

**GENERAL AGREEMENT  
ON TARIFFS AND TRADE**

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**ACCESSION OF LATVIA**

**Memorandum on the Foreign Trade Regime**

The following Memorandum on the Foreign Trade Regime has been received from the Government of Latvia.

The laws and other legal texts to which reference is made in the Memorandum will be available for consultation in the Secretariat (Office of the Special Adviser, Room 2017). In view of the wish expressed by Latvia to become a member of the World Trade Organization, it should be noted that the Memorandum contains information concerning the Uruguay Round Agreements. In order that the matter may be examined by the Working Party on Latvia's accession to GATT (L/7365/Rev.1), contracting parties are requested to communicate to the Secretariat by 30 September 1994 any questions they may wish to put concerning the matters dealt with in the Memorandum, for transmission to the authorities of Latvia.

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## **I. INTRODUCTION AND SUMMARY OBSERVATIONS**

### **1. Overview: independence, stabilization, and reform**

Latvia declared its independence from the USSR on 4 May 1990. Following the events in the Soviet Union in August 1991, Latvia was quickly recognized as an independent State by the international community. On 17 September 1991, the General Assembly of the United Nations voted to accept Latvia as a member. Since that time, the country has experienced sweeping social, political and economic changes. These changes are oriented towards the establishment of a market economy and a democratic polity, in fact this period has seen a discernable strengthening of the country's democratic stabilization elements - the multiparty political system, the active and freely elected parliament, the independent court structures, the free and independent mass media, and the market-oriented macroeconomic stabilization.

On this last point, at the beginning of 1993, there were clear signs that the macroeconomic programme was taking hold. Inflation was down to low single-digit monthly rates, while the Latvian ruble appreciated in nominal terms against convertible currencies. The downward adjustment of inflationary expectations enabled the Bank of Latvia to reduce nominal interest rates and initiate a gradual conversion of the interim currency into the national currency, the lat.

In making structural changes in the economy, the Government has made more modest progress. Many small enterprises, including food shops and service establishments have been privatized, and about 52,000 small private farms have been established. In 1992, significant obstacles to the privatization of medium -and large- scale enterprises were removed. As to reform in the financial sector, the Bank of Latvia has already separated itself from its commercial branches; such separation will facilitate the eventual privatization of the branches.

Latvia has developed a "Programme of Reforms For the National Economy of Latvia" ("LATVIA 2000"). The objective of this programme is to make Latvia a safe and comfortable home for all residents of Latvia by implementing a rapid, purposeful and uncompromising reform, and by achieving integration into the economic structures of Europe (with official participation in the European Union as the final result). This programme has been the basis for developing national programmes for macroeconomic stabilization, energy, transport, foreign trade, etc.

### **2. Institutional framework**

#### **(a) Private property**

The legal basis of private property rights was established in 1990. This allows the formation of all common types of corporate and non-corporate private enterprise; it also prohibits private enterprise in the production and sale of drugs, and the production of securities, banknotes, coins and postal stamps. In addition to the establishment of private property rights, we have made a concerted attempt to privatize both those enterprises which are best managed by private parties and a great deal of real property. The enterprise category includes both "state" enterprises (central-government-owned) and municipal property enterprises; the privatization process is furthest along with respect to municipal property enterprises (20 per cent of such enterprises). Note that privatization is being pursued simultaneously with a policy of restitution of property that was nationalized during the Soviet period. While these two programmes are philosophically inseparable, the restitution programme, as in most transitional countries, complicates the privatization effort.

Finally, Latvia has worked to establish an intellectual property regime that is in accordance with the international norm, including provisions for patents and trademarks, industrial design protection, copyrights, and plant variety protection.

(b) Price system

The price liberalization process began in early 1991. It developed successfully; by mid-1993, only a few items remained subject to control, such as energy, telecommunications, flat rents, heating, public transport, and other public services (mainly due to the fact that they are natural or historical monopolies). Competition law will be enhanced - and vigorously enforced - with a view to protecting the consumer from monopoly (whether inherited from the Soviet system or established by unfair trade practices).

(c) Exchange controls

Latvia was the first republic of the former Soviet Union which established its own currency. We have established one of the most liberal foreign exchange regimes in the world. Both foreign exchange and Lats may freely enter and leave Latvia. Foreign entrepreneurs are free to repatriate their profits in any currency after paying the applicable taxes. The lat (in July 1994 1 Ls = US\$1.8) is freely convertible, backed by the Bank of Latvia's currency reserves. There are no restrictions on interest rates for credits and deposits. Latvia has been a member of the IMF since 1992.

(d) Industrial restructuring

Industrial policy is aimed at reducing Latvian dependence on a supply of raw materials from the major powers and to increase the diversity of the economy so as to permit flexible adjustment to changing world market conditions. Great importance is attached to the implementation of new technologies, alternative sources of raw materials and maximization of value-added. It is envisaged that a special government investment funding facility will play an important role in this effort, as will government investment in infrastructure.

(e) Financial sector

The central Bank is no longer involved in commercial banking activities. The main objective of the Bank of Latvia is to elaborate and implement monetary policy, i.e. to regulate the amount of money in circulation in order to maintain internal price stability. The Bank of Latvia also performs supervisory and auditing functions with respect to commercial banks and other credit institutions.

Interest payments on public debt at 1/4 per cent of GDP in 1992 reflect the fact that Latvia started the transition to a market economy with negligible levels of external and internal debt. Moreover, the Government has maintained a responsible fiscal posture; increasing pressure on the revenue side - as well as unanticipated one-time expenditure requirements - has led to reduced outlays for supplies and maintenance, public investment, public sector employee compensation, pensions, and social services/transfers.

On 1 January 1994, the banking system included 61 commercial banks, of which only four were state-owned. As of 1 March 1994, seven banks owned capital that exceeded Ls 3 million. Two problems have emerged: commercial banks are dealing for the most part in short-term loans to trade and export-import companies (credits for industry and agriculture do not constitute a major portion of the loan portfolio); and, because of the unstable capital markets, substantial credit risks, and the demand for loans, interest rates are very high. On the first point, the development of appropriate legal institutions will give the banking industry an incentive to extend the range of leading activities. On

the latter point, the increasing competition among the banks and the rapid growth of bank capital are causing interest rate, reductions.

3. Trade policy features and trends

(a) Facilitating new relationships

Latvia remains devoted to a liberal multilateral trade policy and an open economy. Economic openness and a sustainable balance of payments will be facilitated by the achievement of most-favoured-nation ("MFN") status and by the conclusion of free trade agreements with countries that are expected in the near future to be major trading partners. Moreover, with regard to the balance of payments issue, it will be necessary to substantially increase the share of exports in national income. This can be achieved by integrating gradually with the European Community - and with other elements of the international economic system - and by the establishment of national programmes which promote development in the spheres where Latvia has advantages.

The international integration of Latvia should also incorporate the advantages derived from its unique location between the Eastern and Western regions and its history of contacts with the Eastern regions. Therefore it not enough to declare that we must develop our port, transportation systems and wholesale networks oriented to intermediary, and transits functions between the East and the West. Adequate economic and legal conditions should also be created, including favourable treatment of goods in transit and promotion of intermediary services to secure the functions of the "bridge".

Latvia does not grant direct or indirect subsidies which are aimed at increasing exports of any product.

(b) Legal support of foreign trade

New laws and regulations, as well as amendments to existing laws, will be developed as part of the Government's effort to facilitate international trade. These laws will be developed with an eye to the most exacting compliance with international standards - especially the requirements of the international treaties and organizations that Latvia intends to sign/join (e.g. GATT) - and to the interest of both traders (i.e. consumers) and domestic producers. There will be laws such as: "law on foreign currencies and precious stones", anti-dumping/countervailing duty law, customs procedural/valuational law (note that customs duties will not be levied for fiscal purposes), and a law on the foreign ownership of Latvian land. The Government may, on a temporary basis (and in order to respond to specific market conditions), both establish market safeguards and - in order to lower the effective level of protection - establish tariff quotas. The Government will encourage investment in the private sector by giving insurance to foreign capital.

(c) Free zones

The types of free zones most suited to Latvian needs are:

- Free trade zones (free port zones);
- Functional zones for establishing hi-technology parks;
- Free tourism zones with a variety of services (favourable terms).

It is rational to start with the formation of free trade port zones. Such zones can be formed in functioning ports - Riga, Ventspils or Liepaja. Introduction of free zones and their legal protection would stimulate foreign investment.

## II. ECONOMY AND FOREIGN TRADE

### 1. Economy

#### (a) General description

##### - Territory

The Republic of Latvia is situated on the eastern coast of the Baltic Sea, bounded by Estonia to the north, Lithuania to the south, and Russia and Belarus to the east. Latvia has a 500 kilometre coastline on the Baltic Sea, along which lie the ice-free seaports of Ventspils, Liepaja, and Riga, the capital.

Latvia has, an area of about 25,000 square miles (about 64,600 square kilometres). A little less than half the country is arable. Woodlands cover about 40 per cent of the territory and are an important source of timber. About 3.5 per cent of Latvia consists of water. The longest river is the Daugava, and the largest lake, Lake Razna, has an area of around 53.5 square kilometres. Latvia also has some important mineral resources; there are significant resources of peat, limestone, gypsum and dolomite.

##### - Population

Latvia has a population of about 2.7 million people. It is estimated that 69.5 per cent of the total population lives in cities and towns, 30.5 per cent in rural localities. The largest city, Riga, has 910,000 residents, the second largest, Daugavpils, has 129,000, and the third largest, Liepaja, has 115,000. Nineteen-ninety-two figures show that 56.4 per cent of the permanent population was of working age (men 16-59, women 16-54). The population density of 41.5 people per sq. km. is lower than the average density of Western Europe.

##### - Economic specialization

For the past 50 years, Latvia's economic development took place with the confines of the USSR's centrally planned economy. During the post-war period, industrial development exploited the skilled work force and the relatively well developed infrastructure. Raw materials, energy, and the labour force were imported from Russia and other Soviet Republics, and finished products were exported to the USSR. Agricultural development followed a similar pattern, with mixed feed being imported and output exported. However, industrial output since 1940 has increased 60 fold, while agricultural output has only increased two-fold.

