LATVIA PRIVATIZATION ASSISTANCE

PRELIMINARY REPORT ON SECTOR SCREENING

MARCH 26, 1992

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LATVIA PRIVATIZATION
ASSISTANCE

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March 26, 1992

Mr. Normunds Luste
Deputy Department Minister, Privatization
Ministry of Economic Reform
Latvia

Dear Mr. Luste:

Enclosed are the preliminary results of our initial activities in Phase II of our assessment of the privatization potential of enterprises in four sectors. I must emphasize that these are only partial results. We have not included in this preliminary report all of the enterprises that are in the four sectors nor have we completed the analyses of the enterprises that are discussed in this report.

The results presented in this report are based upon the information obtained during the Phase II activities and upon some of the data collected thereafter from the four ministries participating in the study. While we have included in the report tentative criteria for classifying enterprises in terms of their privatization potential, these criteria need to be reviewed by you and other senior officials from the ministries before we can complete the analysis of each enterprise.

Although the report presents the results of only a portion of the effort we planned for Phase II of the assessment, the strategy and format described in the report should be useful to you in future privatization activities. Coopers & Lybrand is prepared to complete its assessment and to provide the support to your privatization program that had been offered by the Agency for International Development (A.I.D.). However, before proceeding with any further work on the assessment it will be necessary to: 1) obtain the approval of A.I.D. and 2) meet with you and the representatives of the ministries to discuss certain data and analytical issues that must be resolved before the assessment can be completed.

Coopers & Lybrand thanks you for the opportunity to be of assistance to the Republic of Latvia and wishes you continued success in your privatization program.

Sincerely,

Robert J. Rourke

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Report Summary

- Background
- Objectives for Phase I
- Implementation and Approach
- Results to Date

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REPORT SUMMARY

Background

At the completion of the Phase I Coopers & Lybrand (C&L) team visit, a number of issues critical to the development of a privatization strategy for Latvia (i.e. currency, citizenship, restitution) still had to be resolved. As a result, the C&L team, in consultation with the Government of Latvia (GOL), concluded that it was not appropriate to pursue a course of providing assistance to the GOL in privatization strategy development at that time.

Instead, an interim scope of work was developed with Mr. Arnis Kalnins, Minister of Economic Reform. Mr. Kalnins agreed with C&L that development of an inventory of State-owned enterprises (SOEs) through an enterprise screening exercise would be an important step in moving toward privatization. Mr. Kalnins also expressed concern that the final output be information that would lead to action, rather than just a list, and it was agreed that C&L would discuss with him what the followup steps would be after the SOE profiles were developed. The C&L team was then asked to focus on SOEs in the sectors under the Ministries of Industry, Construction and the Sea.

Objective of Phase II

The purpose of Phase II was to identify and profile state-owned entities in sectors chosen by the Minister of Economic Reform. The screening project focused on gathering data that would be useful to the Government of Latvia with respect to the privatization process.

The data gathering relied on a template that had been drafted in Phase I to assess the viability as private enterprises under a reformed and market-driven economy. The categories of information contained in the template included the following:

<u>Ministry</u>

General

- Enterprise name
- Activities
- Number of employees
- Locations in Latvia
- Status of SOE

Specific Information (for each site)

- Enterprise name
- Location
- Activities
- Number of employees
- Sales-value (currency)
- Sales-volume/quantity
- Nations that receive export products
  Exports - value
  volume
  Exports - value
  volume
- Inputs of raw materials (for each main category)
  - Value
  - Volume
  - Source
- Profit & loss
- Assets (of enterprise without social services)
- Debt

Implementation and Approach

Upon the team's arrival in early December, Mr. Kalnins asked that the Ministry of Agriculture be added to the 3 ministries already identified as the focus of C&L's work, since the agrarian sector was too important to Latvia for the team to exclude. Following the team's meeting with Mr. Kalnins, the C&L team established contact with Mr. Andris Gutmanis, Deputy Minister, Ministry of Economic Reform. Mr. Gutmanis was reintroduced to the purpose of the team's visit. As a result, Mr. Gutmanis appointed Ms. Aina Bataraga and Mr. Juris Cebulis to provide full time support to the team on this project.

The C&L team, in conjunction with Mr. Cebulis, established contacts with the different ministries as outlined by Mr. Kalnins. Several meetings were held with ministry representatives. The objective of the meetings was to integrate the efforts of the respective ministries in the privatization process. These working sessions resulted in obtaining commitments from each of the ministries to support the GOL's privatization program and be actively involved in providing information on the firms that the ministries are responsible for. From these meetings, the team was also able to determine the availability of information and to identify the list of SOEs to be screened and profiled.

The following two-step approach was followed with the ministry representatives:

1. SOE Identification

The C&L team requested information on the top 20% of companies in each sector, which roughly should account for 80% of revenues. Together with the ministries, we developed a fairly comprehensive list, in which 132 companies were identified:

- 22 in Construction
- 32 in Industry
- 44 in Sea
- 34 in Agriculture.

2. SOE Profiling

After identifying these 132 companies as the pool to be screened, C&L team members worked directly with their ministry counterparts to gather information critical for profiling SOEs. The criteria drafted at the conclusion of Phase I were discussed with representatives of the Ministry of Economic Reform and the 4 target ministries, modified, and then translated into Latvian. While ministry representatives worked with C&L team members to gather information and build SOE profiles within the individual ministries, team members augmented this effort by visiting individual SOEs to interview management and inspect the facilities. Approximately 20 visits occurred.

Screening Criteria for Early Privatization Candidates

The screening criteria which we have used for the preliminary recommendations on the enterprises include four main categories:

1) Economic Viability

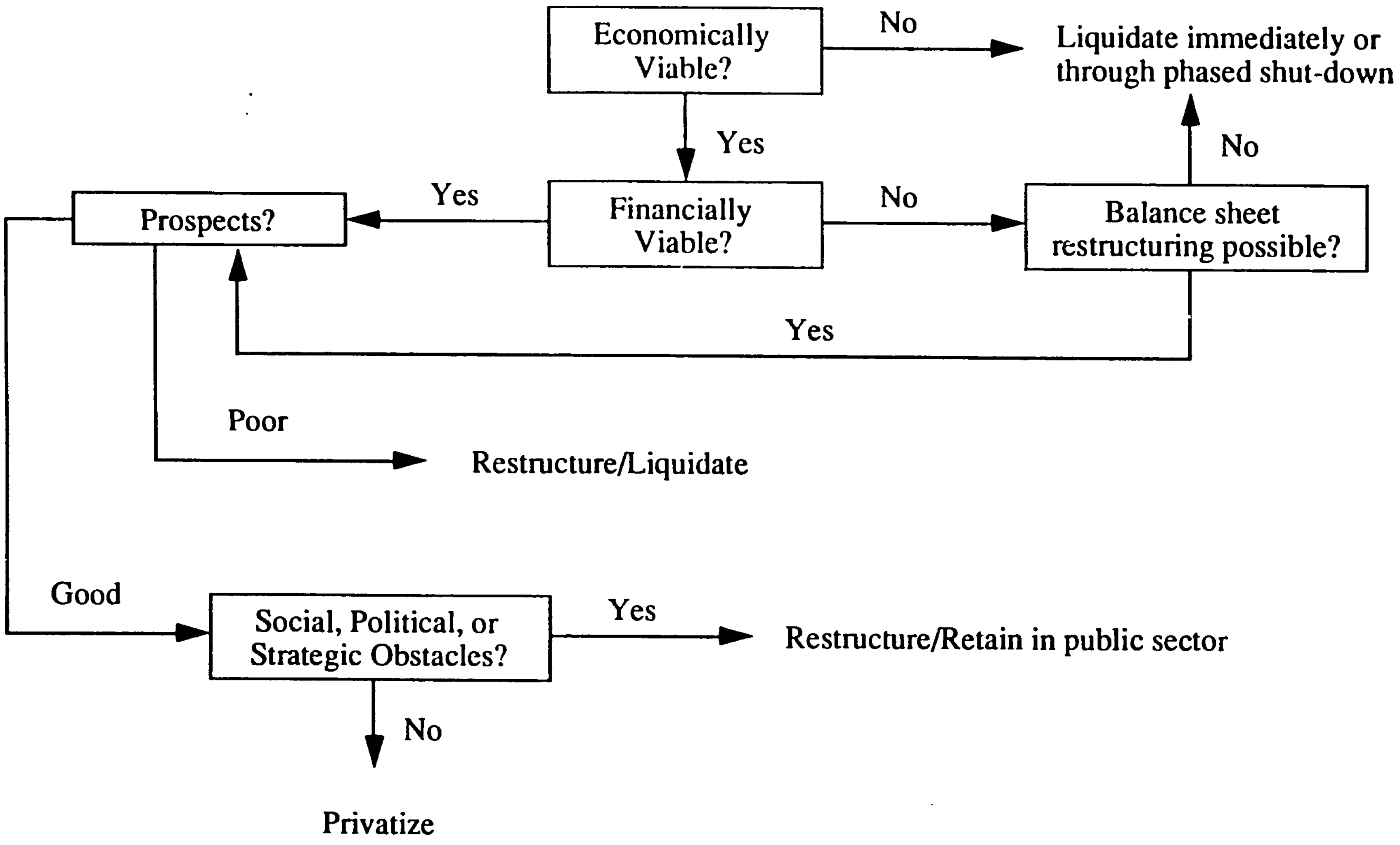
2) Financial Viability

3) Prospects

4) Other Factors (i.e. Social/Political/Strategic Issues)

A flow chart of the screening process and issues of each of the categories are summarized on the following pages.

Screening Criteria for Privatization Candidates



SCREENING CRITERIA FOR PRIVATIZATION CANDIDATES

Economic Viability

- Single most important aspect. Must be satisfied if an enterprise is to be privatized
- Complex issue to judge, especially in distorted Eastern European markets
- Main issue concerns whether value-added produced is positive when measured in world prices (e.g. in Poland, Hungary and Czechoslovakia, up to 25% of activities were found to be generating negative value-added)
- Measurement of value-added requires detailed information on volumes and values of both material inputs and outputs
- Comparisons may be made with comparable figures in western industrialized countries: competitive products

Other Economic Viability Issues

- Modern technology important in capital-intensive activities
- Technical efficiency indicators
    - Labor productivity
    - capacity utilization
    - turnover relative to assets (capital-output ratio)
- Product range
    - Frequently, range of products produced is too wide to be viable
- Access to and ability to pay for raw materials

Financial Viability

- Past profit record and trends
  (For example, in Eastern European countries, it is essential to define "profit" appropriately. In addition, many enterprises will show good financial performance records due to fixed price regimes)
- Extent of subsidies in the past
- Structure of current assets and liabilities
- Debt position and trends (including inter-company indebtedness)
- Cash reserves
- Net asset position
- Hard currency earnings
- Present levels of production compared with the past
- Likely impact on price liberalization

Prospects

- Affordability of products to Latvians
- Quality of products (including export potential)
- Competitiveness in main markets
- Low reliance on Russia (imports and/or exports)
- Competent management
- Raw materials available within Latvia
- Independent of other activities (e.g. centrally planned distribution and supply systems)
- Free of large price distribution (inputs and outputs)
- Labor-intensive with simple technology, or modern technology, or modern technology
- Autonomous management
- Essential to Latvian economy and/or its reconstruction
- Extent of legacy of centrally planned economic system

Social/Political/Strategic Issues

Positive

- Management and workers in favor of privatization
- Good prospects of finding investors (e.g. management and workers, foreign partner)

Negative

- Monopoly or anti-competitive issues
- Key strategic industry (e.g. mining, energy, transport)
- Highly vertically or horizontally integrated
- Large scale redundancies required
- Strong influence of workers councils (or equivalent)
- Restitution issue

Results to Date

The information-gathering and SOE-profiling process was only partially completed during the Phase II trip. The process was subsequently continued through the efforts of counterpart ministry staff after the team's departure in December. Data gathered and delivered to the Ministry of Economic Reform arrived in the U.S. in February, 1992.

Based on the information obtained during the C&L team's site visits in December and on some of the followup data collected by the ministries, we have prepared this preliminary report which includes sector summaries and preliminary enterprise evaluations and profiles. While it is difficult to conduct a full analysis of the enterprises for suitability for privatization before we discuss the screening criteria and enterprise data with the GOL, we have made some preliminary recommendations for several of the enterprises visited. Further review and discussions of the data with the GOL will be required for finalizing a list of privatization candidates.

Agriculture

- Sector Summary
- Preliminary Enterprise Evaluation/Profiles

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Sector Summary

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Summary of sector under study

Sector: Agriculture

A total of 34 enterprises were included for study in this sector. This was made up of 14 state or collective farms (referred to as agro-firms) and 20 food processing enterprises. The enterprises are listed below.

Agro-firms

1	Uzvara
2	Tervete
3	Nakotne
4	Daugava
5	Lacplesis
6	Turiba
7	Adazi
8	Kekava
9	Salaspils
10	Malpils
11	Marupe
12	Baldone
13	Jaunais Komunars
14	Riga

Agro-processing firms

1	Rigas galas un konservu kombinats
2	Liepajas galas kombinats
3	Daugavpils galas kombinats
4	Valmieras galas kombinats
5	Balvu galas kombinats
6	Jekabpils galas kombinats
7	Rigas piena kombinats

8 Valmieras piena kombinats

9 Liepajas piena kombinats

10 Daugavpils piena kombinats

11 Rezeknes piena konservu kombinats

12 Rigas saldetava Nr 1

13 Konditorejas fabrika "Staburadze"

14 Konditorejas fabrika "Uzvara"

15 Konditorejas fabrika "Laima"

16 Parfimerijas-kosmetiskas razosanas apvieniba "Dzintars"

17 Razosanas apvieniba "Rigas balzams"

18 Razosanas apvieniba "Aldaris"

19 Rigas bezalkoholisko un dzirkstoso dzierienu kombinats

20 Rigas tabakas fabrika

Numbers 1-6 are meat factories; 7-11 are dairies; 12 is a freezing warehouse; 13-15 are sweet and/or confectionary firms. 16 manufactures perfumes; 17-19 are drinks manufacturers, and 20 is a tobacco factory.

Information/data collected so far

A detailed questionnaire was circulated (by representatives from the Ministry of Agriculture) to each of the 34 enterprises. This questionnaire is shown overleaf together with a hypothetical example of a completed one. This second document was also distributed to all enterprises to assist in the preparation of information and data in the required format.

At the time of the team's departure from Latvia, no completed questionnaires had been received. However, Ministry of Agriculture officials were briefed to continue collecting the information. It was hoped that this would be ready in early-mid January. In the meantime, the Ministry of Agriculture were able to provide some very basic information on each enterprise (some in more detail than others).

Agro firms

There are approximately 600 of these 'agro-firms' in Latvia. These 14 are generally the largest and probably account for about 20% of total agricultural production. The enterprises are very much the consequence of the centrally planned economic system. The collective and state farms really represented a major pillar on which the economic system was built. Several became 'showpiece' farms, representing how well the economic system could function. The collectives were not just farms, but a complete community, having much of their own infrastructure and providing various necessary services (housing, schools, medical and others) for their 'members'. Most of these functions continue today. Being the largest, these 14 tend to have most of these characteristics. Adazi, for example, is more like a small (self-contained) town, than a farm.

The information which has been collected on these 14 enterprises is shown on the attached sheets. All data has been entered onto Lotus 1-2-3 spreadsheets. The data includes:

Area	-	total
	-	available for agricultural use
	-	cultivated
Employees	-	total (dependent on enterprise)
	-	employed in agriculture
Sales value	-	split into crops, livestock, industrial and others
Production volumes	-	for milk and meat only
Profitability	-	by activity.

NB The profit figures are derived from Latvian data using Latvian definitions. It is likely that these will differ substantially from Western conventions. This should be examined in detail.

Fixed assets - value at end 1990
- proportion 'used up'

NB What this data actually means is not entirely clear. This too should be cleared up.

Debt - long and short term.

All data is for 1990. There is also some limited information along similar lines for previous years (1988 and 1989). However, none has so far been provided for 1991. 1991 data would be especially informative since economic and political circumstances have changed substantially.

