvia.

Existing monopolies and exclusive supplier rights

Latvia has granted exclusive rights to the joint stock company "LATTELEKOM" (a joint venture between British/Finnish corporation TILTS COMMUNICATIONS and the Latvian Government) to supply basic telecommunications services, excluding public mobile radio telecommunication networks.

The Latvian Law "On Posts" provides for the establishment of a monopoly for postal services. Monopoly rights (with some minor exceptions) have been granted to the State Enterprise "Latvijas Pasts" ("Latvian Post").

In some additional service sectors, there exist enterprises having monopoly features, including railroad services (the State Enterprise "Latvijas Dzelzceļš" or "Latvian Railways"), utilities, energy distribution, and sewerage and refuse disposal services. Latvia considers these to be natural monopolies as these have not been created because of any specific monopoly rights under Latvian law.

Subsidies

Some Latvian service suppliers are granted subsidies for their operations. They are maintained (partly or wholly) from the State budget allocations. These sectors are as follows: research and development services, market research and public opinion polling services, National Radio and Television services, educational services, health related and social services and cultural services (libraries, archives, museums).

The State Investment Programme of Latvia provides for State investment and foreign loans in various sectors of the Latvian economy, including, in particular, general improvement of infrastructure and services provided by infrastructure.

Price controls

According to Regulation No.185 of 23 August 1994, "On Setting of Prices and Tariffs for Goods and Services", services in some sectors cannot be supplied above a certain price. This requirement is applied in a non-discriminatory fashion to both domestic and foreign service suppliers.

(d) Presence of natural persons

At present, the Ministry of Foreign Affairs and the Department of Citizenship and Immigration are working to establish a more liberal visa regime for tourists, business people and other categories of foreigners coming to Latvia with plausible intentions. The validity period of visas will be for up to one year instead of the present three months.

In Latvia, foreigners are permitted to be employed only after receiving a work permit. For persons holding a visa, such work permit is valid for up to three months. If the supplier of professional services wants to stay in the country for more than three months, the supplier must apply for a permanent stay permit.

Some services can be provided after obtaining a licence for a specific type of employment activity. Some services can only be provided after establishing a commercial presence - see sections above.

The applicants for licences often need to fulfil certain educational and professional requirements which are the same as for domestic service suppliers.

B. Institutional structure

Latvia continues to elaborate an institutional structure to cover all major services sectors. At present the following services sectors are under the supervision of Latvian governmental authorities, or professional associations under their supervision (licensing of business activity is one aspect of this supervision and is discussed in more detail later in the paper):

Ministry of Transportation

Communication services (excluding those related to audiovisual services)
Transportation services
Rental and leasing services (excluding those related to other machinery and equipment)
Computer and related services

Ministry of Finance, the Bank of Latvia

Financial services
Professional services (accounting, auditing and bookkeeping services, taxation services)

Ministry of Social Welfare

Professional services (medical and dental services, services provided by midwives, nurses, physiotherapists and para-medical personnel)
Other business services (placement and supply of services of personnel)
Other health-related and social services

Ministry of Education and Science

Research and development services
Printing and publishing (together with the Ministry of Culture)
Educational services
Other business services (related scientific and technical consulting services)

Ministry of Culture

Audio-visual services
Cultural services
Sporting and other recreational services (together with the Ministry of Regional Development and Environment Protection and the Ministry of Welfare)
Architectural services and urban planning and landscape architectural services (together with the Ministry of Regional Development and Environmental Protection)
Advertising services

Ministry of Economy

Technical testing and analysis service (together with the Ministry of Agriculture and the Ministry of Social Welfare, and services incidental to manufacturing)
Construction and related engineering services
Distribution services (together with the Ministry of Finance, Ministry of Transportation, Ministry of Foreign Affairs, Ministry of Agriculture and Patent Office)

Ministry of Regional Development and Environmental Protection

Business services incidental to mining (together with the Ministry of Economy)
Environmental services (together with the Ministry of Transportation)
Tourism and travel-related services

Ministry of Justice

Legal services

Ministry of Agriculture

Veterinary services
Business services incidental to agriculture, hunting and forestry and fishing

Ministry of Interior

Investigation and security services

Some services of the Services Sector Classification List are not under responsibility of governmental authorities, including building cleaning services, photographic services, packaging services and convention services. Some of those sectors are under the supervision of municipalities. It should be mentioned that municipalities are taking part in decision making for a number of services sectors, not just those mentioned above, but in all cases their decisions have to be consistent with laws and regulations adopted by the Latvian Parliament and Government.

For such services sectors as engineering services, integrated engineering services, real estate services, rental and leasing services related to other machinery and equipment, management consulting service and services related to management consulting, almost all government ministries are involved in their oversight. Non-governmental institutions also are involved in this process. The institutional framework for these service sectors is being elaborated and improved.