Latvia has only a few kinds of mineral resources and has insignificant indigenous energy resources. Under the Soviet command system, its industrial sector could rely on other States of the former Soviet Union for most of the inputs it needed, which were normally supplied at below world market prices. Latvia also relied on the States of the former Soviet Union as market for its products. When the Latvian Government took over the political/economic system in August 1991, it inherited an industrial system characterized by a high degree of integration with the economy of the States of the former Soviet Union; a high reliance on defense-related production; a large average size of enterprises (with outdated technology), many of which had a monopolistic or oligopolistic position in the Latvian and former Soviet Union markets; and a relatively low quality of production. In 1990, the industrial sector comprised 401 units, employing on average over 763 workers, a high average by

international standards. The largest enterprises, in average number of people employed, were electronics producers (over 7,800 employed per unit on average), chemical producers (1,279), and light industries (859); the less labour-intensive industries were food processing (417), building materials (440) and forest industries (445). Latvia's comparative advantage rested on its well-developed infrastructure and well-educated labour force. Industry (including electricity, gas, etc.) is the key economic sector in Latvia, accounting for nearly 45 per cent of GDP 1992, with manufacturing output representing over 38 per cent of GDP. Within the manufacturing sector, engineering industries (including machine building, and electronics) accounted for the largest share of the sector's output, followed by food processing industries and light industries.

In 1991, about one third of Latvia's industrial production was exported to the CIS, Lithuania, Estonia while almost the same share of imports consisted of resources and raw materials from these countries. Consequently, the economic situation in the CIS countries, particularly in Russia, has a direct impact on the development of manufacturing industry in Latvia.

Agriculture is the second largest economic sector in Latvia, accounting for 24 per cent of GDP in 1992; at that time Latvia had 2.5 million hectares of agricultural land and 2.8 million hectares of forest land. About 1.7 million hectares (or two thirds of the agricultural land) was arable. Most of the arable land was planted in grains and fodder crops but, overall, about half of the value of production was derived from livestock products. About four-fifths of the land was farmed by the public sector, mainly through statutory farm companies. The remainder was farmed on private plots by employees in the State and collective farms.

The agriculture sector is undergoing a difficult adjustment because of rapid inflation and distortions in trading relations with the States of the former Soviet Union. The Government has taken steps for the revitalization of agriculture, for example, through land privatization and reform, by the elimination of price controls, and by the abolition of virtually all subsidies. These measures have helped eliminate many of the distortions that characterized the sector in the past. However, new problems have emerged. Aside from a decline in productivity, the sector has faced a nearly complete absence of credit, outdated productive assets, an oversized livestock sector, and an equally oversized agro-industries sector (relying on antiquated technology/equipment and insufficient support services, including extension marketing and research).

- Main economic indicators

See the attached tables in Annex III (numbers 7 through 10). The GDP was 1004.57 million in 1992; 16.26 per cent was generated in agriculture and forestry, 30.13 per cent in manufacturing, 4.99 per cent in construction, 1.61 per cent in energy, and 46.5 per cent in services. Real GDP fell by 12 per cent in 1993. During 1993 real GDP stabilized at about 46-50 per cent of the level of 1990. Statistics on the aggregated usage of GDP show that private consumption in 1993 compared to 1992 decreased by 16 per cent. According to forecast, in 1994 compared to 1993, private consumption will increase by 19 per cent.

The Parliament is making a strong effort to get the national budget deficit under control. In 1993, the deficit was negligible (.14 per cent of GDP). Nevertheless, domestic bank credit to the general government had to expand slightly, as the central government had to repay a hard currency loan to domestic non-bank lenders, incurred for financing the build up of energy reserves in the autumn of 1992.

The balance of payments is expected to exert pressure upon macroeconomic policy (more or less depending upon the direction taken by macroeconomic developments); this will be the result of trade deficits. Trade deficits are desirable when a country needs to borrow from abroad. That Latvia needs to borrow is indisputable. There is simply no other way to finance restructuring. If World Bank

and G-24 credits are used efficiently in the initial period of economic recovery, demand for imports, especially for creation of fixed capital, will increase. The trade balance figure will be approximately 12 per cent of GDP. In 1994, we expect that exports of goods will take 41 per cent of GDP, and imports of goods 52 per cent of GDP. The balance of payments will be supported by foreign loans.

Of course it is also possible for a trade deficit to be the consequence of a debt-financed consumption binge. Imports of consumption goods are not self-financing and must come at the expense of future consumption. Thus, the Government must carefully evaluate the source of any trade deficit, and take appropriate action to prevent a debt-financed consumption binge.

In 1992, the Consumer Price Index increased nine-fold. Tight income and monetary policies since then have cut inflation. In the first, second and third quarter of 1993, quarterly inflation over the previous quarter was 13.91 per cent, 3.34 per cent and 1.74 per cent respectively. In August 1993, inflation was negative (-1.7 per cent), due to the decrease in food prices. In the fourth quarter of 1993, quarterly inflation reached 12.65 per cent due, in part, to the increase in the turnover and excise taxes; for the year, inflation was 34.74 per cent.

One of the targets of economic policy in 1994 will be the realization of the anti-inflation and stabilization programmes. The monthly inflation target in 1994 (worked out in conjunction with the IMF) is 0.5 per cent. The most recent econometric forecast suggests that the rate of inflation for 1994 will be 22.17 per cent.

The anti-inflation policy resulted in higher levels of unemployment. On 2 November 1993 there were 90.3 thousand persons looking for jobs; 74.2 thousand were officially unemployed, or 5.5 per cent of the labour force. Official unemployment growth is much lower than the decrease in production; this is due to a high level of hidden unemployment (many enterprises keep workers on the payroll without payment). After the implementation of Government structural reforms in 1994, hidden unemployment will become explicit. Growth in unemployment is forecasted to be proportional to reductions in inflation. The unemployment rate may reach 15 per cent. Unfortunately, even if inflation grows faster and the average monthly inflation rate remains at the level of 2-3 per cent, we do not expect a slower increase in unemployment.

(b) Main directions of the ongoing economic policies, tactical and strategic goals of the economic policies including information on pricing policy, economic development plans, privatization plans ...

The need for radical change is evidenced by Latvia's economic goals as well as by the existing situation in the Eastern markets. The main tasks for the government are:

1. Decreasing dependence on the unstable CIS market while taking maximum advantage of this market's possibilities;
2. Developing those enterprises producing products suitable for export to western markets;
3. Encouraging enterprises whose production cycle can be completed within Latvia;
4. Reduction of energy utilization and raw material utilization, at the same time expansion of high science and technology production capacity;
5. De-monopolizing and privatizing the economy;
6. Creating a business-friendly atmosphere and developing a market economy infrastructure.



- Pricing policy

Considerable progress was made over the last year in the area of pricing policy. The price liberalization process, which started in early 1991, advanced with vigour, and by mid-1993 only a few items remained subject to control, such as energy, telecommunications, flats rents, heating, public transportation, and some other public services.

The Government intends to move away completely from price control and to allow the swift adjustment of prices to external as well as domestic stocks. The Prices and Tariff Council, in cooperation with the committee established to administer the competition and anti-monopoly legislation, will continue to oversee price determination for goods and services provided by monopolies, including State enterprises and utilities. As a matter of principle, it will allow a full pass-through of imported input costs into prices. Efforts to break up enterprises with a dominant share in a sector will be intensified so as to speed up the process of enterprise restructuring. Furthermore, in view of the almost complete dependence on imported energy, the Government will study the energy sector and devise an appropriate strategy for energy pricing and development.

- Private enterprise

The legal basis of private enterprise was set up in the Law on Entrepreneurial Activity. It was passed on 1 December 1990. This allows the formation of the following business structures:

- Joint stock companies;
- Limited liability companies;
- Partnership companies;
- Individually owned companies.

Due to the law "On Entrepreneurial Activities" only state-owned enterprises are allowed to produce and sell drugs, and to produce securities, banknotes, coins and post stamps. Several activities are allowed only with special permission (a license), which is given by Ministries, other Governmental bodies and local governments. See also, discussion below of "trade related aspects of intellectual property rights" in Section IV(9). Due to the law "On State Owned Enterprises", the Government is not responsible for state-owned enterprises obligations, i.e. state-owned enterprises in their economic activities are independent from government. (The Government does have the right to appoint and recall managers of state-owned enterprises.) State-owned enterprises are thus basing their decisions on the demands of the market place.

- Restitution of property

The principle of "Restitution of Property" refers to the return to previous owners or their heirs (not only physical persons but also legal entities, including foreign owners) of property illegally nationalized during the occupation by the USSR. This principle encompasses buildings, land, and industrial property. Buildings and land restitution programmes have already been implemented.

The issue of returning industrial property is presently being considered. It should be noted that - recognizing the seriousness of the problem of separating industrial property that was expropriated from additions to industrial property that occurred during the occupation - the Supreme Council (Parliament) and the Government tend to lean towards monetary compensation.

The Latvian experience shows that it is necessary to balance the renewal of ownership rights which existed before the occupation by the USSR with the interests of the present users, and, even more importantly, to direct the restitution process in such a manner that it does not impede the transformation towards a market-oriented economy. Thus, efforts are being made to expedite and regulate the restitution process.

- Privatization of enterprises (in general)

At the present time, privatization is finished in 42 state-owned enterprises (i.e., central-government-owned) or 6 per cent of the total amount of state enterprises (698), and in 675 municipal property enterprises or 20 per cent of the total amount (3386). In 1994, we expect that privatization will be finished in such branches as:

- Trade, restaurants and cafes, service enterprises which are municipal property;
- Milk processing plants;
- Meat processing plants;
- Bread processing plants;

In 1995, privatization in the agricultural sector will be completed. By 1996, we expect that 75 per cent of state-owned enterprises will be privatized.

On 20 March 1991 the Supreme Council (Parliament) passed a Decree "On the Basic Principles of State Property and its Conversion", which outlined the objectives and basic principles of conversion and privatization of State property. They were as follows:

1. Privatization is to be carried out by taking into consideration the specific characteristics of different sectors of the economy, which means, in practice, that there will be a different approach to the privatization of State enterprises in each sector of the economy (agriculture, fishing, industry, processing of agricultural foods, etc.) and the development of unique laws in each of these fields. This principle has been developed in later legislation as ministries have been given responsibility for the privatization process in their respective sectors;
2. Ownership rights with respect to nationalized and otherwise illegally seized property (after 17 June 1940) may be renewed by any previous owner or his/her legal heirs regardless of his/her present citizenship;
3. Privatization of that portion of State property for which there is no outstanding ownership claim is to be carried out by selling the property for currency presently in use in Latvia, or other forms of payment;
4. Some parts of State property are to be privatized for certificates and distributed to the permanent residents of Latvia.

Note that the Ministry of Economics has adopted a list of State enterprises that will not be privatized. Privatization will not occur in such branches as gasworks, railroad, post, communication, culture, science, and health services.

- Privatization of small enterprises

Privatization of municipal property, e.g., service enterprises, shops, cafes etc., is to be handled under the small enterprise privatization programme. The law of small enterprise privatization was one of the first laws on privatization - the Law "On Privatization of Municipality Small Establishments (Small Business) of Trade and Commerce, Restaurants and Service" was passed by the Parliament on 5 November 1991.