- exit from Soviet Union
- shortages of hard currency and raw materials
- economic reforms.

Agro-processing industries

Slightly less detailed information has so far been provided for these enterprises. In general, all have been set up within the centrally planned economic system, and most have been heavily influenced by the Soviet Union. Some, such as the dairies and meat processing plants are regional, while others are national and are monopolies within Latvia. All have been almost entirely production-orientated, although some are beginning to adopt Western attitudes and procedures. Some are actively considering privatisation and/or corporatisation from within.

Most have been dependent on capital equipment and/or raw materials from either the former Soviet Union (especially Russia), or from Western countries. Whether facilities were upgraded, improved or replaced was entirely dependent on Soviet finance. The contrast between Riga dairy and Riga meat factory, for example, is marked. The former received central funds for investment in new facilities in 1988/9 and is, in part, a very modern plant. The meat factory is old, run-down, technologically outmoded, and generally inefficient.

In more normal circumstances, it would be possible to come to some basic conclusions from financial (balance sheet and P&L) information. This is not the case in Latvia, since the necessary information is simply not available.

Nevertheless, if information along the lines outlined is forthcoming it should be possible to undertake the following:

- conversion of inputs and outputs (values) to 'world prices' to ascertain what value-added is actually being produced (or value-deducted!)

- a qualitative judgement based on data, information and opinions received, plus plant visits etc.

Agro-firms

The collectives and state farms appear to fall into a separate category. In many ways, they are already independent - almost private. Management appears to be autonomous. Is privatisation a meaningful concept in these cases? More details on this and Agrarian Reform are required. For example, Adazi state farm has alreadv been transformed into a joint-stock company with the shares owned by the employees. There is therefore no 'privatisation' issue as such.

Restitution

An issue of enormous importance, which has not been fully addressed. Particularly relevant for the farms.

Other relevant issues include:

- institutional framework for privatisation
- inter-ministry rivalry and responsibility for privatisation
- clarity of privatisation laws
- objectives of government
- hard currency shortages (especially relevant during 1991).

The chronic shortages of hard currency mean that most enterprises face severe problems concerning either raw materials or required investment in new equipment and facilities. Foreign investment and assistance will probably be essential in the future.

The information so far received includes:

- Employees
- Total sales value
- Profitability (the same caveat applies)
- Fixed assets (the same caveat applies)
- Debt
- Production figures

These are not very disaggregated.

All data is for 1990. Again a limited amount of information has been provided for previous years.

In my opinion, undertaking a worthwhile assessment of these enterprises requires further plant visits, and a more detailed analysis of whatever financial and market information is available.

Enterprises visited

Of the enterprises visited. the following preliminary conclusions may be drawn form first impressions.

Laima: Forward thinking management, efficiently run. Already have own plans (developed internally) for privatisation. Main problem is lack of hard currency to buy raw materials (cacao). Products are basically good quality and could be exported. Would require improved packaging, and marketing and distribution expertise.

Riga Dairy: A least a substantial part of the milk processing facilities are very modern using latest technologies and are run efficiently with computer systems and low labour input. The rest of facilities (for secondary processing) may be less modern - I was not shown these. Generally though, a modern facility with good prospects. However. the dairy (like all dairies) rests uneasily between two parts of the old centrally planned system: the state farms and the Soviet distribution systems.

Riga meat factory: very old run-down facilities. Requires substantial refurbishment and/or investment. Probably inefficient. Product quality is questionable but some items could be exported. However, to be competitive in the future would probably require a completely new plant.

Enterprise Profiles

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Enterprise Name: Laina Confectionery Factory
Sector: Agriculture/Food Processing

Economic Viability

- Awaiting quantitative input and output data from questionnaire
- Small amount of exports to Western Europe
- Some modern technology

Financial Viability

- Awaiting quantitative accounting information from questionnaire
- Good profitability in 1990 (figures not ratified)
- Appears to have no outstanding debt (not ratified)
- Extent of subsidies unknown

Prospects

- High image in Latvia
- Limited exports, but good potential especially for hand-made products
- Forward-thinking management: have developed details of their own privatization plan
- Relatively independent of other industry in Latvia
- Not reliant on Russia
- Simple technology used

Limitations

- Reliance on imported cacoa (main raw material). Lack of hard currency to pay for this
- Inferior packaging and marketing
- Limited investment in new machinery required

- State of equipment/technology not known in detail

Other Factors

- Management in favor of privatization
- Good prospects of finding investors
- Possible monopoly concerns
- No strategic industry constraint
- No restitution issues

Preliminary Recommendation: (may be modified in light of new information)

Main constraint is lack of availability of cacoa, the principal raw material, and the ability to pay for such imports in hard currency. Would benefit from imported packaging and marketing capability. Good prospect within Latvia and for exports. Joint venture with western firms could therefore benefit both parties. Forward thinking and competent management. Few financial difficulties. Excellent candidate for early privatization.

Date: 16 December 1991
Present: Elmars GOZITIS, General Director, Laima confectionery
Stewart Robertson, C&L

* Established by a German businessman in 1870 as a private joint stock company. In 1925 it became Laima, having merged with other businesses. In 1940 it was nationalised and is still a SOE today.

* Employs about 800 people, and has a turnover of about 200 million rubles. Production volume of about 16,000 tonnes. Produces boxed chocolates, chocolate bars and other confectionery. The only enterprise in Latvia producing chocolates. Traditional methods, old recipes, hand-made and good image within Latvia.

* Although most (about 80%) of production is sold via the state's shops, Laima is also selling in 14 private shops run by the separate company "Laimte". This co. is owned by the employees and was set up 2 years ago. Current turnover of about 0.5 million rubles. The company is trying to develop this network. Last year dividends of 30% (?) were paid to the owners (the employees). About 85% of production is for the domestic market. Some exports have been made to Western countries but these have been small and often "one-offs".

* Laima's management have quite clearly thought a great deal about privatisation and are very keen to proceed as quickly as possible. A state commission undertook a valuation of the company and estimated the value to be 22.7 million rubles. This broke down as follows:
- "Basic funds" (fixed assets?) 8.5 million rubles
- Raw materials 7.3 million rubles
- Financial assets 6.9 million rubles

On the basis of this, Laima has developed plans on who should own the privatised company:

- The State: 20.1% or 4.6 mn rubles
- Employees: 57.7% or 13.1 mn rubles
- Foreign investor: 20.0% or 4.5 mn rubles
- Latvian citizens: 2.2% or o.5 mn rubles

The companies preliminary plans are currently being discussed by the Council of Ministers.

The foreign investor is crucial to the company's future to provide investment funds and hard currency for raw material purchases. The company considers that it could perhaps be the "flagship" privatisation for Latvia.

Mr Gozitis stated that the overall process of privatisation in Latvia is proceeding but that there are basic conflicts between the Parliament and the Council of Ministers.

He also stated that the current inflationary climate was not helping. This is closely linked to the ruble.

Mr Gozitis's opinion was that the most important part of the Government's privatisation strategy should be to achieve some quick results. For this reason he believes that advisors should undertake valuations work and assist with actually implementing some privatisations. He believed that privatised enterprises could begin to operate profitably and that this would provide tax revenue to the Government. The freedom to operate without the constraint of state control would be a great benefit to privatised enterprises.

* Capacity utilisation has been good in the past but in 1991 it dropped dramatically because of a chronic shortage of raw materials. Previously, the Soviet Union had allocated hard currency for imported cacao but this is no longer the case. The company now has to finance its own raw material purchases and shortages of hard currency have meant that it simply does not have the money. As a result, production has dropped by over 40%.

* Labour costs are very low by international standards. This would be attractive to a foreign investor. The quality of labour is apparently good - certainly in comparison with the previous Soviet Union.

* 80% of raw materials are imported. The main one is cacao which has come from Brazil and South Africa. It is bought on the commodity exchanges in London or Hamburg. The company is currently attempting to find and finance alternative sources of cacao. It hopes to do a deal with Uganda, assisting setting up a cacao plant there in exchange for a guaranteed supply source. The deal has not yet been finalised. If successful, the company would no longer have to purchase cacao on the commodity exchanges. It would also hope to sell some production to the Ugandan or other African markets.

* Because of the cacao shortages this year, the company has attempted to make products with low or no cacao inputs.

* Despite the difficulties, the company has still been profitable during 1991 - profit of about 30 million rubles. Most money is apparently made on the boxed chocolates.

* Management at the company is fairly autonomous and prices are not controlled. The system of wage levels is fairly unique for Latvia, having a profit-related element to pay for all staff.

* There are two basic types of chocolates made. One is a high quality hand-made range of chocolates, and the other is a mass-produced production line range. The level of technology used is fairly modern but not the absolute best. Equipment came from (West) Germany and Italy. The equipment for secondary processes such as nut roasting and wrapping is more old-fashioned and inefficient. The primary process technology and equipment does not affect product quality in an adverse way, but the secondary processes and equipment affects quality and efficiency. In

particular, bottlenecks develop because of the inefficiency of particular secondary processes.

The main issue for this company concerns obtaining a reliable source of the primary raw material, cacao. They are having major problems at the moment and they feel that the only solution will be participation from a Western partner. Hence their interest in privatisation and possible future joint ventures. There are some other issues such as upgrading of some equipment. Also, in the past products have been aimed at Russian markets. Product quality will have to change somewhat for Western markets. The management do not feel that this would be a problem.

The other issue of some importance concerns marketing. The company recognises that in order to penetrate Western markets, improved packaging and marketing would be essential. They feel that participation with a Western firm well versed in marketing and distribution issues would benefit them. The company has had some preliminary negotiations with some Western firms, but nothing concrete has developed as yet.

On a general and specific level, Mr Gozitis suggested that US and other direct aid to countries such as Russia and Eastern Europe would be more efficient if it was done differently. Instead of giving direct aid (food etc) assistance should be provided to enable these countries to help themselves. For example, by providing raw materials to enterprise in such countries (or machinery and equipment) plus perhaps some technical assistance, the countries concerned could themselves produce food and other goods. This type of aid would therefore help in two distinct ways. It would provide the end-products, but also enable industrial enterprises to recover and improve their operations. Specifically, Mr Gozitis was saying that if aid was provided to Laima in the form of supplies of cacao, then it could make products, some of which could be directed to the Russian market for example.

Enterprise Name: "Rigas Piena Kombinats" Riga Dairy
Sector: Dairy

Economic Viability

- Awaiting quantitative input and output data from questionnaire
- Very modern technology and plant for liquid milk processing
- Modern computer system for monitoring all aspects of processing
- Productivity probably high
- Forward-looking management

Financial Viability

- Awaiting quantitative accounting data from questionnaire
- Low profitability in 1990 (4% of sales) (Figure not ratified)
- Turnover of 84 mn Rbl (1990)
- Extent of subsidies unknown but likely to be extensive

Prospects

- Excellent liquid milk processing facilities
- Apparently good production management and quality control
- Good product quality (liquid milk and liquid milk products)
- Good position in domestic market
- Apparently competent management
- Limited export potential
- Inextricably linked to old centrally planned economic system
- Recently has developed sales through its own shops

Other Factors

- Possible local monopoly issues in Riga area
- Extensive local market
- Political sensitivity of ensuring availability of dairy products
- Redundancies unlikely to be necessary

Preliminary Recommendations (may be modified in light of new information)

As a manufacturing facility, the liquid milk processing plant (liquid milk, cream, yogurts) appears excellent due to extensive investments in the labor technology in 1989 (from central funds) other manufacturing facilities (cheese, butter) not seen. The main problems are the links to the state farm system, and the centrally planned distribution system. The latter is beginning to change. If the dairy can ensure getting supplies of milk (contracts with state an/or private farms?) it should operate successfully with only minor restructuring.

Date: 19 December 1991
Present: Margers RAVA, General Director, Riga Dairy
Dainis NAGLA, Foreign Relations Manager, Riga Dairy
Stewart Robertson, C&L

The overall impression from being shown around this enterprise was one of a technologically modern plant with a high level of production efficiency. The plant is large, very new (1989) and seems very streamlined. It is capital-intensive and uses up-to-date technology including a comprehensive computer system for checking flows, quality etc constantly. Impressive central computer room for monitoring all activities. Despite the excellent facilities, the dairy is still in the middle of the centrally planned economic system - state or collective farms on one side and state-run distribution and shops on the other.

* Constructed as a turnkey project in 1989 from central budget. Total cost of $35mn. Included 'social buildings' as well as production facilities. Not all plant is modern: all liquid milk processing is including milk, cream, etc. Older plant produces cheese, ice cream etc.

* Plant used to be run by over 1000 people. Now employs about 200.

* Capacity to process 600 tonnes of milk per day

* In general not getting enough milk to run at full capacity

* Milk from Riga region is generally of an above average quality - high fat content.

* The state trading organisation takes 90% of production. The remainder is sold through 2 shops owned by the company but this is a very recent activity.

* Prices were only liberalised on 10 December 1991 so the effects are as yet unknown.

* The dairy faces competitors in buying milk but almost none in selling it.

* The dairy is very keen on establishing a plant for the manufacture of baby food. There is a large market within Latvia, the Baltics and other Eastern European countries which is only served by low quality Russian products currently. The dairy is quite confident in its ability to produce a good quality product but it does not have the finance to build the plant. They require the financial assistance of a foreign investor and are unsure about how to proceed. They recognise that some sort of feasibility study is required.

* The issue of vertical integration is an important one. To guarantee a source of milk, backward integration with farms may be preferable but could face opposition.

Apparently, several small farms have approached this dairy with a view to becoming more closely associated with it in the future.

* To summarise, much of the production facilities at this plant seem to be of a very high standard. There may still be some possible improvements. The dairy is not presently concerned with the distribution and marketing side of the business. They are still production oriented. The majority of products are simply collected by the state distribution organisations. This is changing gradually.

Enterprise Name: "Rigas Galas Un Konservu Kombinats" Riga Meat Processing Plant
Sector: Agriculture/Food Processing

Economic Viability

- Awaiting quantitative input and output data from questionnaire
- Old technologies and run-down facilities
- Low process efficiency
- No exports to western countries
- Poor product quality

Financial Viability

- Awaiting quantitative accounting data from questionnaire
- Low but positive profit in 1990 (figure not ratified)
- Short term debt at 3% of sales (figure not ratified)
- High sales turnover (164 mn Rbl)
- Extent of subsidies unknown

Prospects

- Dilapidated production facilities
- Huge investment requirements
- Low product quality
- Very limited export potential
- Strong position in domestic market
- Closely linked with state farms and old centrally planned system
- Significant price distortions

- Reliant on centrally planned distribution systems
- Management capability unknown, but chairman realistic about limited prospects in current state
- No marketing function
- State of equipment unknown, but thought to be poor
- Reliant on imported machinery/technology

Other Factors

- Possible monopoly issues (supplies 80% of Riga market)
- Local market exists - products in demand
- Essential to maintain supply of meat to Riga

Preliminary Recommendation (may be modified in light of new information)

Probably not viable in its current state. Facilities are old (1920s) and very poor. Production efficiency is low and product quality is poor. Costs of necessary improvements estimated at $120 million plus. Meat products will be required by Latvians. Either very major restructuring is necessary, or new facilities should be established -- gradually replacing the old. Must realistically be considered a candidate for liquidation.

Date: 18 December 1991
Present: Chairman, Riga meat processing plant
Stewart Robertson, C&L

* There were plans to commercialise some enterprises two years ago. transforming some to joint stock companies as a first stage. This did not in fact take place. The general aim was to create more integrated agricultural processing industries - from farm to retail/wholesale. Although the current vision is similar, worries have been expressed concerning the monopoly situations which would undoubtedly arise. For example 80% of the Riga market is supplied by this enterprise. An anti-monopoly Act may be passed in the near future.

* The state and its policies have heavily influenced the activities and performance of this enterprise. The emphasis has been on producing high volumes to serve the "lowest class" of the population.