Licensing

According to the Law "On Entrepreneurial Activity" and the Law "On Business Operations" (plus amendments and additions) of 5 August 1992, some service activities provided by legal persons are subject to licensing. The issuance of these licences is automatic and does not discriminate against foreign applicants. Latvia has implemented such a licensing regime for reasons of environmental protection, public health and safety, public morality, as well as prudential reasons for some types of financial services.

However, it should be noted that the Parliament of Latvia is considering amendments to the Law to make the current business licensing system more flexible and more speedy. If the amendments are approved as drafted, the Parliament will authorize the Cabinet of Ministers to appoint institutions (government institutions or professional associations) with responsibility for licensing and to elaborate new lists of business activities to be licensed. The major purpose will be to shorten the current list of sectors subject to licensing. These amendments will not change Latvia's current objectives to use licences for reasons of safety, public morality or professional requirements.

Current system:

Licences issued by Rural and Urban Local Governments

Retail trade of tobacco products
Cooperatives of pre-school and out-of-school educational establishments
Shooting-gallery services
Passenger transportation services within the territory of a region or city
Operation of hospitals, including veterinary clinics
Provision of the services of a coach, sports instructor, or other specialist
Provision of medical services

Licences issued by the Cabinet of Ministers or Authorized Ministries (see list above for responsibilities)

Sale of pharmaceuticals
Wholesale of tobacco products and importation of such products for the purpose of trade
Operation of educational institutions
Land, air, water and rail communication services
Wireless communication services, radio and television programmes (except cable-television service)
Detective guards's activities
Practice of sworn auditors
Other auditor activities
Provision of legal services
Provision of notary services
Insurance operations
Import and sale of guns, explosives and special appliances (guns, pistols, their cartridges, gas-bags)
Geological, hydro-geological activities and geological engineering
Purchase and sale of precious metals and stone
Provision of services related to safety engineering in the workplace
Inspection of measuring appliances used in trade, mail and taxation operations
Inspection of measuring appliances used in labour and health protection
Inspection of measuring appliances used in court, inquiries and in other state institutions
Design, manufacturing, assembling, servicing, repair, operation and modernization of dangerous equipment
Blasting operations
Repair of sports, hunting and other guns and special appliances
Import and sale of pyrotechnic materials and appliances and pyrotechnic services
Specialist training in labour protection and dangerous equipment service staff
Operation of stock exchanges
Training of all vehicle drivers
Dissemination of films and video films and their public demonstration
Purchase of ferrous and non-ferrous iron-scrap
Export of ferrous and non-ferrous metals

Shipping activities in Latvian ports
Repair and testing of shipwreck and rescue equipment
Repair and testing of navigation equipment
Publishing of navigation materials and marine maps
Underwater activities in ports and ship repair
Training of shipping specialists
Rescue works in cases of shipwreck, including liquidation of sea pollution consequences
Operation of tugboats in ports
Job placement services
Insurance mediation services
Maintenance of all types and lotteries and gambling houses
Activities in the securities and privatization certificate market
Sugar wholesale and import
Trade of plant life protection aids
Retail trade of mechanical vehicles and their trailers

Licences issued by the Spirits Monopoly Board

Wholesale and retail trade in spirits and alcoholic beverages

Licences issued by the State Land Agency

Practice of land surveyors
Practice of sworn values (related to surveying)
System of land use
Production of geodetic works, photo-grammatical works and topographical works

Certificates or licences issued by Professional Associations (in accordance with provisions of Latvian Laws)

Veterinary services
Medical services
Architectural services
Building engineering services
Legal services
Educational services

Licences issued by the Bank of Latvia

Purchase and sale of foreign currency
Activities of banks and credit operations with precious metals and their products

Future licences

The Cabinet of Ministers will at some point in the future issue regulations on entrepreneurial activity requirements for provision of services to install or repair of electronic appliances (electronic cash tills) and electronic systems for the recording of tax and other payments.

C. International agreements and other arrangements

Economic integration/free trade agreements

The free trade agreements concluded by Latvia traditionally do not cover trade in services.

Currently the Republic of Latvia has entered into negotiations with the European Union in order to conclude an Association (Europe) Agreement with the EU. This Agreement will cover trade in services and establishment issues.

Membership of multilateral agreements and arrangements

At present Latvia is a member of the following multilateral economic organizations:

UNCTAD	United Nations Council for Environment and Development
UNECE	United Nations Economic Commission for Europe
EBRD	European Bank for Reconstruction and Development
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
FAO	Food and Agriculture Organization
ILO	International Labour Organization
WMO	World Meteorological Organization
UPU	Universal Postal Union
WIPO	World Intellectual Property Organization
ICAO	International Civil Aviation Organization
ITU	International Telecommunication Union