The peculiarity of the law lies in the fact that only the inventory and stock of goods of a shop, cafe, restaurant, etc., can be subject to a purchase contract. The premises where the shop is located can be only rented. If in the course of the five years the new owner adheres strictly to the rental contract conditions and the purchase contract obligations, the municipal authority can consider the sale of the rented premises.

If a shop is located in a building subject to denationalization, normally the municipal authority must denote in a rental agreement that the premises remain in the possession of the municipality until the real estate is returned to the former owner. Due to this factor, several municipal authorities focused privatization efforts on enterprises which were located in post-war buildings.

The law does not denote the period of time within which the municipal authorities must complete small enterprises privatization, nor does it impose upon municipalities a duty to prepare a list of all enterprises to be privatized. The municipal authorities monthly announce publicly what enterprises are available. Usually 4-6 enterprises at a time are offered for purchase. As soon as the purchasers of these enterprises are found, the municipal authorities announce a new list of enterprises to be sold.

The law denotes that privatization is organized and the purchaser is chosen by a privatization commission nominated by the municipal authority. Its duty is to select the enterprises to be privatized at each interval, to produce an analysis of prior operations of the enterprise, to denote the forms of privatization, to select the criteria of purchaser selection, and to determinate the initial selling price of the enterprise. Often the initial price denoted by the privatization commission reflects not the value of sales inventory, but rather the value of rental rights in the premises, as the sales inventory, is substantially exhausted and cannot be used in the operation of the enterprise. An application for small privatization could be:

- Any person or a group of persons;
- Any legal person that is registered in the Republic of Latvia Register of Enterprises, except State-established legal persons;
- Any foreign person or legal person.

Privatization forms could be:

- Auction ;
- Tender;
- Selling to selected persons (natural or legal).

If there is going to be a tender, the applicant should present:

- (1) A business plan;

- (2) documents justifying the applicant's professional skills (if an applicant is a group of persons, at least one of them should have an appropriate education);
- (3) as to natural persons - documents establishing the period of time residing in Latvia;
- (4) as to legal persons - a registration certificate issued by the Register of Enterprises, the articles of incorporation, and a certificate of State Financial Inspection that all required taxes and duties have been paid by the person.

Usually the privatization commission applies several additional criteria as bases for selecting the most appropriate bidder:

- ability to resume operation of the enterprise at once or not later than one month after its acquisition;
- ability to maintain the operational type of the enterprise for a definite period of time (2-5 years);
- ability to carry out other activities (to repair the entire building, improve the facilities, etc.) free of charge, according to the municipal initiative.

Some municipal authorities require the purchaser to transfer a definitive amount of money for social funding; the municipal commission has the right to reduce the enterprise selling price in order to obtain concessions on such matters.

It should be mentioned that the law requires that the purchaser will assume the obligations of the enterprise (including obligations to the employees of the enterprise). This means that the new owner can terminate the employment of an undesirable employee only if the employee is paid the compensation required by labour law (in 1994 - a one month salary).

All of the above-described procedures operate to decrease the interest of private parties in the privatization process. In addition, the complicated purchaser nomination procedure has drawn objections from municipal authorities. Therefore, a more popular method of small enterprise privatization is liquidation of the enterprise, followed by rental of the released premises to private firms by means of a tender.

- Privatization of large enterprises

The parliamentary resolution concerning the privatization principles applicable to large enterprises has been suspended several times by the Parliament. This undoubtedly indicates the complexity of the issue, as well as its significant impact on the restructuring of the entire economic system. Discussions in the parliament about the privatization schedule and the principles of privatization (applicable to this class of enterprises) were concluded on 16 June 1992 when the Law "On the Privatization Schedule of Objects of State and Municipal Property (Enterprises)" was passed.

Until that time, the Government had designed two concepts for large enterprise privatization. The goal of the first concept which was worked out in November 1990, was to find owners of large enterprises as soon as possible, mainly by administrative methods. The large enterprises were expected:

- To be transferred to municipalities;
- To be transferred to the employees;
- To be transferred directly to private entrepreneurs by leasing or selling.

In total, prior to the passage of a Parliamentary resolution on these matters in 1991, the Government used these methods to partially privatize and turn into closely-held joint-stock companies six light industry and building enterprises. However, this process was interrupted because a substantial segment of society believed that the enterprises were being appraised at prices below their actual value.

A new concept on large enterprise privatization was worked out by the Government and introduced to Parliament in January 1992 (the "2d system"). It proposed to start mass privatization of large enterprises. On the basis of this concept, the Government (supported by technical assistance from the EC PHARE Programme) prepared and appropriate set of regulations. With slight amendments, the principles in these regulations governed large enterprise privatization in 1992 and 1993.

Decentralization and the "initiated from the bottom" privatization principle were assumed to be the bases for large enterprise privatization under the 2d system. On an annual basis, after considering the proposals made by enterprise management and the branch Ministries, the Government compiled and accepted both a list of those enterprises (and separate structural units) which could be privatized and a list of those enterprises which could not be privatized. In 1993, 712 enterprises and their units were included in the list of enterprises which could undergo privatization (which was approved by the Government on 22 February 1993) and 558 enterprises were included in the list of non-privatizable enterprises. The Government had the right to supplement the above-mentioned lists. Any person or legal person (including a foreign entity) had the right to prepare a privatization project for an enterprise within three months after the enterprise had been included on the privatization list. The branch Ministry to which the enterprise was subordinated made a ruling on each privatization project (with rights of appeal to the Ministry of the Economy); this included a ruling on the privatization method (i.e., the means by which ownership was changed).

A necessary instrumentality of privatization under the 2d system was the privatization commission. A privatization commission included representatives from the branch Ministry, Ministry of Economy, the local municipality and the enterprise trade union. This commission had no right to conclude any contracts, but it was responsible for the enterprise's evaluation and other activities required by the law regarding the particular privatization method. All state-owned enterprise rights and liabilities (including credit obligations) were transferred to the new owner of the enterprise. Both the payment terms and schedule were incorporated into the accepted privatization project and the purchase agreement. All incomes had to be transferred to the State budget fund established especially for this purpose (unless they were spent on the privatization process).

Later, the Government developed and introduced to the Parliament, for discussion, a new state-owned enterprise privatization concept, which was subsequently passed by the Parliament. Under this law, the Central Government will control the privatization of such enterprises. According to the new law, the following changes of ownership in state-owned enterprises are covered:

- (1) Sale of assets of state-owned enterprise and state-owned companies, sale of particular state-owned property, sale of the state-owned part of the enterprise (shares);

- (2) Deposit of state-owned property into assets investment which has private capital involvement;
- (3) Increase of fixed assets of state-owned company, by attracting private capital.

The privatization of all state-owned enterprises is coordinated and carried out by a special institution - The Privatization Agency of Latvia - which operates as a non-profit joint-stock company, established by the State; revenues from privatization go to the State Privatization Fund. The Privatization Agency collects the proposals presented by interested parties about the desirability of privatizing particular state-owned enterprises, and together with the State Property Fund (agency for management of ongoing state-owned enterprises) it carries out an operating analysis of such enterprises and, in appropriate circumstances, introduces privatization proposals to the Government.

After the decision by the Government is made, the enterprise to be privatized is fully transferred to the supervision of the Privatization Agency; the legal authority of enterprise management to make decisions regarding the sale of assets, the granting of mortgages on property, and other decisions to incur debt is limited. The Privatization Agency informs both the creditors of the enterprise and the banks about the beginning of the privatization process. The Agency organizes the assessment, restructuring and designation of the privatization conditions of the enterprise by involving both local and foreign auditing and consulting companies in this work.

Any person or legal person (local or foreign) is allowed to take part in the privatization process of a state-owned enterprise (which certain exceptions for national security, etc.), provided that they comply with prescribed procedures; they may present proposals on the privatization method of state-owned enterprises and on other decisions of the Privatization Agency. The decision concerning the method of privatization is made by the Privatization Agency. The Agency may choose to privatize by means of:

- Sale by auction;
- Sale by public tender;
- Sale without selection of bidders, with immediate payment;
- Credit sale to a particular bidder;
- Transfer into joint-stock company plus sale of shares;
- Liquidation of state-owned enterprise and sale its assets.

The Privatization Agency will design the conditions according to which the enterprise will be privatized. The following key criteria for analysing bids will be utilized:

- The proposed labour policies after privatization (keeping of jobs, retraining of employees);
- The proposed amounts and conditions of investment;
- The plan for environmental protection measures.

Sometimes the proposed selling price of the state-owned enterprise is an important condition for the selection of a purchaser.

The purchaser of the state-owned enterprise should assume the liabilities of the enterprise, unless the purchaser and the Privatization Agency have concluded a different agreement. Though the land upon which the state-owned enterprise is located is not - by statute - the object of privatization, the owner of the land will be required to enter into a land rent agreement with the new owner of the enterprise.

- Privatization of land

The Supreme Council has paid special attention to the development of the private sector in rural areas. The first phase of the land reform ensured that, by the end of 1991, most issues regarding the rights of farmers to use specific land holdings had been solved. As a result, by the middle of 1992, a large number of private farms had been established (about 45,000). This allowed the Supreme Council to move forward, and on 10 July 1992 the law "On the Privatization of Land in Rural Areas" was passed. Pursuant to this law, the privatization of land in rural areas was carried out on the basis of the following principles:

1. Ownership rights could be renewed for previous owners who had owned the property until 21 July 1940, i.e., the occupation of Latvia;
2. When privatizing land, the legal interests of present owners of buildings and users of the land would be considered;
3. Forests, perennial plantings and above-ground waters would be privatized along with the land.

Unclaimed land would be allotted to citizens of Latvia.

The practical implementation of the law "On the Privatization of Land in Rural Areas" ended the exclusive ownership rights to land by the State and made possible transactions in land (governed by the civil law). This is considered a very important step which will promote the development of a real estate market. Moreover, this may provide a stimulus for the preparation of further legislation regarding the leasing of land (remembering that many land owners who have renewed their ownership rights in accordance with the restitution laws are expressing the wish to lease their land to farmers rather than work the land themselves), mortgage laws, etc.

The reform of legal relations regarding land in towns was started considerably later. In accordance with the law "On the Land Reform in the Towns and Cities of the Republic of Latvia" passed on 20 November 1991, as well as subsequent amendments, there will be preferential treatment for previous owners (or their heirs), i.e., owners during the period leading up to 21 July 1940, provided no other citizen of the Republic of Latvia has built a family home on the land during the last 50 years.

Clause 3 of the law "On Foreign Investment in the Republic of Latvia" provides that foreign investors may lease land for a period of time not to exceed 99 years. Unfortunately, in cases in which large capital investment is being considered (without which economic reorganization and development cannot be contemplated), the foreign investor is interested in acquiring ownership of land. We expect that at some point during 1996 (perhaps during 1995) foreigners will be allowed to acquire title to land.