* His view was that this enterprise should aim to produce higher quality products for the Latvian market, and export to both former Comecon countries and Western European countries in the future. In order to do so, large investments would be required and these require hard currency which the enterprise does not have. The current plant is very old, technologically outmoded, and run down. This means that the plant is not capable of producing quality products in its present state and that current products are produced at low levels of efficiency. His vision was that it would take 3-5 years to make the necessary investments, and a further 2-3 years to begin to penetrate EEC markets. (This seemed a little optimistic and made no reference to the cost of so doing)

* Essentially they have 4 groups of products:
- Meat (Beef, pork, lamb and poultry)
- Meat products (Sausages etc)
- Meat by-products (providing raw materials for pharmaceutical industry)
- Other products (bone, hair, hides, horn etc)

The final group includes leather and cattle feed made from the listed products or sold to third parties who do so. Some products from this group are exported to Western markets and earn a limited amount of hard currency which could be used to finance restructuring. In the short term these type of products have the best (hard currency) export potential.

* An estimated $120mn of investment is required to make necessary changes in process technology and new equipment to improve efficiency of operations.

* Production in 1990 and 1991:
In both years meat represents about 80% of sales (Group 1)

	1990	1991
Beef	46%	60%
Pork	52%	38%
Lamb	2%	2%

In 1992 it is estimated that the % for beef will be higher and that for pork will be lower. The overall size of herds of animals in Latvia has been falling in recent years and will continue to do so.

* Of costs, raw materials (mainly carcasses bought form farms) represented about 93%. Wages and salaries comprised about 5%.

* Few opportunities for niche products because of poor quality of products.

* The slaughterhouse (on-site) was built in the 1920s and although still functioning, facilities do not meet European standards. Hence products produced 'from' it cannot be sold to the West.

* There has been some Western interest in some of the products produced at trade fairs (eg. salami) but because of the problem above the products cannot be sold on Western markets even although the products themselves are of acceptable quality.

* The main issues for this enterprise concern the facilities. They are poor, old and very run down. The costs of improvements are almost prohibitive. It may be better to construct entirely new plant (new site?). But the Riga market is large and the enterprise has a captive market. The Latvians will always need meat and meat products. Processing technology needs to be improved but there is some potential for exports. The major question therefore concerns the sources of hard currency for either refurbishment or provision of new facilities. The latter option would be preferred but leaves the questions of:
- cost
- interim measures.

* Perhaps the best way forward would be a phased shut down of the existing facilities (which are not viable in the medium/long term) together with investment in new facilities activity by activity.

Ministry of Industry

- **Sector Summary**
- **Preliminary Enterprise Evaluation/Profiles**

Data included in this preliminary report has not been reviewed by the Government of Latvia for accuracy and consistency and, therefore, should not be used for analytical purposes. Further discussions with the respective ministries are required before relying on the information to select enterprises as privatization candidates.

Ministry of Industry

- **Sector Summary**
- **Preliminary Enterprise Evaluation/Profiles**

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?4

Sector Summary

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MINISTRY OF INDUSTRY
SECTOR SUMMARY

The ministry of industry provided a list of 33 enterprises (detailed forms are attached) which represented a cross section of their total industrial sector. These firms employ approximately 75,000 personnel. According to the Industry ministry 31 of the 33 firms are classified as State Owned Enterprises (SOEs). Two firms RAF and Aurora are Shareholder associations. Twenty of the 33 firms export (E) products outside of Latvia. Of these 20 firms, 7 export products to the West (EW). Eleven firms, export products for convertible currency (E$). The firms import much of their raw materials from the former Soviet Union and the former republics (Raw Material Import East -RMIE). In several cases raw materials are imported from Eastern Europe (RMIEE). In one case raw materials were obtained from Europe (RMIEC). However, twenty firms did not answer this question.

The thirty-three firms are listed and coded on the following pages for easy reference on the issues discussed above.

1) Passenger train cars-Rigas vagonu rupnica
2) Household appliances-Rigas elektromasinas rupnica
3) Minivans-Mikroautobusu rupnica RAF
4) Telephones-VEF
5) Construction instruments-Rezeknes rupnica Rebir
6) Brake & Hydraulic Systems-Jelgavas masinbuves rupnica
7) Perforation machines - Valsts firma Dauer
8) Mopeds & Spare parts - Motorrupnica Sarkana Zvaigzne
9) Hydrocylinders & Farm equipment - Hidroagregatu rupnica Hidrolat
10) Compressors - Valsts rupnica Kompressors
11) Household appliances & Childrens toys - Valsts firma Straume
12) Spare parts for Automated machinery - Hidrometeorologisko riku fabrika, Prognoze
13) Ventilators and valves - Ventspils ventilatoru rupnica
14) Farm machinery - Rigas lauksaimniecibas masinbuves rupnica
15) Lightbulbs - Rigas elektrospuldzu rupnica*
16) Lighting fixtures - Rigas apgaismosanas tehniska rupnica
17) Rolled Metal, nails, chains, & staples - Rupnica Liepajas metalurga
18) Capron weave, threads, particles - Daugavpils kimiskas skiedras rupnica
19) Glass products (threads, particles, pellets) Valmieras stokla skiedras rupnica
20) Paints, primers, and finishes - Rigas laku un krasu rupnica*
21) Plastics - Olaines plastmasu parstradas rupnica
22) Furniture - Mebelu firma Riga*
23) Veneers - Latvijas finierrazosanas apvieniba
24) Paper - Jaunciema papira fabrika
25) Cotton threads & weaves - Uznemums Rigas Manufaktura
26) Clothing - Razosanas uznemums Ogre
27) Textiles - Uznemums, Rigas Audums
28) Textiles - Firma, Lauma
29) Socks - Zeku fabrika, Aurora*
30) Textiles - Uznemums, Rigas Tekstils
31) Wood products - Incukalna MRS
32) Wood products - Jurmalas MRS
33) Electronics - Komutators*

Enterprise	State Owned Enterprise (SOE)	Shareholder Association (SHA)	Export Products Outside Latvia (E)	Export Products to the West (EW)	Export Products for Convertible Currency (E$)	Raw Material Imported from Former Soviet Union (RMIE)	Raw Material Imported from Eastern Europe (RMIEE)	Raw Material Imported from Europe (RMIEC)
Passenger Train Cars	X		X					
Household Appliances	X		X	X				
Minivans		X						
Telephones	X		X	X	X	X		
Construction Instruments	X							
Brake & Hydraulic Systems	X					X		
Perforation Machines	X							
Mopeds & Spare Parts	X		X		X		X	X
Hydrocylinders & Farm Equipment	X		X					
Compressors	X		X		X	X		
Household Appliances	X		X			X		
Spare Parts for Automated Machinery	X		X		X	X		
Ventilators and Valves	X		X					
Farm Machinery	X		X	X	X	X		
Lightbulbs	X		X		X	X		
Lighting Fixtures	X		X			X		
Rolled Metal, Nails, Chains & Staples	X		X					
Capron Weave, Threads, Particles	X					X	X	X
Glass Products (Threads, Particles, Pellets)	X		X	X	X			
Paints, Primers, and Finishes	X		X					

[MATRIX] 20-Feb-92

Enterprise	State Owned Enterprise (SOE)	Shareholder Association (SHA)	Export Products Outside Latvia (E)	Export Products to the West (EW)	Export Products for Convertible Currency (E$)	Raw Material Imported from Former Soviet Union (RMIE)	Raw Material Imported from Eastern Europe (RMIEE)	Raw Material Imported from Europe (RMIEC)
Plastics	X		X		X		X	X
Furniture	X		X	X	X			
Veneers	X		X	X	X	X		
Paper	X							
Cotton Threads & Weaves	X							
Clothing	X							
Textiles (Uznemums, Rigas Audums	X							
Textiles (Firma, Lauma)	X							
Socks		X	X	X	X			
Textiles (Uznemums, Rigas Tekstils)	X							
Wood Products (Incukalna MRS)	X							
Wood Products (Jurmalas MRS)	X							
Electronics	X		X			X		

[MATRIX] 20-Feb-92

Although the information received to date is not sufficient to complete a prioritization of privatization candidates, the C&L project team has attempted to address the concerns of the GOL and begin providing our initial impressions of privatization candidates. More data will be needed to continue the analysis, however the intent of the analysis provided below is to provide concrete feedback to the GOL in order to assist its efforts in developing privatization tactics to support its overall privatization strategy.

Each of the five sector candidates which were visited exhibited some potential for privatization. Some made for stronger cases than others. More input and output data must be collected to prepare a concrete analysis and recommendation. A summary of the preliminary evaluation analysis is presented below.

Aurora and Riga Paints, and Varnishes were depicted as presenting environmental hazards to the Latvian environment. This was neither confirmed nor negated during the initial site visit. Each of these firms should be visited by energy/environmental engineers to determine the extent of their pollution. Excessive pollution clean up costs would of course impact the future profitability of the enterprise. In both cases, site visits to the respective enterprises did not allow for factory walkthroughs. In the case of Aurora, they were only working night shifts at the time of the site visit because energy costs were much lower. However, in the case of Riga Paints, and Varnishes the management refused to allow a factory walkthrough. Aurora did provide samples of their sock products and the quality appeared to be similar to Western standards. The management also was very knowledgeable as to the competition as well as the type of technology they would need to remain competitive. Aurora would be an attractive candidate as long as the environmental issues do not place a heavy burden on the firms cost structure.

Komutators, which specializes in supplying the Soviet Military's electronics market apparently faces difficulty in adapting to the disappearance of their military market. The transition from military to commercial ventures has proved difficult for the most advanced U.S. military industrial enterprises. Komutators with outdated technology, faces an even more difficult task. The ability of the enterprise to transition to the commercial goods market must be assessed prior to any efforts for privatization.

Riga Lightbulbs, which admittedly does not possess the technology to compete in the West also faces major technological restructuring before it can begin to meet European standards for safety and quality. It would not appear to be an early privatization candidate.

Riga Furniture does not employ sophisticated technology, however, they have established a market for their products in Belgium, Canada, and the U.S.A.. In addition, they do not appear to be as heavily constrained in their obtaining raw materials from outside of Latvia. The firms management also supports privatization. Riga Furniture should also be reviewed as one of the potential early candidates for privatization.

Enterprise Profiles

Data included in this preliminary report has not been reviewed by the Government of Latvia for accuracy and consistency and, therefore, should not be used for analytical purposes. Further discussions with the respective ministries are required before relying on the information to select enterprises as privatization candidates.

Enterprise Name: Mebelu Firma Riga (Riga Furniture)
Sector: Industry

Economic Viability

- Fifty percent of the raw materials are obtained in Latvia. The other 50% in Russia.
- High demand for furniture in Latvia. Furniture stores have demand which far exceeds supply available to population.
- Hard currency exports of products shipped to Belgium, USA, Finland, and Canada. Reported hard currency sales of 230k USD in 1991.
- Technology is approximately 15 years old.

Financial Viability

- 14% profit in 1991 (17mR on sales of 120mR).
- Total debt for enterprise was 4.6mR.
- Extent of subsidies unknown.

Prospects

- Competition for market is existent but not fierce.
- Not as highly dependent on foreign suppliers as many other firms.
- No specific high energy use identified.
- Have some hard currency to pay for needed new technology.
- Export opportunities to the West are currently being utilized and management attempting to increase this market.
- No foreign interests have been secured.

Other Factors

- Products are expensive to average Latvian citizen.

- Domestic product quality is not high, Foreign export products are constructed much more carefully.

Preliminary Recommendations

- Riga Furniture is a potential early privatization candidate. However, data provided to date is not conclusive.

- Enterprise privatization would coincide with wishes of management. Claims by previous owners, which are apparently less than 10% of the value of the firm should be set aside by government and settled at a later date.

- Foreign partner and possibly investor interests should expand with privatization based upon continuing aggressive management initiatives. Nordic countries have been particularly eager in obtaining advantage from natural resources of the Baltics.

MINISTRY OF INDUSTRY
SITE VISITS

Mebelu Firma Riga (Riga Furniture)
226005, Riga, Ganibu Dambis, 30a

I. **Established: 1963**
   A. Before 1963 Riga Furniture consisted of several small independent factories with different owners dating back to 1800's. The previous owners were of German descent.

II. **Company Status: Government owned, reporting to Min. of Industry**
   A. Management is independent of ministry in making operating decisions.
   B. Each location makes independent decisions on operations. Headquarters signs contracts, performs marketing (they have a product line brochure available) and accounting.
   C. A valuation of the firm was performed in 1991. The firm was valued at 16mR. Current management believes this would now be approximately 25mR. The suggested ownership structure was 49% for the enterprise, 21% for the GOL, and 30% for foreign investors.
   D. Support privatization of enterprise as quickly as possible.

III. **Location: Six sites, primarily in Riga**

IV. **Employees: 1750 - 1732 (Production), 18 (Social Services)**

V. **Activities and Products**
   A. Wall Units - 14100 units
   B. Sleep Sofas- 5811 units
   C. Chairs- 56084 units

VI. **Markets**
   A. Domestic
      1. GOL orders 50% of production output (This does not mean this is sold in Latvia).
   B. Foreign
      1. Belgium - 'Anna' shelving
      2. USA - 'Billy'
      3. Finland - 'Davis' chairs
      4. Canada - L42,L72

MINISTRY OF INDUSTRY
SITE VISITS

5. Germany

VII. Customers

A. Furniture Distributors

B. Starting retail outlet at site #6

C. Sales

1. 1991 (9 Months) 81.6m R

2. Hard Currency. Official financial documentation does not show hard currency reserves. Hard currency sales were approximately 230k USD in 1991.

VIII. Capacity Utilization

A. Existing capacity would generate 160mR according to firm management. With planned sales of 120mR in 1992, capacity utilization is estimated at approximately 75%.

IX. Raw Materials

A. 50% of raw materials are obtained in Latvia. The other 50% of raw materials are obtained from Russia.

X. Costs/Profits/Debt

A. Cost structure is not available from existing information.

B. The management expects that profits for 1991 will be approximately 17mR on total sales of 120mR.

C. Total debt for the enterprise is 4.6mR

XI. Energy Use

A. The enterprise's sites have their own heating systems. This is typical of many manufacturers in Latvia.

XII. Technology

A. Machinery is approximately 15 years old.

B. Equipment is obtained from Italy, Czechoslovakia and Russia.

XIII. Foreign Interest

A. No foreign interests have been secured for ownership.

B. Management has not extensively sought foreign ownership prior to privatization.

C. The enterprise has experience in manufacturing for "Western" markets. Usually, a western distributor will issue raw material specifications using high quality raw materials obtained from the west. The enterprise will then manufacture according to specifications.

Enterprise Name: Aurora
Sector: Industry

Economic Viability

- 35-40% of inputs from Russia
- Approximately 25% of products are directly sold outside of Latvia
- Exports for hard currency have created reserve of 700K DMs.
- Technology relatively modern by Latvian industry standards with 75% of machinery less than 10 years old.

Financial Viability

- Profits were approximately in the 25% range for the first three quarters of 1991.
- Information regarding total debt for enterprise was not available.
- Extent of subsidies is not known.

Prospects

- Monopoly supplier in Latvia.
- High energy consumer.
- Foreign firms have expressed interest in Aurora

Other Factors

- Limited Distribution domestically
- Alleged to be polluting the environment
- Management seeking capital infusion of approximately 5-6M USD.

Preliminary Recommendations

- Determine extent of pollution by enterprise prior to privatization process.

- Review management and operational issues to ensure effective enterprise strategy and operational management to support various management efforts to coincide with privatization.

MINISTRY OF INDUSTRY
SITE VISITS

Aurora - Sock Manufacturer
226002, Riga, M. Nometnu, 16

I. **Established: 1946**
   A. Before 1946 Aurora was "Holmes & Company". Holmes & Company was a shareholder association in the 1920s. In 1937 a special commission was formed in Latvia to examine the liquidation of the firm, which was not profitable. Sales of 800K Lats generated losses of 200k Lats at that time.

