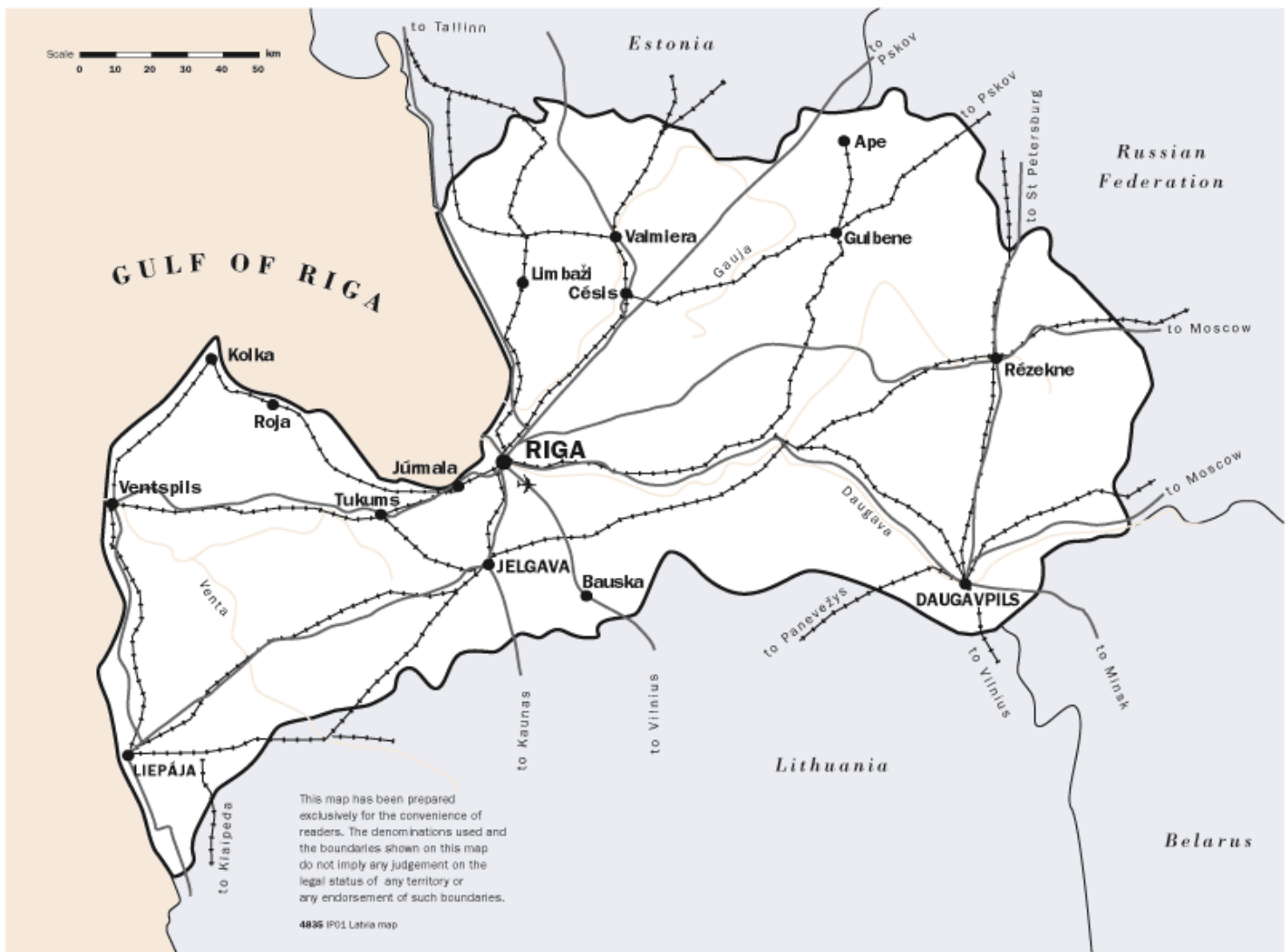


COMMERCIAL LAWS OF LATVIA

September 2008

AN ASSESSMENT BY THE EBRD



This Assessment was last updated during the preparation of the 2005 EBRD Strategy for Latvia and reflects the situation at that time. It does not constitute legal advice. It was prepared by the Office of the General Counsel of the EBRD. For further information please contact ltt@ebrd.com