- Privatization certificates

A law passed by the Supreme Council on 4 November 1992 provides for the use of privatization certificates as a type of payment for privatized State and municipal property. Certificates are thus being allotted to:

1. Latvian residents according to the length of residence in Latvia;
2. Owners of nationalized and otherwise illegally confiscated property or their heirs as compensation for property which cannot be returned in kind;
3. Politically repressed persons according to the period of time spent in jails, labour camps, etc.

Under this law, special privatization accounts are being opened in the Latvian State Savings Bank and the Latvian State Land Banks that permit transactions in the certificates. The certificates can be used to pay for certain objects of State and municipal property - land, buildings, and apartments that are being privatized - as well as enterprises or shares of enterprises in appropriate cases. Owners of certificates are able to invest their certificates in mutual funds as well as in pension funds. The law also provides that owners of certificates are entitled to sell or give their certificates to other persons who have their own certificate accounts, provided they pay the State a fee.

In summing up, evaluating the possible role of the privatization certificates in the privatization process, it is likely that, because the savings of the population are practically non-existent when compared to the value of the State and municipal property which is to be privatized, the certificates will accelerate the privatization process. On the other hand, the issuance of privatization certificates could result in a rapid rise in the inflation rate considering that many people will sell their certificates for the lats they need to purchase necessities. It may be possible to soften this negative result if the control mechanism for transactions in certificates works effectively.

2. Foreign trade: foreign trade balance, volume of trade, exports and imports, structure of trade, trade by geographic areas and dynamics of trade

See Annex III. Foreign economic relations reflect domestic economic and political developments. Due to the 50 years of economic development within the confines of the USSR, until recently, the Commonwealth of Independent States (CIS) was Latvia's top export market and import supplier. In 1991, the CIS accounted for 72 per cent of Latvia's imports and 88 per cent of its exports. The following analysis reflects imports and exports in 1992 and 1993. Unfortunately, it is impossible to compare monetary amounts from before 1992 with those from 1992, as statistics from 1991 and earlier are expressed in rubles and statistics from 1992 are in Latvian lats.

In 1992, merchandise exports accounted for Ls 576,876 thousand in f.o.b. prices, while merchandise imports reached Ls 543,340 thousand in f.o.b. prices, thereby resulting in a trade balance of +Ls 33,536 thousand.

In 1993, merchandise exports accounted for Ls 675,610 thousand in f.o.b. prices, while merchandise imports reached Ls 639,246 thousand in f.o.b. prices, thereby resulting in a trade balance of +Ls 36,364 thousand. In addition, the volume of foreign trade was greater than in 1992. Exports in 1993 were 117.1 per cent of the total exports in 1992; imports rose even more dramatically during the same period at a rate of 118 per cent. Detailed information on trends in exports and imports, their geographical distribution and the commodity structure of foreign trade is given in the appendices.



### III. FOREIGN TRADE REGIME

#### 1. Import regulation

##### (a) The evolution of the customs tariff regulation

Latvia remains committed to a liberal trade system in a multilateral framework. The Government is currently engineering a comprehensive overall of the tariff system, including both the structure of tariffs and the institutional mechanisms of tariff policy. Note that the use of tariffs for revenue purposes is contrary to Government policy. According to the draft law, only a small number of items, such as food for infants, textbooks, and certain medical equipment will remain exempt from import tariffs, while minimal tariffs (0.5 to 1 per cent) are imposed on raw materials, spare parts, and on capital goods. As regards goods for final consumptions, whenever possible, the rates of import tariffs will average the basic rates of 15 per cent or 20 per cent (the latter in the case of countries without trade agreements); these rates do not apply to agricultural items and to a limited number of other goods. We will also aim at converting many of the remaining specific tariffs to ad valorem rates.

In order to ensure a more stable tariff structure and to avoid ad hoc changes, we have modified the process of tariff policy formation. The former Tariff Council has been replaced by a new body which will evaluate but not act on proposals for tariff modifications. It is anticipated that the new customs law will provide that the Government may act without Parliamentary approval, on a temporary basis, to both increase and decrease tariff barriers; the former would be a safeguard action, while the latter would be a trade liberalizing technique to be utilized when domestic market conditions permit. The widespread practice of granting enterprise-specific exemptions from import duties will cease.

##### (b) Customs tariff nomenclature, types of duties, general description of the customs tariff structure, weighted average level of duties on main customs tariff groupings

Importation of goods into Latvia will be regulated by the Law "On Customs Duties (Tariffs)." The tariff nomenclature will be based upon the Harmonized Commodity Description and Coding System. Tariff rates will vary according to the particular agreement concluded with each country. Latvia has free trade agreements with Sweden, Finland, Norway, Switzerland, Estonia, and Lithuania; the rate of import duty is 0 per cent (HS Groups 25-97) for these countries. In the case of the Most-Favoured Nation (MFN) treatment, the average basic import rate is 15 per cent. For all others, the typical import customs tariff rate is 20 per cent.

Import duties are fixed in percentage according to the customs value of the goods or other objects. In special cases, the rates can be fixed in Lats per unit of goods. The tariff contains four columns. The first column covers products imported from countries with which Latvia does not have a trade agreement; the second to products imported from countries with which Latvia does have a trade agreement (but not a free trade agreement); the third column covers tariffs established by free trade agreements; the fourth covers GSP system tariffs (Latvia has still not introduced the GSP system for any country). The import tariffs are expressed in domestic currency, i.e. Ls.

Physical persons can import any goods the import of which is not prohibited or limited and the total value of which does not exceed the amount of the minimum monthly salary multiplied by the coefficient 15.

##### (c) Taxation regime

The importer makes payments of import tax, turnover tax and excise tax (when they are required). The rate of the turnover tax is 18 per cent for industrial goods and 10 per cent (till 31 May 1994) for

the basic food products (bread, meat, milk and fish). The following items are exempt from the turnover tax:

- Medical goods and services;
- Bank services;
- Insurance services;
- Transit conveyance;
- Mass media.

Excise tax is imposed on alcoholic beverages, tobacco, extra-class perfume, articles of gold and other precious metals, jewellery with diamonds, precious stones and semi-precious stones.

The indirect taxes are to be paid at the border or (before importation) at the bank office. Both the national treatment principle and the MFN principle are applied. Thus, the rates of the turnover tax and excise tax are the same for all exporting countries and are the same as would be required for domestic goods. All domestic exemptions are extended to imported goods.

(d) Non-tariff measures, quotas and licensing system

Quotas on the importation of products have not been used in Latvia. The application of import tariffs is the only means of import trade regulation. The State Monopoly on Foreign Trade was abolished in 1989.

According to the Law "On Entrepreneurial Activity", each business person or company registered in Latvia is able to perform any legal import operations except operations in ethyl alcohol and spirits, tobacco, pyrotechnic materials, and sugar; importation of each of these products requires an import licence. Licences are required in order to protect welfare, health, and safety. There are no quantitative limitations associated with import licences; licences are issued on a non-discriminatory basis. Licensing procedure, described below, is in accordance with internationally accepted practice. We do not envisage any changes in licensing practice prior to accession to the GATT.

The issuance of licences is handled by the Ministry of Economy. An application must include:

1. A copy of the registration certificate of the enterprise (the original must be produced when handing in the application);
2. A notification from the tax authorities that the enterprise is on the tax payers list and that there are no debts to the State budget;
3. A declaration about the amount of goods in warehouse and storage facilities, together with documents of sale;
4. An agreement or protocol of intentions about the recipient of the goods (the first party to receive the goods in Latvia) - originals must be produced when handing in the application;
5. Other information as required by the Ministry of Economy (varies by the type of goods).

Licences are issued on a "first come, first serve" basis. All information supplied in or with the application will be treated as confidential.

(e) Customs valuation

The procedure for determining the customs value of an imported commodity, contained in the draft law "On Customs Duties (Tariffs)", is based on GATT (1947) Article VII and the Customs Valuation Code. The customs tariff provides for seven methods of customs valuation:

- According to the purchasing price;
- According to the identical goods;
- According to the similar goods;
- According to the goods of the same type;
- Deducing method of evaluation;
- The calculated value;
- Approximate evaluation.

The draft legislation provides for fewer than seven methods of customs valuation, but the Government intends to move towards the introduction of all seven methods.

Note that the draft includes a procedure for review of customs valuation decisions; the customs officer must provide a written explanation of the valuation method, which can then be appealed by the interested private party to the Customs Department (within 10 days of receipt). If the interested party is not satisfied with the disposition of the appeal, judicial review is available.

(f) Rules of origin

The draft law "On Customs Duties (Tariffs)" contains a chapter establishing certain general rules pertaining to Rules of Origin, one of which is that international agreements take priority over national law. In general, origin is taken to be the country where the goods have been produced or manufactured. A product is considered to be produced or manufactured in the country where it has been wholly produced or manufactured or in the country in which it has undergone substantial processing. When goods are manufactured in two or more countries or consist of parts manufactured in several countries, the country of origin is the country where the goods, as a result of substantial processing, have received their final character.

As regards imports from the European Community and EFTA States, their origin is determined under the Rules of Origin annexed to the respective Agreements. In the case of the Most-Favoured Nation (MFN) imports (for which the average import rate is 15 per cent), a certificate of origin is required; Form A is used for this purpose. Under the Free Trade Agreements with Sweden, Finland, Norway, Switzerland, Estonia and Lithuania, rules of origin are set up by special protocol and a certificate of origin as described in each protocol is required.

The authority competent to issue certificates of origin of products is the Latvian Chamber of Commerce and Industry. The authority competent to verify certificates of origin of products is the Customs Department.

(g) Customs formalities

Customs clearance and payment of import duties has to be done at border crossing points in the local customs office. There are 26 such offices. The importer of goods has to provide to customs authorities the following documents:

- Copy of the contract;
- Delivery note (invoice), or other freight document which reflects the amount, weight and value of the goods;
- Original of the certificate of origin (Form EUR.1 or Form A).

In the customs office at the border, the importer has to pay the import tax, the excise tax and the turnover tax and to fill out the following documents:

- Customs declaration;
- Customs freight delivery note.

The draft law "On Customs Duties (Tariff)" contains a provision giving importers an option of delaying payments at the border. This procedure will accelerate customs control, as will the computerization of customs control procedures (which has begun).

(h) Standards and certification

Latvia does not yet have a unified system of standards. We have resigned from the GOST System, but still have not entered the European Standardization Committee (CEN). We are working with PHARE to develop a national system of standardization, and is going to join the International Organization for Standardization (ISO) and the European Committee for Standardization (CEN).

Technical regulations and standards are typically set for reasons of consumer protection, environmental protection or health and safety. The Law "On protection of Consumer Rights" regulates the importation of products for which a certification is required. The same safety standards are applied for foreign and domestic products.