II. **Company Status: Government owned, reporting to Min. of Industry**
   A. Management is independent of ministry in making operating decisions.
   B. Enterprise will be valued at approximately 36mR. This valuation is determined by obtaining the value of fixed assets in rubles (22-24mR in 1991). This value is multiplied by a coefficient which ranges from 1.6 to 1.8.
   C. Support privatization of enterprise as quickly as possible.
   D. During the December 1991 bi-lateral trade agreements between Latvia and Russia the two parties agreed to Latvia supplying Russia with 26.2m pair of socks. This agreement does not indicate concrete sales only an agreement in principal. (Typically, Latvia has delivered on 70% of their agreements with Russia)

III. **Location: Riga (Main-Factory), Cesis (Small Factory) Liepaja, Daugavpils**

IV. **Employees: 2127 - 1968 (Production), 159 (Social Services)**

V. **Activities and Products**
   A. Socks (Mens, Womens, Childrens)- 44.5m pair in 1991 (9 months)
   B. Stockings - 15.9m pair in 1991 (nine months)

VI. **Markets**
   A. Domestic
      1. 35m pair of socks are expected to be sold to the Latvian market in 1991. The government buys the majority of domestic production and uses it for barter purposes. The remainder is sold to local distributors. However, these distributors primarily sell to the black

market. According to Aurora management, these distribution problems could be solved if Aurora is allowed to sell socks in their own stores. Currently the government limits Aurora sales in their own retail outlets to 1.8m pair. The limitation on sales was enforced by the former ministry of trade, which was liquidated.

2. There is no existing competition for the manufacture of socks in Latvia. However, the lack of trademark protection laws make it possible for black marketeers to use Aurora trademark and sell inferior products using their label. In addition, retail outlets advertise Aurora socks regardless if they have purchased Aurora products.

B. Foreign

1. 17-18m pair of socks are expected to be sold to foreign markets in 1991.

VII. Customers

A. Distributors.

B. Have own retail outlets in Riga, Daugavpils, and Liepaja

C. Sales

1. 1991 (9 Months) 125.5mR

2. Hard Currency reserves of 700k DM.

VIII. Capacity Utilization

A. Existing capacity would generate 80m pair of socks with existing capacity according to firm management. Total sales for this year is expected to be approximately 71m pair.

IX. Raw Materials

A. 35-40% of raw materials were obtained in Russia. During the last two years the enterprise has been having extreme difficulty in obtaining these raw materials from Russia. Raw materials are shipped by train. However, local officials in Russia are not allowing trains to pass even when accompanied by proper documentation from Moscow.

B. Raw material prices are escalating in parallel with a general inflationary spiral facing Latvia. As an example, the price of cotton in 1989 was 6-8 rubles per kilogram. In 1991 the price had increased to 82 rubles per kilogram.

X. Costs/Profits/Debt

A. Cost structure (1989):

Raw Materials	61%
Salaries	10%
Supplies	07%
Energy	02%
Taxes	20%

B. The profits for Aurora in 1991 (9 months) according to Latvian National Statistics Committee (LNSC) was 34.1mR.

C. Total debt for the enterprise is not available from existing documentation.

D. Childrens socks are sold without profit. This is done as a social consideration for children. This decision has been made by Aurora management.

E. The existing cost structure will change with the continuing increase in energy prices. Increases in energy prices of 10x are expected.

XI. Energy Use

A. Aurora is faced with a shortage of energy resources. The manufacturing facility is closed during the day and only operates at night 21:00 hrs to 08:00 hrs. The facility is currently using 4200Kw per day. This consumption must be reduced by 1200Kw.

XII. Technology

A. 75% of the machinery is under 10 years old. The other 25% of the machinery is approximately 11+ years old.

B. Equipment is obtained from Italy, Czechoslovakia, Japan and Russia.

C. In comparison to foreign sock manufacturers Aurora is smaller but also less expensive to operate. For example, Sara Lee manufacturers 500m pair of socks per year (i.e. nearly 10x what Aurora manufactures.). In terms of price, Aurora can sell mens socks at .40 USD per pair. In Europe, socks are typically sold at

.60 USD per pair.

D. Aurora is looking to improve its packaging capability to meet 'Western' standards for appearance and quality.

E. A factory tour was not available at the time of the site visit because Aurora only operates in the evening. An examination of over 20 different styles of socks was performed. The quality of the product is relatively good.

F. Scrap rate is approximately 8%.

G. Aurora management is looking to use Lycra trademark (Dupont) as part of their product advertising. Management believes this will allow enterprise to sell products in Europe (where 25% of products have Lycra trademark) and the USA (where 50% of the products have the Lycra trademark).

H. Aurora management is seeking to purchase 600 new knitting machines at 18-20K USD. Current technology will be outdated in 3-4 years.

XIII. Foreign Interest

A. General Mills has expressed an interest in Aurora.

B. Aurora is looking for a capital infusion of approximately 5-6m USD.

C. Aurora management is developing capability to enter new markets including medical support hose and ballet.

Enterprise Name: **Komutators**
Sector: **Industry**

Economic Viability

- Input and output data were not available.
- Extremely limited demand for products.
- Extremely limited hard currency exports.
- Technology is old ranging from 10-75 years.

Financial Viability

- Limited financial information provided.
- Extent of subsidies unknown.

Prospects

- No foreign interests have been secured for ownership.
- One of the 40 largest energy consumers in Latvia.
- Limited access to foreign currency.

Other Factors

- As former military supplier to the Soviet Union it would be difficult to attempt to market previous clients.

Preliminary Recommendations

- Perform analysis of alternative product viability within Komutators existing production and assembly facilities
- Extremely new management necessitates training and restructuring prior to privatization.

- Develop program for Komutators for securing foreign interests. Otherwise, foreign partners may be difficult to obtain in light of the non adaptability of existing facilities to new production/assembly technologies.

MINISTRY OF INDUSTRY
SITE VISITS

Komutators
226005, Riga, Ganibu Dambis, 24a

I. **Established:**
   A. Established for supply of military equipment to the former Soviet Union.
II. **Company Status: Government owned, reporting to Min. of Industry**
   A. Management is independent of ministry in making operating decisions.
   B. New management structure in place since August 1991.
   C. Support privatization of enterprise as quickly as possible.
   D. Enterprise does not perform any marketing/has no marketing department.
III. **Location: Riga, Jelgava, Ludza**
IV. **Employees: 3861 - 3743 (Production), 118 (Social Services)**
V. **Activities and Products**
   A. Electronics Equipment/Integrated Circuits
VI. **Markets**
   A. Domestic
      1. Consumer products (8% of production)
   B. Foreign
      1. Russia (92% of production)
VII. **Customers**
   A. Russian Military
   B. Enterprise has minimal hard currency. Management stated that it was only several thousand USD.
   C. Sales for 1991 (nine months) was 167.9mR.
VIII. **Capacity Utilization**
   A. Planned orders for 1992 appear to be 50-75 below previous years.
IX. **Raw Materials**
   A. Nearly all raw materials come from Russia
X. **Costs/Profits/Debt**
   A. Cost structure is not available from existing information.
   B. 48mR of debt.

MINISTRY OF INDUSTRY
SITE VISITS

XI. Energy Use

A. According to data from the Ministry of Economic Reform Komutators is one of the 40 largest consumers of energy resources in the Republic of Latvia.

XII. Technology

A. Machinery age is very old ranging from 10-15 years to 75 years old.

B. Entire operation is labor intensive.

C. Factory layout is not conducive to production. Numerous buildings. 3-4 stories per building. Long corridors with small rooms. Stacks of production materials, supplies throughout the facility.

D. Workers perform highly skilled electronics work. However old technology. Conform to former Soviet military standards.

XIII. Foreign Interest

A. No foreign interests have been secured for ownership.

B. Management has no experience in commercial markets.

C. Management is seeking technical assistance. They are not overly optimistic about the outcome. Government officials are concerned about enterprises, such as Komutators, which are former Soviet military suppliers. They are faced with an extremely hard reorganization.

Enterprise Name: Riga Lightbulbs
Sector: Industry

Economic Viability

- 70-75% of raw materials are obtained from Russia.
- Outputs are primarily for domestic market.
- Technology is over 20 years old. Depreciation of machinery is approximately 80%.

Financial Viability

- Profits were approximately 20% on sales of over 30mR.
- Cost structure is not available from existing information.
- Extent of subsidies unknown.

Prospects

- No foreign interests have been secured.

Other Factors

- Black market prevents goods from getting to market.

Preliminary Recommendations

- Management is supportive of privatization as well as joint venture opportunities.
- Focus of initial efforts should be to infuse new technology into enterprise to make it competitive with 'Western' bulb manufacturers.

MINISTRY OF INDUSTRY
SITE VISITS

Valsts Riga Elektrospuldzu Rupnica (Riga Lightbulbs)
226034, Riga, Adazi, 3

I. **Established: 1940+(?)**
   A. Established by the former Soviet Union to supply lightbulbs
II. **Company Status: Government owned, reporting to Min. of Industry**
   A. Management is independent of ministry in making operating decisions.
   B. Support privatization of enterprise as quickly as possible.
III. **Location: Riga**
IV. **Employees: 1106 - 1061 (Production), 45 (Social Services)**
V. **Activities and Products**
   A. 40, 60, 100 Watt lightbulbs
   B. Halogen bulbs
   C. Automotive lightbulbs
   D. Special lightbulbs (eg. military)
VI. **Markets**
   A. Domestic
      1. Produce for local market. Distribution system does not meet local needs.
   B. Foreign
      1. All exports are to the former Soviet Republics
VII. **Customers**
   A. Lightbulb Distributors
   B. Sales
      1. 1991 (9 Months) 32.9m R
      2. Hard Currency. Only Official Rubles (1.8 rubles = 1 dollar), which are only applicable to former Soviet Republics.
VIII. **Capacity Utilization**
   A. Currently operating at only 50% of existing capacity.
IX. **Raw Materials**
   A. 70-75% of raw materials are obtained from Russia.
X. **Costs/Profits/Debt**
   A. Cost structure is not available from existing information.

B. Profits for 1991 (nine months) were 6.3mR.

C. Government establishes price ceiling on products. Can not find individuals in ministries responsible for lifting price controls.

XI. Energy Use

A. Energy use is not available from existing information.

XII. Technology

A. Machinery is over 20 years old. Depreciation of equipment is approximately 80%

B. Equipment is old with little safety considerations for personnel. No personnel were equipped with masks or special breathing apparatus.

C. Lightbulbs have the same lifespan (1000 hours) as 'Western' bulbs, however, no safety bulbs are made.

D. Packaging is inferior to 'Western' requirements.

E. Environmental equipment is required to improve safety.

F. Have computers which are not used.

XIII. Foreign Interest

A. No foreign interests have been secured for ownership.

B. Management is seeking foreign investors to improve quality of production. Have had conversations with German investors.

Enterprise Name: Riga Varnish and Paint Factory
Sector: Industry

Economic Viability

- 80% of raw materials are obtained from Russia.
- 22% of production is for Latvia.
- No hard currency exports were identified.

Financial Viability

- Profits were nearly 20% for the first three quarters of 1991.
- Total debt for enterprise is 4.5mR.
- Extent of subsidies unknown.

Prospects

- Enterprise is not actively seeking out foreign interests or investors.

Other Factors

- Enterprise was valued at 11mR in 1991. Management eager to buy at that price.

Preliminary Recommendations

- Determine extent of pollution by enterprise prior to privatization of enterprise.

- Management is reluctant to show facility. Training of management and retooling for 'Western' markets is recommended prior to privatization.

MINISTRY OF INDUSTRY
SITE VISITS

Valsts Rigas Laku un Krasu Rupnica (**Riga Varnish and Paint Factory)**
226007, Riga, Daugavgrivas Iela, 63/65

I. **Established: 1940+**
   A. Established by the former Soviet Union to provide paints and related products.
II. **Company Status: Government owned, reporting to Min. of Industry**
   A. Management is independent of ministry in making operating decisions.
   B. The enterprise was valued at 11mR in 1991.
III. **Location: Riga**
IV. **Employees: 560 - 526 (Production), 34 (Social Services)**
V. **Activities and Products**
   A. Paints
   B. Primers
   C. Varnishes
VI. **Markets**
   A. Domestic
      1. 22% of production is for Latvia. 12% is provided to Government of Latvia. 10% is for domestic market.
   B. Foreign
      1. Russia and other former republics (78%)
VII. **Customers**
   A. Manufacturers and wholesalers.
   B. Sales in 1991 (9 months) were 62.1mR. Management expects the total 1991 sales to approach 90mR.
VIII. **Capacity Utilization**
   A. Information not available.
IX. **Raw Materials**
   A. 80% are obtained from former Soviet Republics. 20% imported from the 'West'
X. **Costs/Profits/Debt**
   A. Cost structure is not available from existing information.
   B. Profits for 1991 (nine months) were 12.5mR. Management expects

that total profits for 1991 will approach 15mR.

C. Total debt for the enterprise is 4.5mR

XI. Energy Use

A. Energy use information was not available.

XII. Technology

A. The enterprise management did not allow a tour of the facility.

B. The facility is considered one of the major environmental polluters in Latvia.

XIII. Foreign Interest

A. No foreign interests have been secured for ownership.

B. Management is extremely interested in foreign investors.

Construction

- Sector Summary
- Preliminary Enterprise Evaluation/Profiles

Data included in this preliminary report has not been reviewed by the Government of Latvia for accuracy and consistency and, therefore, should not be used for analytical purposes. Further discussions with the respective ministries are required before relying on the information to select enterprises as privatization candidates.

Sector Summary

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63A

Construction Materials Supply
Sector Summary

The sector review project focused on 22 enterprises in the construction materials supply sector, representing 76% of total revenues in this sector. Working with the Ministry of Economic Reform and the Ministry of Construction, the following criteria were used to select the 22 SOEs for review and evaluation.

- C&L requested that the Ministry of Construction provide information on the biggest companies in the sector, with a stated guideline that together these companies' should account for approximately 80% of total sector revenues.

- It was determined by the Ministry of Construction, with direction from the Ministry of Economic Reform, that the focus of this review should be on construction materials supply companies in the Ministry of Construction's portfolio rather than companies that erect buildings.

- C&L requested identification of companies in all significant sub-sectors of the construction industry. The list of 22 construction materials supply enterprises represents all the major players in all significant sub-sectors (several construction supply SOEs operated as monopolies in sub-sectors).

Basic information -- location, product categories, quantities sold, product markets, annual revenues, asset value, age of equipment -- was collected on all 22 enterprises (Mr. Kalmanis at the Ministry of Construction provided very valuable assistance gathering this information). More detailed information, compiled from management interviews and site visits, exists for seven of these enterprises. On the basis of the management interviews and site visits it was possible to develop enterprise profiles for these seven. Although some information gaps exist concerning these enterprises, evaluations of each of the seven were made using the criteria developed by the C&L team. It is important to note that, given the unreliability and inconsistency of government data, proper evaluation of the other 15 enterprises will require interviews with management, preferably on-site.

Although the evaluations developed are preliminary and will require follow-up interviews with enterprise management as well as Government of Latvia input before recommendations can be finalized, some general evaluative statements can be made regarding enterprises in the construction materials supply sector.

Economic Viability

The construction materials supply sector is heavily dependent upon the countries of the former USSR for raw materials. Although input prices have typically been low in this sector, this situation is changing rapidly. Enterprise managements interviewed in December expressed widespread uncertainty and doubt about the ongoing availability of key inputs, raising serious questions about the viability of many enterprises. Similarly, this sector is characterized by enterprises that consume high levels of energy, putting them at severe risk as prices rise and supplies become less reliable.

Few construction materials supply enterprises produce goods that can be exported to the West and generate hard currency. Products tend to be of low quality, in part due to the limits of existing technology. Absent access to hard currency, however, it is unlikely that production technology will be improved.

While domestic demand will continue to be high -- Latvia has enormous unmet construction needs -- it is unclear whether customers will be able to pay prices required for enterprises to operate profitably, particularly as the prices of imported inputs rise.

Financial Viability

Enterprises in this sector typically have low levels of long-term or short-term debt and have operated profitably -- around 20% of revenues. At the same time, without exportable products, few enterprises possess hard currency reserves. Furthermore, previous high levels of profitability do not accurately represent performance since the Ministry of Construction regulated these enterprises by profit, paying them prices that would give them a 20% return. With input levels rising substantially, profitable operation is doubtful for many enterprises.

Prospects

As stated above, continued access to raw materials supplies is doubtful for many enterprises in this sector. The sector has historically been very dependent upon the economies of the former USSR for inputs and, to some extent, for markets. Until supplier relations and prices stabilize, this will continue to be the major source of uncertainty for the sector.