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Basis of Assessment: *This information is based on the experience of the Office of the General Counsel whilst conducting legal assessments on behalf of the Bank. It also draws on EBRD investment and legal reform activities in Latvia (see www.ebrd.law).*

Overall Assessment

In 2004 Latvia became a member of the European Union. Since the accession Latvia has undergone significant changes to its legal framework which has led to improvements in the investment climate. Latvia continues the process of harmonisation and enhancement of its legal sector, particularly aiming at further commercialisation and deregulation in infrastructure and the improvement of financial intermediation.

Recently amended or newly adopted laws include: the Law on Insolvency, Financial Instruments Market Law, the Law on Commerce and the Law on Electronic Communications. The amended Financial Instruments Market Law introduced new regulations on indirect holdings, notification of shareholdings and reporting obligations of listed companies. The Law on Insolvency has replaced the old Insolvency Act, introducing significant changes regarding individuals' ability to file for bankruptcy and emphasising on reorganisation measures. In addition, a separate Insolvency Register has established for the purpose of registration of companies subjected to insolvency proceedings.

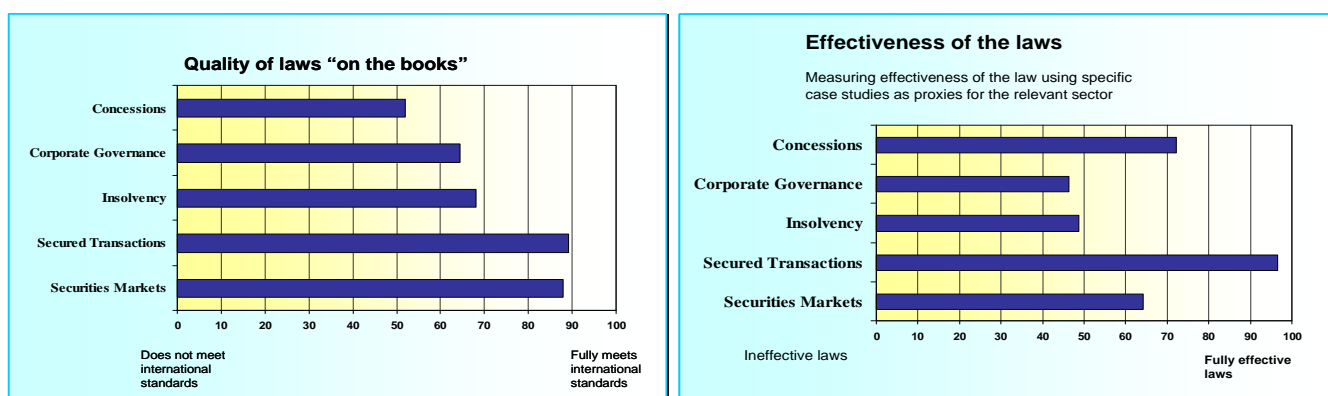
Another significant new development is the implementation of a voluntary corporate governance code (the "Corporate Governance Principles and Recommendations for their Implementation") which monitors listed companies' compliance with the principles contained therein.

With regard to concessions, Latvia adopted a PPP Action Plan prioritising the facilitation of an adequate institutional set-up for PPP's and a promotion framework and legal framework. A new draft Concessions Law implementing the relevant EU directives on concessions has already been approved in the second out of three hearings at the Parliament, although the date of its final approval is yet uncertain.

An overall assessment reveals that Latvia has a developed legal system that approximates international standards and, on paper, is now harmonised with the requirements of the European Union. Building on this success in moving towards the establishment of a market-oriented economy and stable democratic institutions, further efforts are needed to face the challenges of effective implementation and the reduction of bureaucratic and corrupting influences. Accordingly, Latvia has to undertake reforms to overcome corruption and improve its public administration in order to ensure that these factors do not hinder Latvia's investment potential and economic growth.