The range of products for which confirmation of safety is required includes food products, goods which come into contact with food products, chemical products, perfumes, cosmetics, mineral fertilizers, goods for children (toys), textiles, transportation vehicles, furniture, and arms and ammunition. The National Standardization and Metrology Committee and the Ministry of Economy are responsible for standardization and certification of imported goods.

(i) Sanitary and phytosanitary measures

All exports and imports of goods of plant or animal origin are subject to veterinary and phytosanitary control; construction materials are subject to sanitary control. Such goods, when exported or imported, should be accompanied by veterinary or phytosanitary certificates. At present, we use the Codex Alimentarius standards for sanitary and phytosanitary control. The National Standardization and Metrology Committee and State Agriculture Product Quality Inspectorate are responsible for sanitary and phytosanitary standards and inspections with respect to imported products.

(j) Anti-dumping and countervailing duties

There are currently no regulations concerning AD/CVD and no pending cases. The draft law "On Customs Duties (Tariffs)" contains, in Article 6, general provisions setting forth the authority of the Government to establish a system of anti-dumping and countervailing duties which will protect Latvian producers from injury caused by the importation of subsidized products or products at dumped prices. After the law is finalized, Article 6 will have to be elaborated. The main guidelines for this process are to be found in the GATT agreements.

2. Export regulations

(a) Customs tariff nomenclature, types of duties, customs tariff structure, weighted average level of duties on main customs tariff groupings

The exportation of goods from Latvia will be regulated by the Law "On Customs Duties (Tariffs)". Export duties will remain on timber and wood products, metals and metal products, leather and furs, as well as certain other products. The nomenclature will be based on the Harmonized Commodity Description and Coding System. See, III(1)(b), above, for further details on the currency, units, and tables used in the tariff. The main purpose for introducing export tariffs on the above-mentioned goods is to limit exportation of those raw materials which can be used by domestic industries. An export tariff reduction scheme is going to be adopted in order to liberalize foreign trade; a special schedule for such reductions exists with respect to countries with which we have a free trade agreement.

Individuals leaving the country can carry free of duty goods the total value of which does not exceed the amount of the minimum monthly salary multiplied by the coefficient 10.

(b) Export licensing system

Quotas have not been used to control exports. The application of export tariffs is the only means of foreign trade regulation. The State monopoly on foreign trade was abolished in 1989, and, according to the Law "On Entrepreneurial Activity", each businessman or company registered in Latvia is able to perform any legal export operation except for operations in non-ferrous/ferrous metals and alcohol/spirits; a licence is required for the exportation of these materials.

There are no quantitative limitations set up in these licences; the issuance of licences is on a non-discriminatory basis. There is an export licensing system for textile products exported to the EC (double checking system) in accordance with the provisions of the trade agreement in textile products concluded with the EC. It is for statistical purposes only.

3. Export initiatives, including subsidies

Latvia does not grant direct or indirect subsidies, including tax incentives, which are aimed at increasing exports of any product.

4. Regulations of trade in transit

On 2 November 1993, a Regulation "About Goods and Other Objects Transit in the Republic of Latvia" came into force. According to this regulation, transit operations can be performed by each transportation company. Special permission from the Ministry of Transportation is required for transit operations with motor transport. A licence is required for transit operations involving scrap and waste of ferrous and non-ferrous metals. Export and import tariffs do not apply to transit operations; transit through Latvia is duty free.

Several specific requirements apply to transit freight. A system of special customs convoys is used for transit freight of non-ferrous metals or metals scrap, dangerous freight such as chemicals, ammunition, explosive materials and drugs, as well as alcohol, tobacco, food products and perfume. For security reasons, if dangerous goods are transported through Latvia, armed customs officials escort the convoys. The convoy fee is Ls 100 per truck or per truck with trailer. The fee is Ls 50 if alcohol, tobacco, food products or perfume is carried.

For certain non-dangerous products, a security deposit can be paid at the border instead of using the convoy service. The deposit is equal to the import tax rate on the particular freight. The security deposit is transferred to the customer's bank account two months after the freight has left the territory of Latvia.

The fact that Latvia is a member of the TIR International Convention ensures and promotes domestic transit conveyance.

#### IV. OTHER POLICIES AFFECTING FOREIGN TRADE

##### 1. Industrial policy

The primary goal of Latvia's industrial policy is to restructure the industry that was inherited from the former Soviet Union (and was the result of the industrial policy of that regime) and to enhance the competitiveness of Latvian products in the international market.

Structural policy has to reduce dependence on a supply of raw materials from the major powers and to increase the diversity in the economy so as to permit flexible adjustments to the changing situation in world markets. The task of structural policy is to create an economy that is advanced, europeanized in agriculture, trade and industry, and capable of integration into the economic system of Europe.

It is envisaged that one of the instrumentalities of the structural policy will be a special lending facility for major investments in the national economy. This special facility would be charged with: assistance in enterprise revival; the promotion of economically viable privatization of large state enterprises; and assistance in enterprise re-profiling and reconstruction.

In addition, the achievement of the Government's structural policy goals requires extensive investments in infrastructure and production. This is a long-term task. Infrastructure should be developed in such a way as to capitalize on Latvia's unique geographical position, to reform traditional branches of the economy, and to create new advanced technology (and environmentally responsible) branches of the economy.

##### 2. Agricultural policy

Agriculture is one of the main branches of the economy. Apart from being the main source of food, it provides many processing industries, including non-food processing industries, with raw materials.

The proportion of agriculture in GDP during 1993 was 16.26 per cent or Ls 201 million. The budget for 1994 allocates Ls 6.6 million for agricultural subsidies. Subsidies will be used primarily for the preservation of genetic stock, as well as for increasing the number of pedigree cattle and crops.

Agriculture is undergoing privatization. Under the provisions of the Act "On Privatization of Agricultural Enterprises and Fishing Farms" 610 State and collective farms were transformed into statutory companies; many of these companies subsequently decided to eliminate themselves. By mid-1994, 229 statutory companies continued to exist without movement toward elimination. About

58,000 new agricultural firms have been established, and even more new agricultural firms are expected. In addition, the return of agricultural land and property to former owners and their heirs is now proceeding.

The changes in the structure of the agricultural industry have resulted in reduced production volumes. A comparison of 1993 production volumes with 1992 production volumes shows that production levels in 1993 were at: (meat) 78 per cent of 1992; (milk) 81 per cent of 1992; and, (eggs) 64 per cent of 1992. However, this is still enough of supply local demand.

### 3. Financial, budgetary and fiscal policy

#### Financial policy

The Bank of Latvia, the Central Bank of the Republic of Latvia, was established on 31 July 1990, by a Supreme Council resolution. However, the Bank could begin its real activities only after national independence was established. In the start-up period the Bank of Latvia performed the functions of both the Central Bank and a commercial bank. According to the Law "On the Bank of Latvia", passed in May 1992, the Bank of Latvia cannot participate in commercial activities. Thus the Bank of Latvia is now a full-fledged State Central Bank.

The former branches of the Bank of Latvia have been legally separated from the Bank of Latvia: some of them become independent commercial banks, others were sold to existing commercial banks and became their branches, and the rest were consolidated in a state-owned commercial bank called the "Universal Bank of Latvia". With this process now complete, it can be said that a two-tier banking system has been established. State-owned commercial banks in Latvia are the Universal Bank of Latvia, the State Savings Bank, and the Latvian Mortgage and Land Bank (the Latvian Investment Bank used to be State-owned but now is only partially State-owned). Other commercial banks are joint-stock companies.

In accordance with statute, the main objective of the Bank of Latvia is to elaborate and implement monetary policy, i.e., to regulate the amount of money in circulation in order to maintain internal price stability. The Bank of Latvia also performs the supervision and auditing of commercial banks and other credit institutions. The relationship between the Bank of Latvia and the commercial banks is determined by the law "On Banks", passed in May 1992, and by the regulations of the Bank of Latvia (such as "Economic Requirements to Regulate Activities of Commercial Banks and Other Credit Institutions").

On 1 January 1994, the banking system included 61 commercial banks, of which only four are state-owned. As of 1 March 1994, seven commercial banks owned capital that exceeded Ls 3 million. Two problems have emerged: commercial banks are dealing for the most part in short-term loans to trade and export-import companies (credits for industry and agriculture do not constitute a major portion of the loan portfolio); and, because of the demand for loans, interest rates are very high. On the first point, the development of appropriate legal institutions will give commercial banks an incentive to extend the range of their lending activities (see, for example, discussion above of land privatization). On the latter point, the increasing competition among the banks and the rapid growth of bank capital are causing interest rate reductions. It should be noted that the industry itself has formed an organization, the Association of Commercial Banks of Latvia, which will facilitate the necessary changes by improving training of bank personnel and coordinating programmes of common interest to commercial banks (such as the clearing system and the drafting of bank legislation).

Budgetary and fiscal policy

In May 1990, Latvia adopted a new budgetary system under which the government budget is comprised of four parts: The central government; the social security system; local governments; and extrabudgetary funds. The first independent budget was approved by Parliament in January 1991. The central government budget is prepared by the Ministry of Finance, the local governments prepare their own budgets, and the Ministry of Welfare produces the social security budget, which has been fully integrated into the central government budget (starting 1993). These budgets and the operations of the extrabudgetary funds must be approved by Parliament.

Over the last few years, budgetary developments at the general government level have reflected three phases. During the first phase, which ended in 1990 and reflected the Soviet planning system, the consolidated government accounts recorded small surpluses. The ratio of revenues to GDP reached about 50 per cent, somewhat higher than the revenue to GDP ratios typically observed in industrialized countries. The second phase, which broadly corresponds to the year 1991, marked the beginning of the transition to a market economy. The surplus in the consolidated government accounts increased to 6 1/2 per cent of GDP in 1991. Reductions in subsidies and transfers, lagged adjustment of nominal expenditures to increasing inflation, and tight expenditure controls allowed the authorities to decrease the ratio of total expenditures to GDP to 31 per cent in 1991, down from 44 per cent of GDP in 1990. At the same time, tax revenues were buoyant because of the temporary improvement of the terms of trade and the fact that historic cost accounting procedures were used by enterprises during a period of high inflation. The third phase is characterized by the emergence of budget deficits and fiscal stress. Although the ratio of expenditures to GDP in 1992 at 32 per cent was only 1 percentage point higher than in 1991, the consolidated government accounts for 1992 showed a budget deficit of 1 1/2 per cent of GDP.