Enterprises in this sector have little hope of acquiring badly needed technology without access to hard currency, yet prospects are dim for exporting construction materials of the sort produced in Latvia to the West. Similarly, foreign investors are unlikely to be attracted to these enterprises without prospects of earning hard currency.

The only bright spot is a simple one: Latvia will continue to need domestically-produced construction materials and many of these enterprises are monopoly or near-monopoly suppliers.

Other Factors (Social, Political, Strategic Issues)

Employment levels average around 600 employees. Although this is not nearly as large as some industrial enterprises, in some cases construction materials factories are located in isolated regions and constitute the predominant source of local employment, housing, etc. (see "Spartaks" Bricks). For the most part, enterprises in this sector do not face major restitution issues, and managements enthusiastically support and seek privatization (hardly surprising given their sense that this is what the future holds).

Perhaps the most important strategic question is the following: Without these enterprises, how will Latvia rebuild? Importing construction materials is out of the question, and these enterprises are the key suppliers of such materials. Clearly some means must be found of keeping most of these enterprises in operation.

General Preliminary Recommendation

As stated above, due to domestic demand for construction materials, most of these enterprises should be kept in operation. A lack of foreign investor interest makes restructuring within the public sector the most viable approach, though the need for capital investment is still problematic.

In the few cases where strong investor interest has been expressed or products can be exported for hard currency, early privatization should be considered. This is true of the first three of the seven enterprises evaluated in this study.

Some other construction materials enterprises, such as Broceni Cement Company, have been attractive to foreign investors, but their distance from Riga made detailed investigation in December impossible. If after further investigation, other enterprises are found to have exportable products and/or foreign investor interest, they too should be considered for early privatization.

Enterprise Profiles

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Enterprise Name: "Spartaks" Factory of Building Ceramics
Sector: Construction Materials Supply

Economic Viability

- Important inputs local and relatively inexpensive
- Very high demand for outputs
- No current hard currency exports
- Some modern technology

Financial Viability

- Consistent 20% profit (though typical of enterprises regulated by the Ministry of Construction)
- No long-term or short-term debt
- Extent of subsidies unknown

Prospects

- Very limited competition in Latvia; strong domestic market position
- Management very competent and forward-thinking
- Relatively independent from CIS economies
- Few export opportunities to the West
- Lack of hard currency to pay for new technology

Other Factors (Social, Political, Strategic Issues)

- Management interested in privatization; success with leasing experiment
- Significant interest from California investor in Fall of 1991
- Fairly isolated location makes absorption of 640 employees by similar area enterprises unlikely in the event of liquidation
- 3,000 residents in Spartaks 871 flats and apartments; no other significant local employers

- No significant restitution issues
- Important producer of important domestic construction material

Preliminary Recommendation

- Main constraint is lack of hard currency to pay for new technology and the lack of export potential for products
- Confirm relatively strong financial position and availability of inputs
- If the consruction materials supply sector is deemed important to the future of Latvia and privatization of key enterprises is a government objective, Spartaks should be considered a strong candidate for early privatization
- Potential for restructuring and retaining in the public sector if foreign investment unlikely due to weak foreign currency earnings potential

COMPANY: "SPARTAKS" FACTORY OF BUILDING CERAMICS

Year of Establishment: 1957 (previously several small brick factories with different owners; no major restitution claims)

Locations: Jelgava only

Company Status: Government owned, under Ministry of Construction. After brief, fairly successful experiment with leasing in 1990 (beginning in April), transfered to Latvian government ownership with independence.

Employees: 640

PRODUCTS AND ACTIVITIES

Clay bricks	60% of revenues 65.6 million produced in FY91 used for inner walls monopoly: 6 other brickmakers in Latvia but only Spartaks produces for inner walls
Fireproof Concrete Blocks	30% of revenues 2.9 thousand cubic meters produced FY91
Decorative Marble Tiles **Fireproof Glue** **Waterproof Paint** **Clay for Tennis Courts**	10% of revenues combined 7.7 thousand sq m. tiles produced FY91 401 tons glue produced FY91

SALES

1991	18m R
1990	7.560 m R
1989	6.340 m R

Management explains revenue growth as result of higher wages and resulting productivity growth from 1990-91 leasing experiment (Demand is not an issue for this monopoly, supply is). State has also permitted price increases. Consistent 20% profit.

INDUSTRY SECTOR: CONSTRUCTION MATERIALS SUPPLY

MARKETS

Clay bricks	95% sold within Latvia 5% bartered to Lithuania
Fireproof Concrete Blocks	Mostly sold in Latvia, but also to Ukraine, Byelorussia, Lithuania, Estonia
Western Markets: (hard currency)	None, due to poor product quality and high transport costs. Fireproof blocks could be of export quality if expensive UK production technology is acquired

CUSTOMERS

Clay bricks	Construction firms (SOEs) are sole customers
Fireproof Concrete Blocks	Other brickmakers purchase to use in brick production process
Pricing Policies:	Until now fixed for state purchases (which comprised 90% of total in 1990, 70% in 1991, but none required as of Jan 1, 1992)
Contracts in Place:	Few, small from 1/1/92
Price per Unit:	State pays 60kc per unit vs. price of 1.30R - 1.50R paid in the stock exchange
Distribution:	Products delivered by independent transport firms, paid for by customer

COMPANY: "SPARTAKS" FACTORY OF BUILDING CERAMICS

INDUSTRY SECTOR: CONSTRUCTION MATERIALS SUPPLY

RAW MATERIALS

Clay bricks	**clay** from local vicinity 90% of brick content 25 year supply **sawdust** also local remaining 10% of content not essential, can exclude no supply problems
Fireproof Concrete Blocks	**kowlin** from Ukraine special temperature qualities derived from special clay 1 year supply, 1992 contract new, UK tech might permit substitutes price expected to triple in 1992 **H3PO3**, from Uzbekistan 15 yr supplier relationship, now a problem searching for new sources price will triple in 1992
Fireproof Glue	**H3PO3** also **formalins** from local vicinity cheap, no supply problems
General	Very uncertain future for supply of several inputs. Russia has demanded payment in hard currency, though this has been resolved through use of barter.

COSTS

1991	13.4m R total 80% of revenues
26.4%	Salaries and wages
16%	Raw materials
12%	Fuel
- 6%	gas
- 6%	electricity
5.9%	Social security insurance
6.3%	Production failures
29.4%	Spare parts, uniforms, loading palets, etc.
5%	Depreciation of equipment

Profit of 20% (3.6m R of 18m R total revenues) typical of SOEs regulated by Ministry of Construction. 40% state tax applied to profits.

Social Sphere - Excluded from recent valuation and from cost structure. Two villages of apartments housing 3,000 inhabitants (for 640 employees) in 871 flats and apartments. Loss from apartments of 300,000R per year comes from Spartaks' profit.

ENERGY USE

Gas	Near total reliance on gas from Russia 4 months reserve 6% of costs above represents current R price; mgmt understands profound change
Oil (Mazut, "Black Oil")	Held in reserve for "ultimate case" 4 months reserve

CAPACITY UTILIZATION

Clay Bricks	100%
Fireproof Materials	95% and declining due to raw materials shortages (no problems in past)

COMPANY: "SPARTAKS" FACTORY OF BUILDING CERAMICS

TECHNOLOGY

All equipment from former USSR: 50% Russia, 20% Byelorussia, 10% Ukraine, 20% Latvia

Average age of equipment: 6 years

Quality of technology: Compared with other companies in Latvia or the former USSR, quality is high; compared with western standards, quite deficient.

Technology needed: With current equipment the factory can produce 65m bricks with 400 workers. Modern Spanish or Italian equipment would permit production of 50m bricks per 35 workers, improve product quality, and cut energy use by more than half.

INDUSTRY SECTOR: CONSTRUCTION MATERIALS SUPPLY

INTEREST FROM FOREIGN INVESTORS/COMPANIES

- Significant interest from David Carter, a California businessman with plans to build hotels throughout the former USSR. Carter would like to form a joint venture to build bricks that could satisfy his construction supply needs.
- Carter values Spartaks at $15m and would himself contribute $15m cash to the venture, but he is not interested in forming a venture with an SOE; in a j.v., Carter and Spartaks (as a shareholder company) would split profits.
- Spartaks management would very much like to work with Carter and prepared and filed the necessary privatization documents on 21 August 1991, but the Ministry of Construction sat on the deal and it foundered.
- Obstacle: Members of Parliament believe the GOL valuation of Spartaks (19m R) was too low; Deputies blocked privatization over valuation dispute.
- Spartaks now waiting on government leadership, privatization law, etc.

Enterprise Name: Riga State Cement Cooperative
Sector: Construction Materials Supply

Economic Viability

- Important inputs mostly local and relatively inexpensive
- Enormous domestic demand for outputs
- Some hard currency exports -- 10% of cement to Finland
- Technology is very old -- 73% amortized

Financial Viability

- Consistent 20% profit (though typical of enterprises regulated by the Ministry of Construction)
- Some short-term debt (1m Roubles)
- Extent of subsidies unknown

Prospects

- Strong domestic market position
- Relatively independent from CIS economies
- Some export opportunities to the West
- Very old technology; requires significant new investment
- Environmental limits and norms will constrain Riga production
- Energy costs a very high proportion of costs; inefficient industry

Other Factors (Social, Political, Strategic Issues)

- Key supplier to other Latvian enterprises
- Management and employees interested in privatization; brief 1991 experience as a shareholder company
- Possible foreign joint venture interest if privatized

- 430 employees located in Riga
- No apparent restitution issues other than land
- Potential environmental problems in Riga; at the very least a constraint on production growth
- Important producer of important domestic construction material

Preliminary Recommendation

- Confirm relatively strong financial position and availability of inputs
- Environmental situation poses potential constraint; review environmental status
- Foreign currency earnings potential makes privatization attractive; confirm overseas product market
- If the consruction materials supply sector is deemed important to the future of Latvia and privatization of key enterprises is a government objective, Riga Cement should be considered a strong candidate for early privatization, particularly given hard currency earnings potential

COMPANY: RIGA STATE CEMENT COOPERATIVE

Year of Establishment: 1863 (no restitution claims yet; only claims will be for land)

Locations: Riga only; once operated in Jurmala but closed for environmental reasons.

Company Status: Mixed ownership: half state, half cooperative. Cooperative began to lease a factory in 1989, has bought out resources of the state and established its own working capital.

Employees: 550

PRODUCTS AND ACTIVITIES

Cement	60% of revenues must import UK insulation material in order to produce cement that meets western fireproof standards
Slate	20% of revenues used in Latvia for building animal houses for farms no western markets due to asbestos content
Gas Concrete	20% of revenues used for insulating walls in buildings poor quality, produced better in Holland

SALES

1990	12,737 m R

Profit of 20% in 1991 typical of SOEs regulated by the Ministry of Construction. The standard 40% tax was applied to profits.

INDUSTRY SECTOR: CONSTRUCTION MATERIALS SUPPLY

MARKETS

Cement	85+% sold within Latvia 3-5% to Russia for raw materials & parts 10% exported to Finland - 20 tons to Finland next year
Slate	100% sold within Latvia
Gas Concrete	100% sold within Latvia
Western Markets: (hard currency)	10% of cement exported to Finland - hard currency sales cleared by Sw bank - hard currency used to buy -- -- spare parts -- insulation material from UK

CUSTOMERS

All Products:	Mostly state ministries (Construction, Agriculture); some sales to individuals, but small due to shortages of materials.
Pricing Policies:	GOL regulates the company through a profit cap. Increases in input prices will lead to increases in what the government will pay for products. Shortages will require the government to continue to regulate sales and contracts.

COMPANY: RIGA STATE CEMENT COOPERATIVE		INDUSTRY SECTOR: CONSTRUCTION MATERIALS SUPPLY	
RAW MATERIALS		**COSTS**	
Cement	**limestone** from Latvia & Lithuania 75% of cement content **clay** from Latvia 20% of cement content plentiful supply, from near Jelgava **FE2O3** and **FE3O4** from Russia 5% of cement content together small part, inexpensive	**1990** 20% 29% 17% 12% 8% 12%	12,737m R total 80% of revenues salaries & wages raw materials fuel electricity tax after-tax profit
Slate	**asbestos** from Kazakhstan & the Urals 15% of content **clinker** from Latvia 85% of content milled mixture from stone powder (80%), active ore (10%), slag (7%), and gypstone (3%) small part, inexpensive	**Pre-tax profit of 20%**	typical of SOEs regulated by Ministry of Construction. 40% state tax applied to profits.
Gas Concrete	**sand** from Latvia 60% of content **lime** from Byelorussia & Latvia 30% of content some problems with Latvian supply **aluminum powder** from Russia 0.14% of content **cement** produced in their factory 10% of content		
ENERGY USE		**CAPACITY UTILIZATION**	
General	Very inefficient but typical of cement-making around the world. Expected rise in fuel price will be reflected in rise in cement prices.	**All Products**	Environmental limits and norms have forced a 10% decrease in production - Jurmala plant already closed - considered closing Riga factory but coop solved by installing filters • demand is enormous

COMPANY: RIGA STATE CEMENT COOPERATIVE	INDUSTRY SECTOR: CONSTRUCTION MATERIALS SUPPLY
TECHNOLOGY **All equipment from former USSR** **Average age of equipment:** old, from 50s & 60s, 73% amortized **Technology needed:** Modern equipment would increase production by a factor of 2 or 3. In particular, new slate-making technology might produce products that don't require asbestos.	**INTEREST FROM FOREIGN INVESTORS/COMPANIES** • There is foreign interest, but no one wants to enter a joint venture with a state-owned enterprise. • Several foreign companies have enquired about joint venture possibilities: - Danish - Finnish - Swedish - German - American
COMPETITION **Domestic:** There is domestic competition but demand vastly exceeds supply. **Foreign:** There will be no significant foreign competition for awhile, though Lithuania does supply some imports.	**MGMT/EMPLOYEE INTEREST IN PRIVATIZATION** • Strong company interest in privatization. • The company was reorganized into a shareholder company in July 1991, but in September 1991 it was liquidated and transferred to the Latvian Government. • Have applied to reorganize as a Latvian shareholders company.

Enterprise Name: Riga State Woodworking Factory #10
Sector: Construction Materials Supply

Economic Viability

- Inputs entirely Latvian and relatively inexpensive
- Very high domestic demand for outputs
- Production problems due to energy shortages, raw materials shortages, and equipment failure may pose significant constraint
- Technology is very old -- 90% amortized
- No hard currency exports

Financial Viability

- 23% profit typical of enterprises regulated by the Ministry of Construction
- No long-term or short-term debt
- Extent of subsidies unknown

Prospects

- Very limited competition in Latvia; strong domestic market position
- Independent from CIS economies
- Few export opportunities to the West
- Lack of hard currency to pay for needed new technology
- No significant interest by foreign investors

Other Factors (Social, Political, Strategic Issues)

- Key supplier to other Latvian enterprises
- Management and employees strongly interested in privatization; 2 leasing experiments begun in 1991
- Important producer of important domestic construction material

Preliminary Recommendation

- Confirm relatively strong financial position
- Supply difficulties with energy and raw materials inputs pose potential constraint; review supply status
- Main constraint is lack of hard currency to pay for needed new technology and the lack of export potential for products
- If the consruction materials supply sector is deemed important to the future of Latvia and privatization of key enterprises is a government objective, Riga State Woodworking Factory #10 should be considered a strong candidate for early privatization
- Potential for restructuring and retaining in the public sector if foreign investment unlikely due to weak foreign currency earnings potential

COMPANY: RIGA STATE WOODWORKING FACTORY #10

Year of Establishment: 1944

Locations: Riga only, 3 sites: main workshop, carpentry facility, cutting facility.

Company Status: Government owned, under Ministry of Construction.

Employees: 500-600

PRODUCTS AND ACTIVITIES

Window Blocks	100,000 square meters FY91
Door Blocks	170,000 square meters FY91
Floor Blocks	700 cubic meters
Small Wooden Cottages/ Garden Sheds	55 units (being developed)

SALES

1990	15,786 m R

Profit of 23% in 1991 typical of SOEs regulated by the Ministry of Construction. Profit for windows is below average, while floor blocks earn an above-average profit. The standard 40% tax was applied to profits.