The major goal for the Latvian authorities, at present, is to achieve effective enforcement and consistent application of all the new laws that were adopted after the process of Latvia's accession to the EU.

Chart 1 – Snapshot of country's commercial laws



Source: EBRD legal assessments 2002-2008

1. The Legal System

1.1. *Constitution and courts*

Upon its independence from the Soviet Union Latvia reverted to the Constitution of 1922. Some amendments were made to the Constitution to adjust it to current developments and most significantly it was amended in October 1998 by inserting a new Chapter VIII on fundamental rights. The aforementioned Chapter proclaims that the Republic of Latvia shall recognise and protect fundamental human rights in accordance with its Constitution, laws and international agreements.

Latvia is a parliamentary democracy, which regained its independence in 1991 after more than 50 years of being a republic of the Soviet Union. The Latvian unicameral Parliament (Saeima) is comprised of 100 deputies proportionally representing political parties. The Parliament is elected for a four-year term. The last parliamentary elections were held in October 2006. The Parliament elects the Cabinet headed by the Prime Minister. The President is also elected by Parliament for a term of four years.

The Constitution sets forth the basic principles of the court system. It has a three-tier court system consisting of district (city) courts, regional courts and the Supreme Court being the highest judicial level. All three levels of courts examine civil, criminal and administrative cases.

As a general rule, district (city) courts and regional courts review civil and administrative cases on their merits as first instance courts, depending on the jurisdiction as determined by the procedural laws. First instance judgements on civil matters can be appealed at regional courts for judgements made by the district (city) court and the Civil Trial Panel of the Supreme Court in respect of judgements by the regional courts. There is also one more level of appeal called cassation which can be pursued against appellate decisions but only in certain cases established by the law. The court of cassation is the Senate of the Supreme Court.

There are currently 35 district (city) courts, five regional courts (Riga Regional Court, Vidzeme Regional Court, Latgale Regional Court, Kurzeme Regional Court and Zemgale Regional Court) and the Supreme Court. According to Article 83 of the Constitution judges shall be independent and once their appointment is approved by Parliament they shall be irrevocable.

The Constitutional Court is a separate court that has jurisdiction only over cases concerning the compliance of laws with the Constitution and it is empowered to declare laws and regulations or their parts invalid.

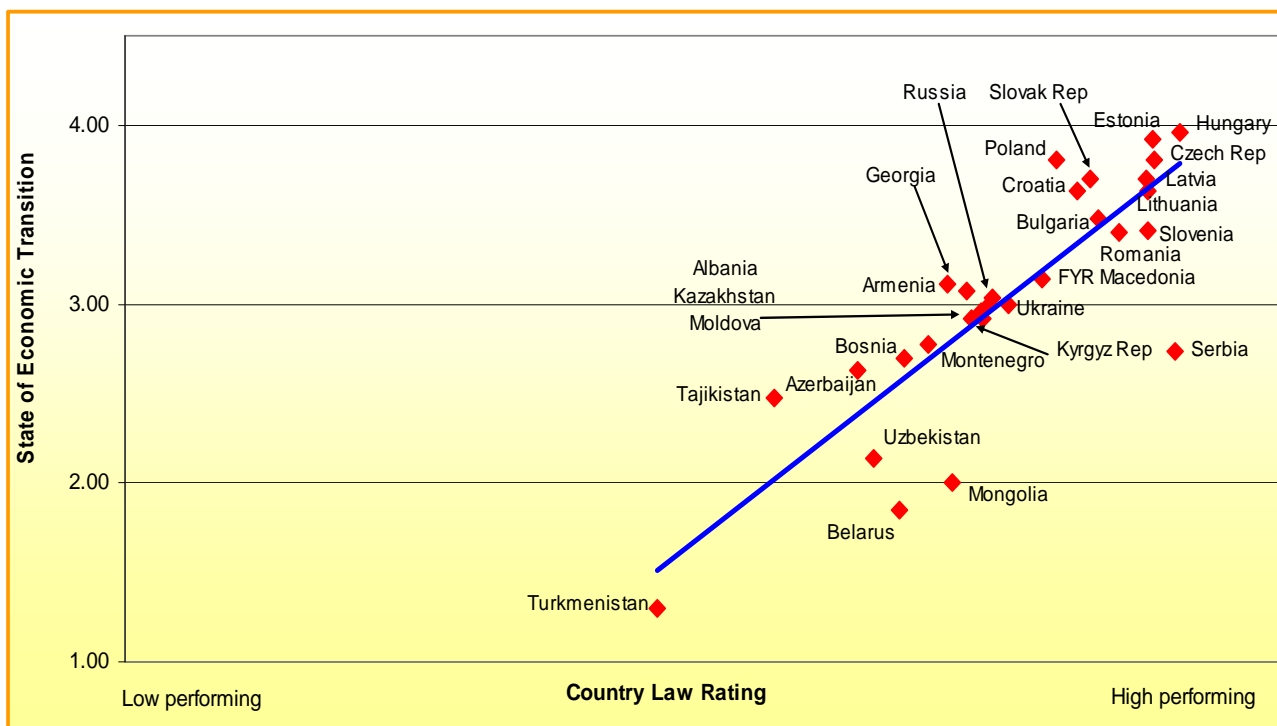
Progress in improving the functioning of the judicial system has been forthcoming, albeit rather slowly. Major drawbacks of the judicial system are the following factors: insufficient separation of powers, including extensive authority of the Ministry of Justice over judicial administration; insufficient funding and poor working conditions, a discretionary system of legally established benefits for judges; poor regulation of the appointment procedure; mandatory guidelines issued by the Supreme Court and a very low rate of enforcement of judgements. There are ongoing efforts to improve the legal, infrastructural and institutional framework of the judicial system, which, however, seem to be insufficient. In the context of EU membership, further training of the judiciary with regard to EU law is considered a priority.