On the revenue side, taxes on profits have declined in importance as a revenue source. Under the Soviet planning system, taxes on profits accounted for about one third of all budgetary revenues. In 1992, the share of taxes on profits declined to one fifth of total revenues and, with the introduction of new depreciation rules starting January 1993, is expected to decline further. The reduced buoyancy of profit taxes in 1992 reflects the negative effects of the slump in the economy on the profit tax base as well as generous tax exemptions for the newly emerging private sector, and increasing profit tax areas, which amounted to over LVR 1 billion or 1/2 per cent of GDP at the end of 1992. The personal income tax and social security contributions (social tax) are levied on wage income and withheld at the source. Both taxes have provided stable revenue sources, yielding revenue equivalent to 14 per cent of GDP in 1991 and 13 1/2 per cent of GDP in 1992. Taxes on goods and services consist of the turnover tax, the excise tax, and customs duties. After amounting to 10 per cent of GDP in 1991, revenues from taxes on goods and services fell to 7 per cent of GDP in 1992. This decline was due mainly to the slow growth of revenue from the turnover tax relative to nominal GDP. At the beginning of 1992, Latvia introduced a turnover tax with a standard tax rate of 10 per cent and various surcharges to replace the existing turnover tax. As a result of the comparatively low standard tax rate, wide-ranging exemptions, and low tax collection efficiency, revenue from the turnover tax fell to 4 per cent of GDP in 1992, down from 6 1/2 per cent of GDP in 1991. To compensate for the shortfalls in revenues, the standard turnover tax rate was increased to 12 per cent effective 1 October 1992. Revenues from excise taxes also declined in relation to GDP, from 3 1/2 per cent in 1991 to 2 1/2 per cent in 1992. A new law on excise taxes took effect on 1 October 1992, stipulating increases of excise tax rates on alcohol and cigarettes but eliminating a number of goods, including cars and fuel, from the list of goods subject to excise taxes. Customs duties were introduced in 1992 but yielded only a small amount of revenue as large portions of the import volume, including raw materials and spare parts, were exempted, and tax collection efficiency was exceptionally weak.



The budgetary authorities collected a number of other taxes and fees, including both a tax on natural resources (for the funding of environmental protection measures) and State duties for the delivery of various official documents. In sum, these taxes yielded about 1 1/4 per cent of GDP in 1992.

Transfers to households - mainly through the social security system - amounted to 11 per cent of GDP in 1992, down from 11 1/2 per cent in 1991. Old age and disability pensions payments absorbed most of the resources of the social security system.

Expenditures on public employee wages and salaries in relation to GDP amounted to 4 1/2 per cent in 1991, but rose to 6 1/2 per cent in 1992. Wage developments in on-budget organizations are determined by a scale which fixes wages as multiples of the minimum wage. After increasing the minimum wage to LVR 1,500 in June 1992, the minimum wage was frozen at the new level throughout 1992. To compensate for price increases of food and energy, employees in on-budget organizations received flat cash allowances. This further compressed an already egalitarian public wage scale. The average wage level in on-budget organizations in 1992 was about four times as large as the minimum wage but was significantly lower than that in state-owned enterprises. The level of employment in on-budget organizations has declined slightly over the last two years.

Increasing fiscal stress has led to reduced outlays on supplies and maintenance and lower outlays for public investment. Public investment expenditures have declined in relation to GDP, from 3 per cent in 1991 to 1 1/2 per cent in 1992, with further reductions in 1993. Similarly, supplies and maintenance expenditures have not kept pace with nominal GDP growth, dropping by 1/2 percentage point to 5 per cent of GDP in 1992. The 1993 budget included a freeze at the December 1992 levels of: wages and salaries in on-budget organizations, pensions, and social allowances. Given the inflation rate of 34.74 per cent for the year to December 1993, public sector employees, pensioners, and recipients of social allowances experienced a massive reduction in purchasing power. Real outlays for supplies and maintenance and public investments declined significantly during the same period.

The 1993 budget was burdened with two additional social expenditure items. First, the disbursement of a monthly heating allowance of LVR 1,500 to non-working pensioners added LVR 4.2 billion (Ls 21 million) or more than 1 per cent of GDP to the expenditure side. Second, the increase in unemployment towards the end of 1993 cost about LVR 6 billion (Ls 30 million) or 1 1/2 per cent of GDP in additional unemployment benefits. Nevertheless, for 1993, the revenue-to-GDP ratio was 28.2 per cent, not much less than the expenditure-to-GDP ratio of 28.3 per cent.

#### 4. Foreign exchange and payment system, relations with International Monetary Fund, and application of foreign exchange controls

From March till June 1993, the interim currency, the Latvian ruble, was gradually being replaced by Latvia's national currency, the lat. Initially, one lat was equal to 200 Latvian rubles; both currencies coexisted until 17 October 1993. On 18 October 1993, the lat became the only legal tender in Latvia. Lats can be freely bought and sold for foreign currencies, and the exchange rate is determined only by the market.

Latvia has established one of the most liberal foreign exchange regimes in the world. Even though the legal tender is the lat, transactions in other currencies are also permitted. Legislation and the policy of the Bank of Latvia ensure free capital flow to and from Latvia. Both foreign exchange and lats may freely enter and leave the country. Foreign entrepreneurs are free to repatriate their profits in any currency, after paying the applicable taxes. Latvian residents and Latvian entrepreneurs are allowed to open accounts both in Latvian and foreign banks in national and foreign currencies without any restrictions. To ensure the free convertibility of the lat, the Bank of Latvia has officially promised to buy and sell any amount of "hard currency" to commercial banks at their request and without any

restrictions. Companies and private persons can buy and sell unlimited amounts of foreign currency in commercial banks and currency exchange stands without any restrictions. There are no restrictions on interest rates for credits and deposits since the middle of 1992. Latvia has been a member of the IMF since 1992.

5. Foreign and domestic investment policy

The Law on Foreign Investments was adopted by the Government on 5 November 1991. The basic purpose of this law is to create favourable conditions for international business throughout Latvia and for all types of enterprises. The system of incentives for foreign partners and investors will be improved and there will be a maximal degree of openness to foreign capital, knowledge and commodities. It is very important to encourage mutually beneficial cooperation with foreign companies to achieve:

1. Foreign investments that contribute to structural changes in Latvia's economy, stimulate the private sector and encourage the transition to a market economy;
2. Foreign investments that encourage the introduction of new technology into Latvia;
3. Foreign investments that produce exports and generate hard currency;
4. Foreign investments that utilize local raw materials;
5. Foreign investments that help improve the environment and ecology of Latvia.

The total value of foreign investment in Latvia by June 1994 was approximately US\$154 million US Dollars. The USA, Denmark, Great Britain and Germany are the largest foreign investors. Other Scandinavian countries have also expressed an active interest in joint venture investments. The largest investments are in the forestry, woodworking, cellulose and paper industries and in light manufacturing, telecommunications and construction.

The total volume of foreign investment is still relatively small. This means that there are still many attractive opportunities for investment flows into Latvia. An increase in foreign investment can be expected in the future. Foreign investments can take three main forms: "green field" investments into new companies, investments in joint ventures with existing companies, and investments through the privatization process.

In the three years from January 1991 to January 1994 more than 60,000 private companies were established and at least 3,800 of these companies had foreign capital. Joint venture companies with a share of foreign capital and fully-owned foreign companies were established by more than 80 countries. Bilateral investment promotion and protection agreements have been ratified with Norway, Sweden, Finland, Poland, Switzerland, Taiwan and Germany. Agreements have been signed with USA, Great Britain, Netherlands and Israel.

The US Government has signed a treaty with Latvia to encourage local investment (with the goal of expanding economic resources and production). The investment expansion objectives will be met by utilizing investment insurance, loans and securities which are fully or partially funded by the United States and are overseen by the Overseas Private Investment Corporation (OPIC).

According to statute, there are two types of business which can be created with foreign capital. The first is most commonly used when creating joint-ventures:

1. Company with limited liability (SIA);
2. Joint-stock company (A/S).

An SIA is a company with the rights of a juridical person. Capital share invested by members create the base capital. An SIA founder can be a physical or juridical person. Share holders are limited in number to 50. Companies with more than 50 shareholders must create a joint-stock company. A single physical person can also found an SIA, but, in such circumstances, cannot be an owner in any other company.

The A/S is a less common form for the formation of a business with foreign capital, since its structure and requirements are more complicated. Because the law outlines various states of enterprise establishment, it takes longer to establish an A/S than an SIA. The Law on Joint-Stock Companies has special provisions regulating the establishment and operation of banks, pawn-brokers, insurance companies and foreign companies.

The A/S is a company with the rights of a juridical person, whose base capital consists of the initial nominal value of the stock. An A/S can be created as a closed company (shares divided among its members) or as an open company (shares advertised for sale to the public). Minimum number of founders - 3; no maximum. Minimum statutory capitalization - 500 Ls. Latvia's citizens, permanent residents who have lived in Latvia at least 25 years, juridical persons registered in Latvia, and foreign citizens and juridical persons are all eligible to create joint-stock companies.

If a foreign juridical or physical person buys shares in a Latvian A/S, then that juridical or physical person must become a member of the A/S, and in accordance with the law, the A/S must be registered as a company with foreign capital.

#### 6. Government procurement

The legislation, system and structure of public procurement will be specified in the Law on Public Procurement which will be elaborated in the nearest future.

Up to 1990 the term "Government order" (procurement) in Latvia (as well as in the USSR) included compulsory tasks for industry, agriculture and other branches that were determined in a centralized manner by the Government. The Government supplied the manufacturers with raw materials, received the production, and then distributed the production. Government orders constituted approximately 60-70 per cent of the total production volume in the 1980's and up to 30 per cent in 1990.

On 26 November 1990 the Government passed a temporary statute on labour and goods for Government needs. It stated that since 1991, Government orders (purchases) are not compulsory, but rather require an agreement between a Government buyer (ministries and municipalities) and a supplier. Note that the Law on Profit Tax at that time envisaged tax relief (30 per cent) for Government suppliers. This Tax Statute considered goods produced for the domestic market to be pursuant to Government orders.

On 11 July 1992 the Supreme Council passed changes in the Law on Profit Tax, included cancellation of tax relief for Government suppliers. Therefore, useful and efficient utilization of the taxpayer's money has become the main task of Government procurement legislation. For this purpose it is necessary to elaborate and pass a corresponding law.

The order of realization of Government domestic purchases of goods (labour) is stated by the Statute regarding goods and services for Government needs (ratified by the resolution of the Council of Ministers of the Republic of Latvia N 250, 26 September 1991). The Statute regulates legal, financial and other relations between buyers and suppliers. This Statute is uniform throughout the entire country both for central Government structures (ministries) and local municipalities.

Government buyers are ministries, as well as self-governing agencies responsible for managing cities and regions in accordance with their competence. The main functions of these institutions are to determine the assortment and amount of the necessary goods and services, as well as to make a decision on the method by which the supply contract will be awarded (bid award, competitive examination, without bid or competitive examination or produced within the organization).