INDUSTRY SECTOR: CONSTRUCTION MATERIALS SUPPLY

MARKETS

All Products	sold within Latvia mainly
Bartered	a small (insignificant) % bartered to Russia
Western Markets: (hard currency)	None, due to poor product quality.

CUSTOMERS

All Products:	mostly building companies under the Ministry of Construction; some sales through apartment-building enterprises providing housing for factory workers
Pricing Policies:	Until January 1, 1992 fixed for state purchases, set by the Ministry of Construction
Distribution:	Products delivered by independent transport firms, paid for by the customer or the producer, depending on circumstances

COMPANY: RIGA STATE WOODWORKING FACTORY #10	INDUSTRY SECTOR: CONSTRUCTION MATERIALS SUPPLY
RAW MATERIALS **All Products** — **all wood & logs** from local sources Pine: 60,000 cubic meters FY91 Birch: 10-15,000 cubic meters FY91 **General** • inputs come from all over Latvia • purchased from state timber firms • **no imported** raw materials • suppliers provide transport, #10 pays - 30% by railway - 70% by truck	**COSTS** **1990** — 15,786m R total 77% of revenues **70%** — Raw materials: prices have risen sharply -- '90: 30R per cubic meter of timber '91: 120R per cubic meter of timber (200R during shortages) Min. of Construction permits a rise in output prices to follow input price rises, but at a lower rate **6%** — electricity -- will rise significantly **Profit of 23%** typical of SOEs regulated by Ministry of Construction. 40% state tax applied to profits.
ENERGY USE **Electricity** — Used to operate the factory -- currently using the maximum allowed. Costs to rise. **Gas** — Used for heat **Oil (Mazut, "Black Oil")** — Used for heat	**CAPACITY UTILIZATION** **All Products** — Production has fallen in half furing the last 2 years due to: - mechanical breakdown (old equipment) - energy shortages - raw materials shortages • no problems with demand

COMPANY: RIGA STATE WOODWORKING FACTORY #10	INDUSTRY SECTOR: CONSTRUCTION MATERIALS SUPPLY
TECHNOLOGY **All equipment from former USSR:** Russia Ukraine **Average age of equipment:** very old, 90% amortized **Quality of technology:** Compared with other companies in Latvia or the former USSR, quality is low; compared with western standards, severely deficient. **Technology needed:** Modern equipment would cut energy use significantly and improve product quality -- perhaps to the point that products could be competitive in hard currency markets.	**INTEREST FROM FOREIGN INVESTORS/COMPANIES** • No significant interest except for foreign delegation tours • A Swedish concern has expressed interest in small cottages/sheds and garden furniture
COMPETITION **Domestic:** Has been only woodworking enterprise serving the Ministry of Construction; now some small workshops are emerging, including some under the Ministry of Agriculture. **Foreign:** No imports of traditional window and door blocks	**MGMT/EMPLOYEE INTEREST IN PRIVATIZATION** • 2 current experiments in employee leasing begun in '91: - 80 employee workshop - 120 employee workshop • Strong desire for private status by both mgmt and employees

Enterprise Name: Riga State Glass Factory #6
Sector: Construction Materials Supply

Economic Viability

- Almost all inputs from CIS countries; significant supply problems anticipated, costs uncertain
- High demand for outputs -- mostly domestic, some glass to Estonia
- Very limited hard currency exports -- small % to Finland
- Technology extremely old -- 73% amortized

Financial Viability

- 26% profit in 1991 (regulated by Ministry of Construction)
- No long-term or short-term debt
- Extent of subsidies unknown

Prospects

- A monopoly supplier in Latvia
- Highly dependent on CIS economies/suppliers
- Inefficient energy consumer
- Few export opportunities to the West
- Very limited hard currency to pay for needed new technology
- No significant interest by foreign investors

Other Factors (Social, Political, Strategic Issues)

- Key/only glass supplier to other Latvian enterprises
- Important producer of important domestic construction material
- Potential worker safety problems associated with the plant as well as energy inefficiency difficulties

Preliminary Recommendation

- Confirm relatively strong financial position
- Enormous raw materials supply difficulties; review supply status
- Significant constraint is lack of hard currency to pay for needed new technology; review foreign currency prospects
- Liquidating this enterprise would pose significant problems for Latvia given its monopoly supplier status
- Confirm unattractiveness to foreign investors and consider restructuring and retaining in the public sector to ensure some domestic glass supply

Riga State Glass Factory #6

I. **Established: 1882**
   A. restitution: no one has appeared to make claims

II. **Company Status: government owned, reporting to Min. of Construction**

III. **Employees: 400**

IV. **Location: Riga only**

V. **Financials**
   A. assets: 10m R
   B. working capital: 1.3m R
   C. profit: 26% in '91

VI. **Activities and Products**
   A. 90% glass for windows: 4m square meters
   B. 10% decorative products
      1. small glass tiles for decorative panels
      2. decorative/design glass

VII. **Markets**
   A. within Latvia mainly: 70-75%
   B. most of the remainder to Estonia: 20-25%
   C. small lots exported to Finland: 5% or 200K sq meters (very little hard currency earned)
      1. Western investors (US, Denmark) put off after discovering that factory not capable of producing simple double-pane glass
   D. future
      1. demand from Afghanistan, Bulgaria
         a) transport to these mkts would be expensive (rail or truck)
         b) barter deals only option
      2. both Finland and Lithuania require glass imports
         a) western mkts have higher quality standards
      3. glass is difficult to transport; special containers required

VIII. **Customers**
   A. construction companies under the Ministry of Construction
      1. now free from state to make own contracts
      2. but who will be new customers
         a) state orders and contracts are less of a constraint than technology and resources required for making quality exportable products
   B. pricing policies: until January 1, 1992 fixed for state purchases (set by Ministry of Construction)
   C. distribution: products are delivered by state construction companies

IX. **Capacity Utilization**
   A. production nearly 100%
   B. demand is not a problem
   C. problems with quality of raw materials
      1. different composition of sand arriving

2. recent development

X. **Raw Materials -- virtually all from outside of Latvia**

A. soda
1. 9,000 tons in '91
2. from Ukraine, Urals, Bulgaria

B. sand
1. 36,000 tons in '91
2. from Moscow, Byelorussia

C. N2SO4
1. 950 tons in '91
2. from Byelorussia

D. Spar
1. 4,000 tons in '91
2. from Russia

E. Dolomite
1. 950 tons in '91
2. from Russia

F. Limestone
1. 1,400 tons in '91
2. from Lithuania

XI. **Costs**

A. revenue in 1990: 8,976m R
1. 26% ('91) profit, (40% tax applied) -- profit level typical of SOEs regulated by Ministry of Construction
2. 74% costs

B. 1991 costs
1. 25% for raw materials
2. 20% for salaries and wages
3. 8-10% for fuel
   a) electricity price will rise by a factor of 4 or 5 in '91
4. 25% for equipment purchases and repairs
   a) investment rate for past 4 years

C. expect to pass on input price rises as of January 1, 1992

XII. **Energy Use**

A. electricity -- used to operate the factory
1. using 3,500-5,000 kilowatts per day
2. costs will continue to rise

B. gas
1. using 70,000 cubic meters per day
2. comes from Russia

C. transport fuel may become a problem
1. raw materials are transported from the former USSR by railway
2. prices should rise significantly

XIII. Technology

A. all equip from former USSR and Czechoslovakia

B. average age: very old, 73.2% amortized

1. $3m in assets remain of $10m
2. 8% amortized per year

C. modern western equipment (new investment needed) could have significant impact on

1. production failure: currently only 75-80% of production makes it through the second phase in production
2. energy efficiency: would improve very significantly
3. costs: need for fewer workers, could be better paid
4. safety: this is a very dangerous plant

XIV. Competition

A. domestic

1. monopoly, no other domestic producers

B. foreign

1. some imports from Estonia and Lithuania
2. polished glass for mirrors is imported from Russia and Ukraine

XV. Interest from Foreign Companies

A. tentative interest from US company waned when it became apparent factory is not capable (not close) of producing double-pane windows

XVI. Mgmt/Employee Interest in Privatization

A. "would like to be first candidate"

Enterprise Name: Riga State Factory "Specdetala"
Sector: Construction Materials Supply

Economic Viability

- Important inputs from CIS countries and Lithuania; significant supply problems, costs uncertain
- Severe energy supply problems
- No hard currency exports -- domestic market only
- Technology of mixed age: some relatively modern, some extremely old -- 60% amortized

Financial Viability

- 25% profit in 1991 (regulated by Ministry of Construction)
- No long-term or short-term debt
- Extent of subsidies unknown

Prospects

- Highly dependent on CIS economies/suppliers
- Severe shortages of inputs
- Inefficient energy consumer; energy supplies uncertain
- Few export opportunities to the West
- No hard currency to pay for needed new technology
- No significant interest by foreign investors

Other Factors (Social, Political, Strategic Issues)

- 417 employees in Riga

Preliminary Recommendation

- Gather additional data on raw materials availabiltiy and market demand for products
- Consider liquidation or restructuring within the public sector, depending upon Latvian dependence on products

Riga State Factory "Specdetala"

I. **Established: 1965**
   A. established from several small enterprises
II. **Company Status: government owned**
III. **Location: 3 locations in Riga**
IV. **Employees: 417**
V. **Activities and Products**
   A. 40% (revenues) iron concrete
      1. reinforced concrete for building construction
   B. 25% insulation materials
   C. 25% wallpaper
VI. **Markets**
   A. iron concrete
      1. almost all sold in Latvia
      2. small barter to Russia
   B. insulation materials
      1. 100% sold in Latvia
      2. only possible export to the west
         a) currently too light
         b) with appropriate raw materials the west would but from Latvia, as they currently do from Armenia
   C. wallpaper
      1. 100% in Latvia
   D. No prospects for products competing in the west
VII. **Customers**
   A. mostly the government
   B. small amounts of wallpaper sold to individuals
      1. customer (mostly workers) makes an application, pays in the office, picks up in the workshop
      2. not enough produced to distribute through shops
   C. pricing
      1. higher prices charged to individuals than the government, but govt. buys through contracts
         a) govt: 10R
         b) coops: 14-40R
   D. next year?
      1. even now, no state orders; factory will make its own contracts with different enterprises
VIII. **Raw Materials**
   A. reinforced concrete
      1. cement from Lithuania (comprises 35% of content)
         a) occasional supplies from Riga Cement, by ministry allocation
         b) some from Russia through barter

2. steel from Latvia (comprises 10% of content)
   a) a bit from Russia through barter
3. 55% together
   a) sand from Russia (Leningrad, Kalingrad) & Latvia
      (1) no supply problems; available through barter
   b) $H2O$ locally
   c) stone splinters from Latvia

B. insulation
   1. splinters of special stone from Armenia
      a) supply problems: manager currently in Armania negotiating, but Armenians only want hard currency
      b) difficult to predict: 25% supply or factory closing
   2. pipe insulation has another component: an oil product from Russia and Lithuania
      a) this is an enormous problem; hard currency payment only

C. wallpaper
   1. paper comes from Latvia
      a) BUT, its raw materials come from Russia and will cease: "paper producers' problem is our problem"
   2. paint from Russia, another problem

D. NO WALLPAPER RAW MATERIALS COME FROM LATVIA

IX. **Capacity Utilization**

A. production of reinforced concrete has dropped by a factor of 12
   1. steel supply problem

B. key problems
   1. raw materials shortages
   2. worker shortages
      a) due to low wages (coops pay much more)
      b) government regulates wages; permits price rises due to rising input costs but not wage rises

X. **Profit**

A. 25% average
   1. 20% iron concrete
   2. 35% insulation
   3. 60-70% wallpaper

XI. **Energy Use**

A. electricity

B. gas from Russia
   1. supplying heating to 9 enterprises
   2. great vulnerability: may close due to supply problems

C. black oil (mazut)

D. diesel fuel

XII. **Technology**

A. most equip from former USSR; also Poland, Sweden and Finland
B. age:
  1. iron concrete: 50% amortized
  2. insulation: 10 years old, good condition
  3. wallpaper: extremely old
     a) printing machine from 1898; Swedish printing machine from 1903

XIII. **Competition**
A. iron concrete: monopoly on foundations & in-ground wells
B. insulation: monopoly
C. wallpaper: no real competion

XIV. **Interest from Foreign Companies**
A. lots of negotiation, but nothing real
  1. E Germany: too much fear
     a) uncertainty over government laws
     b) concern over quality
  2. Hungary: wanted to invest in wallpaper printing and divide profit
  3. Finland: interest in importing insulation, but very specific type required

Enterprise Name: Riga State Experimental Factory "Metalconstrukceja" #8
Sector: Construction Materials Supply

Economic Viability

- Important input (steel) from Russia; significant supply problems, costs uncertain
- CIS countries important markets for products; uncertain future demand
- No hard currency exports
- Technology extremely old -- 70% amortized

Financial Viability

- Financial situation (profit, etc.) unknown
- No long-term or short-term debt
- Extent of subsidies unknown

Prospects

- Highly dependent on Russian market and steel supplies
- Few export opportunities to the West
- Very limited hard currency to pay for needed new technology
- Very limited serious interest by foreign investors

Other Factors (Social, Political, Strategic Issues)

- 608 employees in Riga

Preliminary Recommendation

- Gather more detailed information on financial situation, steel supply availability, and demand prospects
- Dependence on Russia makes it an unlikely privatization candidate

- Consider liquidation or restructuring within the public sector, depending upon Latvian dependence on products

Riga State Experimental Factory "Metalconstrukceja" #8

I. **Established: 1969**
   A. no restitution problems
II. **Company Status: government owned**
   A. registered as "leased" in 1990
   B. then back to Latvia after independence
      1. made 2mR profit during lease period
   C. have applied to reorganiza as a Latvian shareholders company
   D. GOL
      1. is not acting
      2. govt plan
         a) 1/3 to government
         b) 1/3 to workers
         c) 1/3 to sell
      3. major valuation dispute having to do with who owns 2mR profit from lease period
III. **Location: Riga + 6 other locations in Latvia**
IV. **Activities and Products**
   A. 50% (revenues) steel construction structures
      1. in 4 locations
   B. 15% shaping forms for iron concrete
   C. 5% workbenches, scaffolding
   D. 30% arm/bucket apparatus for trucks
V. **Markets & Customers**
   A. steel construction structures
      1. USSR
         a) '91: 5,000 tons
         b) '92: 800 tons
      2. Latvia
         a) '91: 7,000 tons
         b) '92: no orders yet
      3. no hard currency sales
   B. shaping forms
      1. sold to concrete factories
      2. no hard currency sales
      3. possible hard currency sales: German Co., "Grab Handel"
   C. arm/bucket apparatus for trucks
      1. sold to former USSR only
VI. **Raw Materials**
   A. steel supplies are a real problem
      1. formerly from Russia, Romania, India
      2. future: Russia
         a) uncertain, but Yeltsin permitting factories to sell 30% of steel for

barter

VII. **Capacity Utilization**

A. frequent mechanical breakdown decreases production

1. equipment 70% amortized

B. materials shortages: steel

C. orders are down, though demand had been strong

VIII. **Technology**

A. age: old, 70% amortized

IX. **Interest from Foreign Companies**

A. foreign interest, letters of enquiry, but serious obstacles

1. not ready to invest at current official exchange rate
2. cannot respond to enquiries due to unstable/uncertain environment (government, economy, etc.)

a) Condor Cavolov Corp.

b) a German company

c) US companies

(1) Simon Dudley

(2) Unitron Roll Forming Co., Bronx, NY

Enterprise Name: Riga State Houses Construction Company #2
Sector: Construction Materials Supply

Economic Viability

- Important inputs from Latvia (cement and steel) and Russia and Byelorussia (steel); significant supply problems, costs uncertain

- Future demand in Latvia bleak: panel walls produced are out of fashion and will not have a market in 1-2 years; Russia only other market

- No hard currency exports

- Technology extremely old -- 80% amortized; and inflexible -- not capable of producing more contemporary and desirable products

Financial Viability

- 12-13% profit in 1991, below industry average (regulated by Ministry of Construction)

- No long-term or short-term debt

- Extent of subsidies unknown

Prospects

- Dependent on Russian market and steel supplies

- Domestic market dying -- no future demand for such concrete panel walls

- Absolutely no export opportunities to the West

- No hard currency to pay for needed new technology

- No interest by foreign investors

Other Factors (Social, Political, Strategic Issues)

- 487 employees in Riga

Preliminary Recommendation

- Consider liquidation and assimilation of key assets into Construction Company #1 next door, which has more modern technology and more attractive products

Riga State Houses Construction Company #2

I. **Established: 1970**
   A. no restitution problems
II. **Company Status: government owned**
III. **Location: Riga only**
IV. **Employees: 800**
   A. approx 350 production
   B. approx 350 assembly/building
   C. 120 administration
V. **Activities and Products**
   A. housing construction panels
      1. big panels for apartment outside walls
      2. for any theory/plan
VI. **Markets for panel walls**
   A. 80-82% in Latvia
      1. declining due to slowdown in Latvian housing construction
      2. future local market bleak: big apartment blocks not viable under Latvian government -- perhaps 2 years more of demand
         a) conception of housing has changed
         b) cottages might be in demand; no more 9 story apartment blocks
         c) with its market vanishing, perhaps a program of developing cottages is appropriate, but who will have money to buy them (current cost 300,000R)
   B. 18-20% to Russia
      1. rising due to strong market in northern Russia to build housing for oil workers
      2. bartered by state for Russian oil
      3. USSR construction firms are in trouble
   C. other countries may want cottages, but transportation is difficult
VII. **Customers**
   A. city executive committees approve requests and distribute to construction firms
   B. some sold directly to construction firms
   C. pricing
      1. in Latvia: same price mostly charged to construction firms as directed by the government
      2. to Russia: also fixed by government through barter for oil
         a) would like direct contact with Russian customers
   D. next year?
      1. will be able to charge own price, but government is losing the desire to build this kind of housing
VIII. **Raw Materials**
   A. cement from Latvia and some from Lithuania (elsewhere when necessary:

Byelorussia)
1. supply becoming a real problem
2. Broceni, Latvian company, can export for $35/ton
   a) company pays 73R/ton when cement sells in the stock exchange for 230-240R/ton (and some proposals would pay 400R/ton)
   b) contracts: will state allocation continue? GOL gives no guarantees. Company has made some deals, but concern remains.

B. steel mostly from Russia & Ukraine, though some from Latvia
   1. uncertain future, no direct contracts
   2. barter deals through building associations

C. saw timber from Latvia
   1. not a problem

D. Company pays a broker to find raw materials

IX. **Capacity Utilization**
   A. only 50% currently, due mostly to
      1. declining government demand
      2. raw materials shortages

X. **Distribution: by railway, paid for by customer**

XI. **Profit**
   A. 12-13% profit
      1. 12-13% production
      2. 12-13% assembly

XII. **Energy Use**
   A. electricity 5-6% of costs in '90
      1. expected to by 9-10% in '91 due to price changes

XIII. **Technology**
   A. most equip from former USSR and Latvia
      1. forms from Latvia
      2. transporation technology from former USSR
   B. age: 80% amortized
      1. purchased in 1970 when plant opened

XIV. **Competition**
   A. factory #1 (next door) has more modern technology and products, is more flexible, and can produce types of walls construction firms will continue to use in the future

XV. **Interest from Foreign Companies**
   A. no interest, this company has a dying market
   B. middle men only have made enquiries

Ministry of the Sea

- Sector Summary
- Enterprise Data

Data included in this preliminary report has not been reviewed by the Government of Latvia for accuracy and consistency and, therefore, should not be used for analytical purposes. Further discussions with the respective ministries are required before relying on the information to select enterprises as privatization candidates.

100

Sector Summary

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I Introduction

101 The Ministry of Sea has only recently been formed. It is comprised of the former Ministry of Fisheries and the "Sea Transport" part of the former Ministry of Transport.

The Ministry of Sea — Minister of Sea: Andrejs Dandzbergs; Deputy Minister: Andris Ukis

Previous Ministry	SOEs	Collectives	SOEs Identified by Name	Basic Ministry Information	Visited	Counterpart Identified
Ministry of Transport	11	-	9	9	4	Sandra Lizuma Tel: 210476
Ministry of Fisheries	33	12*	19	7	3	Dailonis Kivlins Tel: 333486
Total	44	12	28	16	7	

* Appendix A, Table 2 identifies 11 of these Collectives by name and gives employee numbers. We were informed that there is already a privatisation law in place to deal with the Collectives and that by March 1992 they would all be privatised. A copy of the law was obtained and it is currently being translated.

102 This document pulls together everything which we learnt about the Ministry of Sea during the course of our two week visit to Latvia in December 1991. It also draws upon other available sources of information, as well as meeting notes from previous visits to the relevant enterprises - whether by Coopers & Lybrand staff or US AID Representatives.

103 While more detail on some of the 28 enterprises is given later the table below identifies the main SOE activities and the numbers employed by each activity. Hopefully, this will give some "feel" as to the scope of the Ministry.

The main activities of SOEs within the Ministry of Sea

Main Activity	Number of SOEs	Total Employees
Fish processing in ocean	2	9,608
Transportation of cargo	2	7,548
Trade port ie loading and unloading of cargo	2	3,971
Fish processing on coast	5	2,865
Repairing trade ships	1	1,949
Transportation of fish from ship to shore	1	1,223
Repairing fishing ships	2	1,017
Fish port ie loading and unloading of cargo	1	811
Provision of equipment and food to ships	1	663
Issue of documents and liaison with shipping companies	2	222
Fish breeding	8	219
Storage of goods at port	1	87
	28	30,183

II Background

The Ports

201 Latvia has 500km of sea coast and three major warm water ports at Riga, Ventspils and Liepaja. While both the Ventspils and Liepaja ports are ice free, Riga Port does sometimes freeze up. The ports have always been of particular significance in the Latvian economy. Even in 1913, 17% of the foreign trade turnover of Tsarist Russia was handled by the port of Riga.

202 Riga and Ventspils ports are developed for commercial traffic and have handled a significant percentage of cargo moving from the former Soviet Union to West Europe. In 1990 the USSR exported 30m tons of various cargoes through Latvian ports including 24m tons of oil and oil products through Ventspils. Liepaja Port is not presently equipped for commercial cargo transit as it is the site of a large Soviet naval installation. It has been estimated that if future investment allows for the conversion of this military port to commercial use, Liepaja has the potential for developing cargo capacity similar to that of Riga Trade Port. Latvian ports will obviously be of vital importance in earning hard currency for the economy, and it has been estimated that they could earn up to $700m annually.

The Fishery Collectives

203 According to one source[1], there are 11 Collectives in Latvia with approximately 16,000 workers and more than 300 boats. They are reported to catch around 70,000 tons of fish annually with more than 70% being herring and sprat. The Ministry of Sea provided us with the names of 11 Collectives, but told us that there were in fact 12 of them. The total employee number given for the 11 Collectives was 13,128. We should try to clarify this discrepancy if, having seen the privatisation law dealing with the Collectives, we decide that they do fall under our remit.

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[1] Economic survey of the Baltics Republics

Fish Processors

204 The table below gives the total "fish production" of Latvia in terms of the total weight caught and the number of cans of fish produced for 1985 and 1989.

Output	1985	1989
Fish catch ('000 tons)	538	547
Fish preserves (million tins)	239.5	233

III Sources of information

The Ministry of Sea

301 Although both counterparts identified within the Ministry were apparently willing to help us to collect information, the data provided was often very limited and confusing. So, for example, while the Ministry may have been able to estimate how many tons of cargo the Latvian Shipping Company transported in 1991, they were unable to tell us what the cargo was, where it was going or for whom they were transporting it. It was because of the poor information being obtained from the Ministry that we decided to arrange visits to the enterprises themselves.

The State Owned Enterprises

302 Most of the Directors that we met during the course of our visits to SOEs were very pleasant and willing to answer questions.

303 Although more detailed information about the enterprises was collected via these visits it was very time consuming and often logistically difficult to arrange. The information collected was also sometimes difficult to reconcile to that provided by the Ministry[2].

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[2] In Section IV, Enterprise Information, I have indicated where data provided by the Enterprise is very different to that provided by the Ministry. Otherwise I have given 'ranges' for, eg sales volume and so forth.

The Minister of Sea

304 We met with Andrejs Dandzbergs on just one occasion. He was very interested in our work and requested that we report back to him on our findings. Unfortunately he was then unable to see us at the end of our visit. He identified four immediate problems for the SOEs which he thinks are currently threatening their viability:-

(a) no secure supplies of raw materials;

(b) no-one to take on responsibility for the success or failure of the enterprises;

(c) no established links with "customers"; and

(d) lack of goods which could be sold at world prices.

305 He said that while he appreciated privatisation would take time, the problem is that if it takes too long there will be no enterprises left to privatise!

Enterprise Data

Data included in this preliminary report has not been reviewed by the Government of Latvia for accuracy and consistency and, therefore, should not be used for analytical purposes. Further discussions with the respective ministries are required before relying on the information to select enterprises as privatization candidates.

IV Enterprise Information

Latvian Shipping Company

Status 100% state owned

Established 1945

Employees 6,728

Activities This enterprise is engaged in the transportation of cargo between ports. They have 90 ships of which 27 are refrigerated, 19 carry dry cargo and 44 are tankers. The average age of the ships is 14 years and they have a usual life-span of 25 years. They employ around 5,000 crew who are reputed to be among the best in the world. The Latvian Shipping Company estimates that it earns around 80% of Latvia's hard currency. They have employed the services of Moore Stephens, a London based consultancy, to advise them on privatisation.

Output

Activity	Volume (thousand tons)	Income (million roubles)[1]		Customers[2]
Transportation of cargo	23,500 - 25,000	Tankers	197	1% Latvian
		Freight	96	90% Western
		Dry cargo	53	9% others

1. The Ministry gave an income figure of 726 million roubles.
2. 50% of tanker fleet's customers are western companies, 90% of freight's and 40% of dry cargo's.

Input Total costs of 440 million roubles

Capacity Utilisation All 90 ships are fully utilised at present

Profitability The profit figure given by the Ministry of 286 million roubles was considered to be too high by the enterprise; they expect it to be more like 100 million roubles.

Assets Ministry - 652 million roubles
Enterprise - 738 million roubles

Debt None

Foreign Interest There have been expressions of interest in the enterprise from Sweden ("Cool Carriers"), Denmark, Finland, Greece and Italy.

Figures are estimates for 1991 based on data for first nine months

Riga Shipping Company

Status 100% state owned

Established

Employees 820

Activities This enterprise is engaged in the transportation of cargo, but by rivers mostly. According to the Ministry they have seven ships which can carry cargo across the sea.

Output

Activity	Volume (thousand tons)	Income (thousand roubles)
Transportation of cargo	2,032	21,698

Input Total costs of 15.8 million roubles

Profitability 4.9 million roubles profit (after tax)

Assets 43 million roubles

Debt None

Figures are estimates for 1991 based on data for the first nine months

Riga Trade Port

Status 100% state owned

Established 1945 (Riga Port itself dates back to 13th Century)

Employees 1,954

Activities This enterprise (which was previously part of Latvian Shipping Company) is engaged in the loading and unloading of cargo at the port. The port is divided into three divisions:-

- "Andrej" with 2 berths dealing with general cargo and small amounts of grain;
- "Export" with 13 berths dealing with grain, coal, general cargo, refrigerated cargo and cars; and
- "Container Terminal" with 2 berths dealing with containers and small amounts of general cargo.

They presently have 53 different port cranes and 10 special container cranes, although they are not all in good working condition at the moment.

Output

Activity.	Volume (thousand tons)	Income (thousand roubles)	Customers
Loading and unloading cargo	5,500 - 6,000	54,545	Latvia, Europe, America and Russia

The cargo dealt with in 1991 ranged from cars (around 60,000) to grain (4.5 million tons), coal (1.0 million tons), foodstuffs (0.2 million tons) and machinery. Less than 5% of the cargo exported actually originates from Latvian enterprises. Riga Trade Port said that they were unable to give me income figures because all monies earned have gone direct to Moscow, and that the amount of hard currency earned is a commercial secret.

Input Total costs of 38.3 million roubles

Capacity utilisation Although Riga Trade Port only dealt with between 5.5 million and 6 million tons of cargo in 1991, they have dealt with up to 10 million tons.

Profitability 16.3 million roubles profit (after tax)

Assets	Enterprise - 146.260 thousand roubles Ministry - 83.450 thousand roubles
Debt	None
Technology	The machinery that they have has come from Russia and Europe; some of it is "old" and some "new". They do not see any problems in replacing it as and when necessary.
Competition	The main competing ports are Ventspils, Leningrad and Kaliningrad. Riga is, however, the biggest port in Latvia and probably has a monopoly insofar as loading and unloading coal is concerned.
Foreign Interest	They have formed a joint venture with a Swedish company called "Balt Terminal". This will be the new passenger port to be opened in 1992.

Figures are estimates for 1991 based on data for first nine months.

Ventspils Trade Port

Status 100% state owned

Established

Employees 2,017

Activities This enterprise is engaged in the loading and unloading of cargo at the port

Output

Activity	Volume (thousand tons)	Income (thousand roubles)
Loading and unloading cargo	4,500	63,464

Input Total costs of 33.8 million

Profitability 29.7 million roubles profit (after tax)

Assets 91.4 million roubles

Debts None

Figures are estimates for 1991 based on data for first nine months

Riga Transport Expedition

Status 100% state owned

Established

Employees 68

Activities This enterprise is engaged in representing the interests of companies exporting goods out of Riga or importing into Riga. They only deal with cargo entering or leaving via Riga Ports, ie not Ventspils. So, for goods being imported, they control the arrival of the goods and their documentation, their despatch from the port and any necessary customs declarations. For goods being exported, they issue the necessary documentation, arrange insurance policies, prepare invoices and present them to banks for payment. They also keep an eye on the movement of the cargo and try to sort out problems with the ports as they arise. As a separate part of their activities they arrange courier services in conjunction with DHL, transmit information by telex for other companies and arrange transportation by other means, for example, rail.

Output The enterprise said that it was expecting to earn around 1 million roubles in 1991, which was in line with the Ministry information. This was broken down into:-

Forwarding operations:	0.5 million roubles
Courier services:	0.2 million roubles
Customs declarations:	0.3 million roubles

They do not presently earn any hard currency because they only work for Latvian or former Soviet Union enterprises, although they are hoping that this will change once they have managed to train their staff adequately. They estimated that approximately 25% of their income is from Latvian enterprises although only 10% of the cargo that they forward.

Input Total costs of 0.7 million roubles

Profitability 0.3 million roubles profit (after tax)

Assets 0.1 million roubles

Debts None

Competition Just as this enterprise deals only with cargo entering or leaving Riga Ports, so the Ventspils Transport Expedition deals only with Ventspils Ports. However, there is a new Latvian-UK joint venture called "MJH" who were established in the spring and who have started to operate in the same markets as this enterprise.

Figures are estimates for 1991 based on data for first nine months

Ventspils Transport Expedition

Status	100% state owned
Established	
Employees	154
Activities	This enterprise is engaged in the issue of necessary shipping documentation as well as liaison with shipping companies on behalf of importing or exporting companies.
Output	Total income of 3 million roubles
Input	Total costs of 2.1 million roubles
Profitability	0.9 million roubles profit (after tax)
Assets	3.2 million roubles
Debts	None

Figures are estimates for 1991 based on data for first nine months

Riga Ship Repair Yard

Status 100% state owned

Established 1913

Employees 1,949

Activities This enterprise is engaged in the repair of ships as well as the building of new ships and all kinds of machinery. Their business is split approximately 85% repair, 7.5% new ships and 7.5% new machinery. They have just delivered one new light tanker to Russia and are unsure about the future of their shipbuilding activities. At any one time between 12 and 15 ships can be simultaneously worked on. They have two workshops for building ships which can cope with ships up to 65m long and 16m across. The ships are built according to USSR standard requirements.