The Government buyer or its authorized organization enters into an agreement with a Government supplier. An agreement on work and provision of goods is considered to be a Government order if it is certified by the signature of the Government buyer (minister or chief of an organization).

7. State trading enterprises

The privatization of state-owned companies will be supervised by the Government. The mechanism for privatizing these companies and institutions is defined by the Law on the Privatization of State and Local Government Owned Companies.

By statute, all enterprises, regardless of their ownership structure can carry out foreign trade relations. State-owned enterprises have neither exclusive rights nor special privileges in their purchases or sales involving imports or exports; thus, there are no "state-trading enterprises". There is no subsidization of state-owned enterprises.

8. Free trade zones

There are currently no free trade zones in Latvia.

9. Trade-related aspects of intellectual property rights

An understanding that the non-discriminatory protection of intellectual property rights, including measures for the granting and enforcement of such rights, is one of the main factors promoting foreign trade and international economic cooperation has gained full support in Latvia since 1991. Since then, we have adopted the most essential laws on intellectual property protection:

- Patent Law of 2 March 1993;
- Trademark Law of 9 March 1993;
- Law on Industrial Design Protection of 4 May 1993;
- Copyright Law of 11 May 1993, including provision on computer programme and databases protection;
- Law on Protection of Plant Varieties (6 April 1993).

It must be added that the Government adopted on 28 February 1992 a decision on the provisional (transitional) schedule of protection of industrial property rights, certain provisions of which are still in force. The next steps are accession to the Madrid Agreement Concerning the International Registration of Marks, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure and the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of Registration of Marks. In January of 1994, the Government signed an agreement with the European Patent Organization on extension of European patents to Latvia.

The legislation of the spring of 1993 does not yet encompass the protection of certain objects of intellectual property such as, for example, topographies of integrated circuits, geographical indications,

undisclosed information on know-how, etc. However, it should be noted here that these gaps in the current legislation are covered, to a certain extent, by the provisions of previously adopted laws (e.g., the Law on Competition and Monopoly Restriction of 3 December 1991, includes provisions referring to unfair competition, know-how protection, etc.).

To ensure that industrial property rights are granted and protected, Latvia has re-established the National Patent Office (March 1992). Later, a special (1993) institution was established for the purpose of granting rights in the field of plant varieties protection. Moreover, the Patent Office has, during a short period of time, become a functioning agency: e.g., during 1992-1993 it received more than 1,660 applications for patents, of which approximately 75 per cent were filed by non-residents; during the same period, it received approximately 15,000 applications for trademark registration (non-residents, 90 per cent).

As a result of the measures taken recently (1991-1993) on the national level, Latvia has acceded to the Convention Establishing the World Intellectual Property Organization (as from 21 January 1993), re-established its membership in the Paris Union, by way of accession to the Stockholm Act of the Paris Convention for the Protection of Industrial Property, and acceded to the Patent Cooperation Treaty (the last two agreements entered into force with respect to Latvia on 7 September 1993).

Finally, to complete the survey of the trade-related aspects of the protection of intellectual property rights, one should not ignore that the Free Trade Agreements which have recently been concluded include clauses relating to intellectual property. One of these clauses obligates Latvia to pass national legislation, no later than by the end of 1995, that brings its system for the protection of essential intellectual property rights into compliance with the substantive standards of international law. The Government is willingly undertaking the task of implementing these obligations.

#### 10. Competition policy

Competition policy is still being developed. The Parliament passed an anti-monopoly law, "On Competition and Restriction of Monopoly" in 1991. Amendments were passed in 1993. In order to develop competition and control the application of this law, the Council of Ministers formed an Anti-monopoly Committee. This committee must monitor market conditions, review reports on potential mergers, mediate disputes between businesses, issue binding orders to businesses to cease illegal competition, and submit recommendations to the Council of Ministers. Taking into account the recently initialled free trade agreement between Latvia and the European Communities, domestic competition law and policy will be harmonized with the European standard within four years.

### V. INSTITUTIONAL BASE FOR TRADE AND ECONOMIC RELATIONS WITH THIRD COUNTRIES

#### 1. Brief description of the bilateral trade and economic agreements and integration agreements

See, Annex I. Latvia has trade agreements with certain States of the former Soviet union as well as with a number of other countries. Intergovernmental Trade and Economic Cooperation Agreements that provide a Most-Favoured-Nation (MFN) status have been concluded with the following countries: United States, Australia, Austria, Belgium, Czech Republic, Denmark, France, Greece, Italy, India, Iceland, Ireland, Great Britain, Luxembourg, Netherlands, Portugal, Poland, Spain, Hungary, Germany, as well as with the former Soviet Union countries Armenia, Azerbaijan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

Latvia has free trade agreements with Sweden, Norway, Switzerland, Estonia, Lithuania and a protocol with Finland; the rate of export and import tariffs for these countries is 0 per cent. These

agreements are for industrial goods and specifically exclude agricultural products. On 18 June 1994, Latvia signed a free trade agreement with the EU.

2. Multilateral economic cooperation (including organizational memberships)

A joint declaration between the EFTA member nations and Latvia was signed on 10 December 1991. It calls for the parties:

- (1) To promote trade development between Latvia and the EFTA countries;
- (2) To develop cooperation in the following areas:
  - customs, tariffs and other areas of trade policy;
  - technical barriers in trade and standardization;
  - trade information and statistics;
- (3) To determine possible cooperation in establishing free trade.

In addition, Latvia is a member at the present time of the following multilateral economic organizations:

UNCTAD	United Nations Conference on Trade 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 Agricultural Organization (9 November 1991)
ILO	International Labour Organization
WMO	World Meteorological Organization
UPU	Universal Postal Union (17 June 1992)
WIPO	World Intellectual Property Organization (21 January 1993)
ICAO	International Civil Aviation Organization (14 August 1992)
ITU	International Telecommunication Union (11 November 1991)

VI. LAWS AND LEGAL ACTS

See, Annex II.

**VII. STATISTICS AND PUBLICATIONS**

**1. Foreign trade statistics, responsible agencies**

The State Committee for Statistics of the Republic of Latvia is responsible for statistics on foreign trade. It receives statistical data on exports and imports from the Customs Department.

**2. Publications related to statistics**

The following publications produced by the State Committee for Statistics contain data on foreign trade:

- Statistical Yearbook of Latvia (Latvian and English);
- Latvian Statistics, a monthly bulletin (Latvian);
- Bulletin of Latvian Economic Statistics (Latvian and English).

ANNEX I

List of Trade Agreements with Third Countries

1. Agreement between the Government of the Republic of Latvia and the Government of Iceland on Trade and Economic Cooperation of 26 August 1991.
2. Agreement between the Government of the Republic of Latvia and the Government of the Republic of Poland on Bilateral Trade and Economic Cooperation of 27 September 1991.
3. Free Trade Agreement between the Government of the Republic of Latvia and the Government of the Kingdom of Sweden of 10 March 1992.
4. Agreement between the Republic of Latvia and the European Economic Community on Trade and Commercial and Economic Cooperation of 11 May 1992.
5. Agreement between the Government of the Republic of Latvia and the Government of the Republic of Hungary on Trade and Economic Relations and Scientific and Technical Cooperation of 29 May 1992.
6. Free Trade Agreement between the Government of the Republic of Latvia and the Government of the Kingdom of Norway of 16 June 1992.
7. Agreement between the Government of the Republic of Latvia and the Government of the Republic of Austria on Foreign Trade and Economic Relations of 25 June 1992.
8. Agreement between the Government of the Republic of Latvia and the Government of Ukraine on Development of Trade and Economic Cooperation of 4 August 1992.
9. Agreement between the Republic of Latvia and Uzbekistan on Trade and Economic Cooperation of 17 August 1992.
10. Agreement between the Republic of Latvia and Turkmenistan on Trade and Economic Cooperation of 18 October 1992.
11. Protocol regarding Temporary Arrangements on Trade and Economic Cooperation between the Republic of Latvia and the Republic of Finland of 26 November 1992 (Free Trade Agreement).
12. Agreement between the Government of the Republic of Latvia and the Government of the Republic of Azerbaijan on Principles of Trade and Economic Cooperation of 30 November 1992.
13. Agreement between the Government of the Republic of Latvia and the Government of the Republic of Moldova on Principles of Trade and Economic Cooperation of 3 December 1992.
14. Free Trade Agreement between the Republic of Latvia and the Swiss Confederation of 22 December 1992.
15. Agreement between the Government of the Republic of Latvia and the Government of the Republic of Tajikistan on Principles of Trade and Economic Cooperation of 15 April 1993.



16. Agreement between the Government of the Republic of Latvia and the Government of the Republic of Armenia on Principles of Trade and Economic Cooperation of 15 June 1993.
17. Agreement between the Government of the Republic of Latvia and the Government of India on Trade and Economic Cooperation of 10 September 1993.
18. Free Trade Agreement between the Republic of Latvia, the Republic of Lithuania and the Republic of Estonia of 13 September 1993.
19. Agreement between the Government of the Republic of Latvia and the Government of Czech Republic on Trade and Economic Relations and Scientific and Technical Cooperation of 22 September 1993.
20. Agreement between the Government of the Republic of Latvia and the Government of Australia on Trade and Economic Cooperation of 23 November 1993.
21. Agreement between the United States of America and the Republic of Latvia on Trade Relations and Intellectual Property Rights Protection of 6 July 1994.

List of Investment Promotion and Protection Agreements with Third Countries

1. Agreement between the Government of the Republic of Latvia and the Government of the Republic of Finland on Promotion and Protection of Investments of 5 March 1992.
2. Agreement between the Government of the Republic of Latvia and the Government of the Kingdom of Sweden on Promotion and Protection of Investments of 10 March 1992.
3. Agreement between the Government of the Republic of Latvia and the Government of the Kingdom of Norway on Reciprocal Promotion and Protection of Investment of 16 June 1992.
4. Agreement between the Government of the Republic of Latvia and the Government of the Republic of China (Taiwan) on Reciprocal Promotion and Protection of Investments of 17 September 1992.
5. Agreement between the Government of the Republic of Latvia and Swiss Federal Council on Investment Promotion and Bilateral Protection of 22 December 1992.
6. Agreement between the Republic of Latvia and the Federal Republic of Germany on Promotion and Bilateral Protection of Investments of 20 April 1993.
7. Agreement between the Government of the Republic of Latvia and the Government of the Republic of Poland on Promotion and Reciprocal Protection of Investments of 26 April 1993.

List of Agreements for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Third Countries

1. Convention between the Government of the Republic of Latvia and the Government of the Republic of Finland for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital of 23 March 1993.
2. Convention between the Republic of Latvia and the Republic of Estonia for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital of 14 May 1993.

3. Convention between the Republic of Latvia and the Kingdom of Sweden for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital of 5 July 1993.
4. Convention between the Republic of Latvia and the Kingdom of Norway for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital of 19 July 1993.

## ANNEX II

### List of Trade Related Legislative Acts

1. Resolution and law of the Republic of Latvia on entrepreneurial activity (+ amendments) - 26 September 1990
2. Resolution and Law on Banks (+ amendments) - 19 May 1992
3. Law on the Republic of Latvia budget rights - 27 June 1990
4. Resolution and Law on Excise Law (+ amendments) - 12 December 1990
5. Law on Profit Tax - 20 December 1990
6. Resolution and Law on Taxes and Duties in the Republic of Latvia (+ amendments) - 29 December 1990
7. Resolution and Law on Limited Liability Companies (+ amendments) - 23 January 1991
8. Law of the Republic of Latvia on Partnerships - 5 February 1991
9. Resolution and Law of the Republic of Latvia on Local Government Enterprises - 5 March 1991
10. Resolution and Law of the Republic of Latvia on Shareholders' Associations - 23 April 1991
11. Resolution and amendments of the Law on Cooperative Companies - 6 August 1991
12. Customs Code of the Republic of Latvia - 25 September 1991
13. Resolution and Law on Foreign Investment in the Republic of Latvia (+ annexes) - 5 November 1991
14. Law on Competition and Restriction of Monopoly (+ amendments) - 3 December 1991
15. Resolution and Law on Turnover Tax (+ amendments) - 18 December 1991
16. Draft Law on Protection of Industrial Design - 31 March 1992
17. Resolution and Law on the Bank of Latvia - 19 May 1992
18. Resolution and Law on Bookkeeping - 14 October 1992
19. Law on the Protection of Consumer Rights - 28 October 1992
20. Law on Insurance - 12 January 1993
21. Resolution and Patent Law - 2 March 1993
22. Law on Trademarks - 9 March 1993
23. Law on Industrial Design Protection - 4 May 1993

24. Resolution, Law on Income Tax (+ amendments) - 11 May 1993
25. Decree and Law on Joint Stock Companies - 18 May 1993
26. Regulations on issue of special permissions (licences) to perform some particular kinds of entrepreneurial activity (+ amendments) - 26 October 1993
27. Law on the State Revenue Service - 28 October 1993
28. Regulations on transit of goods and other articles in the territory of the Republic of Latvia - 2 November 1993
29. Regulations on state monopoly of spirits and alcoholic beverages - 25 January 1994
30. Regulations on the customs warehouses - 13 June 1994
31. Draft law on the customs duties\* - January 1994
32. Draft law on value-added tax - September 1993
33. Draft law on income tax on legal entities - September 1993
34. Draft regulations on import custom tariff quotas - April 1994

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\*On 22 June 1994, the Latvian Parliament passed a Law on Customs Duties which included an annex on import tariffs. This Law was vetoed by President Ulmanis; his veto statement focused on the agricultural tariffs contained in the annex on import tariffs. Thus, the basic text of the Law is expected to be included (unaltered) in the legislation to be voted upon in the near future.

ANNEX III

Statistical Description

Table 1

The General Division of Latvian Exports in 1993

Country	% from total
European countries	44.9
CIS	47.6
Africa	1.4
America	1.5
Asia	4.6

TABLE 2

The Main Countries for Exports in 1993

Country	% from total
Russia	29.6
Netherlands	8.2
Germany	6.6
Sweden	6.5
Ukraine	5.9
Belarus	5.1
Great Britain	4.7
Lithuania	4.3
Poland	3.0
Estonia	1.9

**TABLE 3**

**The Main Export Products**

Product	% from total
Textiles, clothes and footwear	15.0
Agricultural products	14.9
Fuel and oil products	13.9
Means of transportation	12.5
Wood and articles of wood	8.8
Metal and fabricated metal products	8.4
Chemical products	7.4
Electric machinery	7.1
Leather and leather articles	1.5

**TABLE 4**

**The General Division of Latvian Imports in 1993**

Country	% from total
European countries	49.45
CIS	42.3
Africa	1.75
America	2.0
Asia	4.4

**TABLE 5**

**The Main Countries for Imports in 1993**

Country	% from total
Russia	28.5
Germany	9.96
Lithuania	9.6
Sweden	5.3
Belarus	4.9
Estonia	3.9
Ukraine	2.98
Great Britain	1.9
Netherlands	1.02
Poland	0.97

**TABLE 6**

**The Main Import Products**

Product	% from total
Fuel and oil products	45.2
Electric machinery	9.8
Means of transportation	9.3
Chemical products	8.8
Agricultural products	6.4
Textiles, clothes and footwear	5.6
Metals and fabricated metal products	4.1

TABLE 7

Latvia: Structure of Gross Domestic Product by Kind of Activity  
(At Current Prices (%))

	1991 1 Half	1991 2 Half	1991	1992 1 Half	1992 2 Half	1992	1993 1 Half
GDP	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Agriculture, hunting, forestry	20.89	17.36	18.85	16.86	15.92	16.26	13.87
Fishing	1.62	0.84	1.17	0.35	0.38	0.37	0.52
Services	30.92	31.86	31.46	43.32	48.29	46.50	51.97
Mining, quarrying	0.18	0.19	0.19	0.19	0.12	0.15	0.13
Manufacturing	40.18	41.08	40.70	32.84	28.59	30.13	27.73
Electricity, gas and water supply	2.24	1.74	2.03	0.96	1.98	1.61	1.96
Construction	3.77	6.92	5.60	5.48	4.71	4.99	3.82



**TABLE 8**

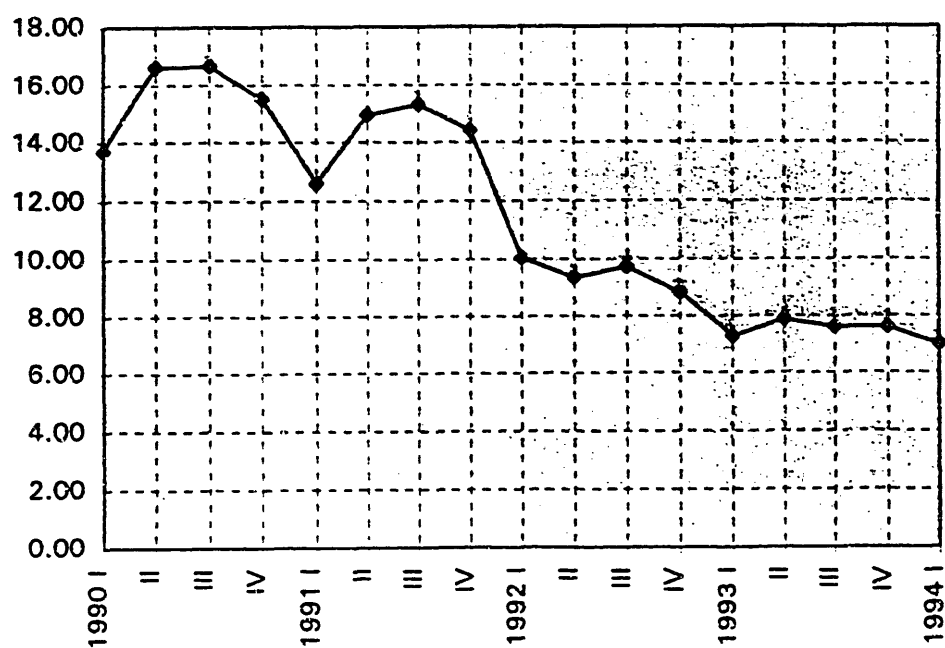
**Latvia: Gross Domestic Product by Kind of Activity**  
(At Current Prices (Mln, Ls))

	1991 1 Half	1991 2 Half	1991	1992 1 Half	1992 2 Half	1992	1993 1 Half
<b>GDP</b>	60.335	82.970	143.325	362.755	641.800	1004.555	622.605
Agriculture, hunting, forestry	12.61	14.41	27.02	61.17	102.20	163.37	86.34
Fishing	0.98	0.70	1.68	1.28	2.41	3.69	3.22
Services	18.66	26.44	45.10	157.16	309.93	467.09	323.55
Mining, quarrying	0.11	0.16	0.27	0.68	0.79	1.47	0.81
Manufacturing	24.25	34.08	58.33	119.15	183.51	302.65	172.68
Electricity, gas and water supply	1.47	1.45	2.92	3.47	12.47	16.21	12.21
Construction	2.28	5.75	8.02	19.87	30.23	50.10	23.81

**TABLE 9**

**Latvia: Gross Domestic Product**  
(At Prices of 1990 Mln Ls)

		TOTAL
1990 I	13.68	62.45
II	16.61	
III	16.65	
IV	15.51	
1991 I	12.59	57.94
II	14.95	
III	15.32	
IV	14.42	
1992 I	10.04	37.94
II	9.35	
III	9.72	
IV	8.83	
1993 I	7.27	30.34
II	7.86	
III	7.61	
IV	7.60	
1994 I	7.00	



**TABLE 10**

**State Budget of the Republic of Latvia  
(THSD. LATS)**

	Revised proposal for 1993	Actual in 1993	Fulfilment of the proposal (%)
<b>Revenue - Total of which:</b>	417,130	410,354	98.4
Turnover tax	66,503	79,968	120
Income tax	900,000	87,015	96.7
Personal income tax	31,491	35,117	112
Duties and other tax payments	8,438	9,970	118
Social tax	159,000	143,447	90.2
Excise duties	15,540	12,104	78
Customs duties	19,500	20,248	103.8
Income from forestries	2,310	3,635	157
Payments for State capital consumption	9,500	9,682	101.9
<b>Expenditures - Total of which:</b>	447,386	412,496	92.2
National economy	22,530	21,198	94.1
<b>Social and cultural activities - Total of which:</b>	317,114	285,738	90.1
<b>Social security of which:</b>	219,278	188,332	86
Pensions and benefits	198,221	173,414	87
Research and development	3,233	3,233	100.0
Maintenance of judicial and defence institutions	37,378	36,955	98.9
Maintenance of State legislative bodies	2,554	2,509	98.3
Maintenance of State administration bodies	14,954	15,096	101.0
Grants/subsidies to local budgets	24,029	24,029	100.0
Deficit (surplus)	30,256	2,142	—
Resources for covering deficit:			
Balance of social tax as of beginning of year	—	2,449	—
Domestic borrowing	16,199	1,570	—

**TABLE 11**  
**Exchange Rate January-July 1994**  
**(Ls per 1 USD)**

1 January	0.595
1 February	0.583
1 March	0.572
1 April	0.566
1 May	0.563
1 June	0.564
1 July	0.552

**Note:** 200 LVR = 1 Ls

From March till June 1993, the interim currency, the LVR (Latvian ruble) was gradually being replaced by Latvia's national currency Ls.