Output The enterprise estimated that their income for 1991 would be around 50 million roubles; this was broadly in line with the Ministry information. They repaired 120 ships in 1991, 110 trade ships and ten fishing ships. The majority of the ships to be repaired are Latvian (60%), some are Russian (25%) and the remainder Lithuanian or Estonian (15%).

They will earn hard currency in 1992 because they have a contract to repair 4 or 5 ships from Portugal, Spain, Greece, UK or Denmark. However, the actual figure is a commercial secret.

Input Ministry - Total costs of 34 million roubles
Enterprise - Total costs of 40 million roubles

This enterprise has established direct links with their raw material suppliers. They get metal, wood and steel from Russia and the Ukraine. They are currently paying in roubles, but expect to have to pay in hard currency next year.

Capacity utilisation Not operating at full capacity (ie repairing around 200 ships in a year) because of lack of skilled employees.

Profitability Ministry - 8 million roubles profit (after tax)
Enterprise - 10 million roubles profit (after tax)

Assets 59 million roubles

Debts None

Technology About 40% of the existing equipment is considered to be old. It originally came from Russia predominantly. They would need to invest in new technology in order to build ships for western contracts.

Competition	There is no other shipbuilding enterprise in Latvia; there are some in Leningrad and Kaliningrad. There are four other enterprises repairing ships in Latvia; this particular yard probably accounts for around 50% of total demand.
Foreign Interest	They are working alongside "Somoco Trading" from the UK who are helping the enterprise to market themselves.

Figures are estimates for 1991 based on data for first nine months

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Rineks

Status 100% state owned

Established

Employees 87

Activities This enterprise is engaged in the storage of goods at ports

Output

Activity	Volumes (tons)	Value (thousand roubles)	Customers
Storage of goods	60,000	1,105	

Input Total costs of 0.9 million roubles

Profitability 0.2 million roubles profit (after tax)

Assets 2 million roubles

Debt None

Figures are estimates for 1991 based on data for first nine months.

Juta

Status	100% state owned
Established	
Employees	663
Activities	This enterprise is engaged in the provision of everything that is needed by ships
Output	Total income from services provided 9.2 million roubles
Input	Total costs of 5.8 million roubles
Profitability	3.4 million roubles profit (after tax)
Assets	6.3 million roubles
Debts	None

Figures are estimates for 1991 based on data for first nine months.

Riga Trawler Ship Base

Status 100% state owned

Established

Employees 6,430

Activities This enterprise is engaged in fishing and fish processing on board ships. They process frozen fish, salted fish and boned fish, as well as produce cattle fodder.

Output

Product	Sales Value	Sales Volume	Customers
Fish production Fish in cans Non food production	)) 180.3 million roubles)	100,449 tn 16,845 cans* 21,931 tn	Information not given

* Each can, on average, 350g

Inputs

Raw Materials	Cost	Source
Fish etc	)) 75.5 million roubles)	from former USSR, fishing regions and different enterprises in different countries

Profitability 20,896 roubles profit

Assets 315,158 thousand roubles

Debt

Debt	Amount (thousand roubles)
Short term credits Long term credits Debts	11,476 1,397 1,301
Total	14,174

Technology This enterprise has a number of 'fishing' and 'fish processing' ships

Fishing Ships Type	Number	Average Age (years)
BMRT	4	23
RTMS	15	10
BATM	6	3
STM	1	5

Processing Ships Type	Number	Average Age (years)
RTMS	1	12
UPSPPR	1	22
RTMA	2	18
UTS	1	23
TR "Nemans"	1	34
TR "Mangali"	1	17
DB	4	24
PR	5	27
SRTMR	2	11

Foreign Interest This enterprise did not want to meet with us even though we went through the Ministry for an introduction. The message was that they have a German company interested in them.

Figures for first nine months of 1991 only.

Liepaja Ocean Fishing Ship Base

Status 100% state-owned

Established

Employees 3,178

Activities This enterprise is engaged in fishing and fish processing on board ships. They process frozen fish, slated fish and boned fish, as well as produce cattle fodder.

Output

Product	Sales Value	Sales Volume	Customers
Food production Non food production	4.4 million invaluate roubles and 97 million roubles	Sold for invaluate roubles: 4,803 tn Bartered: 4,365 tn Sold for roubles - food production: 35,585 tn - non food production 16,665 tn	Latvia, former USSR, Spain, Argentina

Input

Raw Materials	Cost	Volume	Source
Fish bought Petroleum	14 million roubles	399 tn 6,862 tn	USSR enterprises

Profitability 1.5 million roubles profit

Assets 166.9 million roubles

Debts

Debt	Amount (thousand roubles)
Short term credit	12,153
Long term credit	13,956
Total	26,109

Figures for first nine months of 1991 only.

Fish Can Plant "Kaija"

Status 100% state owned

Established 1881

Employees 742

Activities This enterprise is engaged in fish processing and aluminium can production. They process around 13,000 tons of fish altogether in a year, of which 2,900 tons are smoked, 3,000 tons are fresh and the rest is canned. There are four main products:-

(i) aluminium cans (20% of production value);

(ii) fish in oil in cans (42% of production value);

(iii) fish cookery, ie fish to be consumed within 24 hours (20% of production value); and

(iv) smoked and salted fish (18% of production value).

They supply the fresh and canned fish to shops and stores, and the cans to various other enterprises who use them to can many different kinds of foods.

Output

			Customers	
Product	**Sales Value**	**Sales Volume***	**Sales to Latvia**	**Sales to Former USSR**
Food production Cans Bartering	)) 50.9 million roubles)	4,348 tn 8,766 cans 470 cans	3,633 tn 4,939 cans	715 tn 3,827 cans

*Each can, on average, 350g.

The Enterprise itself estimated sales of 15 million roubles for 1991. Approximately 70% of total production is consumed in Latvia and 30% in the former USSR, although no empty cans or fresh fish are exported to the USSR.

Input

Raw Material	Cost	Source
Fish Aluminium Oil	)) 36.3 million roubles)	Latvia, Kaliningrad Middle Asia Ukraine

The Enterprise itself estimated total costs of 61 million roubles.

All the raw materials are now difficult to get hold of. The aluminium has, in the past, come from Russia. Now they are saying that they do not have any to supply.

Capacity utilisation Can production is presently only 50% utilised because there simply is not the demand. Moscow apparently overestimated the can production facilities required when the plant was built. All other production is more or less fully utilised.

Profitability Ministry - 11.1 million roubles profit (after tax)
Enterprise - 14 million roubles profit (after tax)

Can production, smoked fish and fish in cans are all very profitable. The losses are made on the fish cookery.

Assets Ministry - 23.1 million roubles
Enterprise - 30 million roubles

Debts

Debt	Amount (thousand roubles)
Short term credit Long term credit	- 4,798
Total	4,798

Technology The majority of the equipment (80%) is old; it originally came from a number of different countries. Although all the food products are up to western standards, the cans themselves are not. This enterprise needs $2.5 million to purchase the correct equipment to produce the types of cans which would be acceptable to export. A business plan has been presented to the Government requesting a loan for the equipment. The Director estimates that within one and a half years of installing such equipment the enterprise would be able to export to the west. It would take that amount of time to run down the old processes, educate the employees and so forth.

Competition There are many enterprises like this one producing both cans and processing fish. They are the only one involved in fish cookery though.

Foreign Interest They are currently looking for help from Spanish and German firms and one Spanish company mentioned was "Migas".

Figures for first nine months of 1991 only.

Mangalu Ship Repair Yard

Status 100% state owned

Established

Employees 592

Activities This enterprise is engaged in repairing trade and fishing ships. The Ministry's opinion of the enterprise was that they are very slow and inefficient. Apparently they suffer from a general lack of raw materials as well as poor management.

Output Sales value of 8.5 million roubles for first nine months of 1991. No hard currency earned or bartering undertaken.

Input

Raw Materials	Cost (thousand roubles)	Source
Materials	1,715	USSR
Petroleum	143	USSR
Spare parts	21	USSR

Profitability 1.6 million roubles profit

Assets 18.7 million roubles

Debts 0.2 million roubles long term credit

Competition Other similar enterprises in St Petersburg, Kaliningrad and, of course, Riga Ship Repair Yard.

Figures for the first nine months of 1991 only.

Riga Fishing Port

Status	100% state owned
Established	
Employees	811
Activities	This enterprise is a fishing port.
Output	Services given to 63 ships of which 43 are Latvian and 20 USSR ships. The sales value of those services was 10.1 million roubles
Input	The value of material used was 3.5 million roubles. The equipment used for loading and unloading cargo came from Bulgaria. The rest of the equipment and materials come from former USSR
Profitability	2.6 million roubles profit.
Assets	140.6 million roubles.
Debt	14 thousand roubles long term credit

Figures for the first nine months of 1991 only.

Riga Transport Fleet

Status 100% state owned

Established 1986

Employees 1,223

Activities This enterprise transports fish from the fishing regions back to the shore. It also supplies the fishing ships with all the necessary food, petroleum etc to enable them to stay out at sea. They have 14 ships, 11 for frozen cargo, one tanker, one salvage and one dry cargo. The fleet operates in the Baltic Sea, Pacific, North Sea etc.

Three years ago when management were able to "rent" their enterprises from the USSR, this enterprise did this. They are presently working with a consulting institute in St Petersburg, who are helping to advise this enterprise (and its competitors) on how to determine prices and to operate in free market.

Output

Service	Service Value	Service Volume	Customers
Transportation of fish	) 0.3 million invaluate roubles	201,000 tn	Latvian and former USSR fishing boats
and	) and		
Transportation of other materials	) 61 million roubles	138,000 tn	

They transport approximately 300,000 tons of fish a year, 25,000 tons of oil, 42,000 tons of black oil and 1,000 tons of lubricant. The enterprise estimated 1991 income to be 150 million roubles.

Input

Raw Materials	Volume	Source
Petroleum Black oil	20,413 tn 33,303 tn	Ventspils processing enterprise 'Sovribflot'

Fuel shortages are a real problem now and so ships are chartered out at cost of $6.000 for 24 hours. Each year this enterprise needs at least $1.5 million worth of hard currency for crew wages, spare parts and repairs carried out in western yards. In previous years this amount has been supplied from Moscow, now it is the enterprise's problem. Since the only way to get hard currency presently is by chartering, the enterprise intends to do a lot more of that.

Capacity Utilisation The fleet are presently overworked, customers want to give them more work than they are able to handle.

Profitability Ministry - 15.5 million roubles (profit)

Assets 143 million roubles

Debts

Debt	Amount (thousand roubles)
Short term credit	3,937
Long term credit	18,900
Total	22,837

Technology The dry cargo ship is now 26 years old and the youngest ship two years old. Approximately 50% of the ships are "old" and 50% "young". The enterprise presently has no means of buying a new ship.

Competition There are two other companies in the Baltic region who offer the same service, and three others in former USSR. The three Baltic enterprises move approximately one million tons of fish in a year.

Foreign interest Involved in a joint venture with a Greek company called "Sovmed Reefer Service" which had five ships.

Figures for the first nine months of 1991 only.

Fish Breeders: "Tome"

Status 100% state owned

Established

Employees 41

Activities Baby salmon breeding.

Output 360,000 baby salmon per year.

Input

Raw Materials	Cost (thousand roubles)	Amount	Source
Fuel	9.3		All from Latvia
coal		200 tn	
petrol		20 tn	
diesel		10 tn	
Fish food	28.5	15 tn	

Profitability Non-profit making enterprise, funded by Latvian State budget

Assets 3.3 million roubles

Debts None

B1

The Ministry of Sea
State Owned Enterprises
Table 1

Number	Name	Director, Address and Telephone Number	Employees
1*	Latvian Shipping Company *Latvijas Kugnieciba*	Peteris Avotins Riga, Basteja Bulvaris, 2 323406	6,728
2	Riga Shipping Company *Rigas Kugniecibu*	- - 223620	820
3*	Riga Trade Port *Rigas Tirdzniecibas Osta*	Jurijs Krivojs Riga, Vila Lacaiela, 6 329821	1,954
4	Ventspil Trade Port *Ventspils Tirdzniecibas Osta*	Olegs Stepanovs Ventspils, Dzintaru iela, 22 8-236-22821	2,017
5*	Riga Transport Expedition *Rigas Transporta Ekspedicija*	Alexander Hudjakov Riga, Maza pils, 2 226973	68
6	Ventspils Transport Expedition *Ventspils Transporta Ekspedicija*	- - 8-236-61441	154
7*	Riga Ship Repair Yard *Rigas Kugu Remonta Rupnica*	Sergey Golitsyn Riga, Gales iela 2 341433	1,949

Number	Name	Director, Address and Telephone Number	Employees
8	Rineks *Rineks*	- - 381867	87
9	Juta *Juta*	- - 320471	663
10	Riga Trawler Ship Base *Rigas Traleru un Refrizeratoru Flotes Baze*	Teteris Janis Riga, Atlantijas iela, 7 331198, 342010, 342001, 342110	6,430
11	Liepaja Ocean Fishing Ship Base *Liepajas Okeana Zvejas Flotes Baze*	- Liepaja, Celtnieku iela, 2 -	3,178
12*	Fish Can Plant "Kaija" *Zivju Konservu Kombinats "Kaija"*	Leonard Birkis Riga, Atlantijas iela, 15 349800, 349802	742
13	Liepaja Fish Can Plant *Liepajas Zivju Konservu Rupnica*	- - -	496
14	Ventspils Fish Can Plant *Ventspils Zivju Konservu Kombinats*	- - -	592
15	Roja Fish Can Plant *Rojas Zivju Konservu Rupnica*	- - -	729

Number	Name	Director, Address and Telephone Number	Employees
16	Salasgriva Fish Can Plant *Salacgnvas Zivju Konservu Rupnica*	- - -	306
17	The Experimental Ship Mechanics Yard *Eksperimentala Kugu Mehaniska Rupnica*	- - -	425
18	Mangalu Ship Repair Yard *Mangalu Kugu Remonta Rupnica*	Ross Ivavs Riga, Zivju iela, 1 340382	592
19	Riga Fishing Port *Rigas Juras Zvejas Osta*	Sevcuks Georgijs Riga, Atlantijas iela, 27 341477	811
20*	Riga Transport Fleet *Rigas Transporta Flote*	Kolosovs Olegs Riga, Lasu iela, 52 341880	1,223
21	Fish Breeders "Tome" *Zivju Audzetavas "Tome"*	- - -	41
22	Fish Breeders "Karli" *Zivju Audzetavas "Karli"*	- - -	24
23	Fish Breeder "Pelchi" *Zivju Audzetavas "Pelci"*	- - -	24

Number	Name	Director, Address and Telephone Number	Employees
24	Fish Breeders "Serene" *Zivju Audzetavas "Serene"*	- - -	20
25*	Fish Breeders "Dole" *Zivju Audzetavas "Dole"*	- - -	41
26	Fish Breeders "Salaca" *Zivju Audzetavas "Salaca"*	- - -	33
27	Fish Breeders "Kegums" *Zivju Audzetavas "Kegums"*	- - -	17
28	Fish Breeders "Brasla" *Zivju Audzetavas "Brasla"*	- - -	19
		Total	30,183

* Visited

Note (1) Enterprises 1-9 previously fell under the Ministry of Transport while 10-28 fell under the Ministry of Fisheries

(2) Although the numbers quoted frequently varied, I was originally led to believe that there were:
11 SOEs from the Ministry of Transport
and
33 SOEs from the Ministry of Fisheries now falling under the Ministry of Sea. The numbers would need to be clarified on any subsequent visit

The Ministry of Sea Fishery Collectives

Table 2

No	Name	Number of Employers
1	"Brivais Vilnis"	1,269
2	"Zvejnieks"	883
3	"Carnikava"	1,133
4	"Avda"	1,483
5	"Uzvara"	1,272
6	"Selga"	946
7	"Engure"	923
8	"Mersrags"	765
9	"Banga"	1,666
10	"Sarkana Baka"	1,358
11	"Kursa"	1,430
	Total	13,128

Notes:

(1) Informed by Ministry that privatisation of these enterprises is being dealt with separately and is already underway - more information to come about the privatisation law dealing with these. If that is not clear that a visit to at least one of these collectives is strongly recommended for any subsequent visit.

(2) All these Collectives previously fell under the Ministry of Fisheries.