1.2. Relationship between legal transition and economic progress.

Since its accession to the European Union and resulting economic reforms, Latvia has progressed considerably with respect to developing a stable and functioning market economy and is now among the most advanced transition countries of central and Eastern Europe. Latvia has moved ahead with regard to the development of its laws and regulations, and this has had a positive impact on its economic development – despite currently undergoing a slowing development rate, Latvia did enjoy a remarkable GDP growth rate of 12.2% in 2006 compared to 10.6% in 2005.

Experience in the transition countries suggests that the degree of respect for the rule of law and advancements in economic transition advance or regress hand in hand, and this is certainly the case in Latvia. (See chart 2)

Chart 2 – Rule of law and progress in transition in the EBRD countries of operations



Source: EBRD Transition Report 2007, Table 1.1; EBRD Composite Country Law Index, Nov 2007

Note: The horizontal axis measures the performance of commercial and financial law. The vertical axis displays the EBRD transition index as an average of transition indicators between 1997 and 2003, with 1 referring to very early transition stages, and 4 referring to an advanced transition level.

1.3 Implications for the investment climate

Latvia's economy is dominated by the industrial sector which is due to the aggressive industrialisation imposed during the Soviet era. In 1990 the manufacturing industry accounted for around 43% of the economy and since then it has continued to increase. Before the annexation to the Soviet Union Latvia experienced a period of significant economic development and had a well-established economic system. As a result, despite the Soviet era heritage of implementing a distorted economic structure, Latvia, together with the two other Baltic States, has managed to transform itself into a market economy seemingly faster than the other former Soviet Union republics. Obviously, the best indication of its success was Latvia's accession to the EU in 2004.

Recurrent political instability appears not to have affected the economic policy pursued by Latvia, but the perceived political risk has proved somewhat of an obstacle to foreign direct investment (FDI) in the country.

Latvia has experienced a sharp decline in GDP growth with 3.6% in the 1st quarter of 2008 in comparison to 10.9% in the 3rd quarter and 8% in the 4th quarter of 2007. Estimated trends reveal that the economic growth rate would remain steady and low in the following years.

One of the apparent hazards in Latvia's investment environment is the high inflation rate, which has already delayed its accession to the Euro Zone (which was scheduled for January 2008), accession now being forecasted as no earlier than 2012. The government's 2007 "Anti-Inflation" Plan has achieved only moderate success thus far.

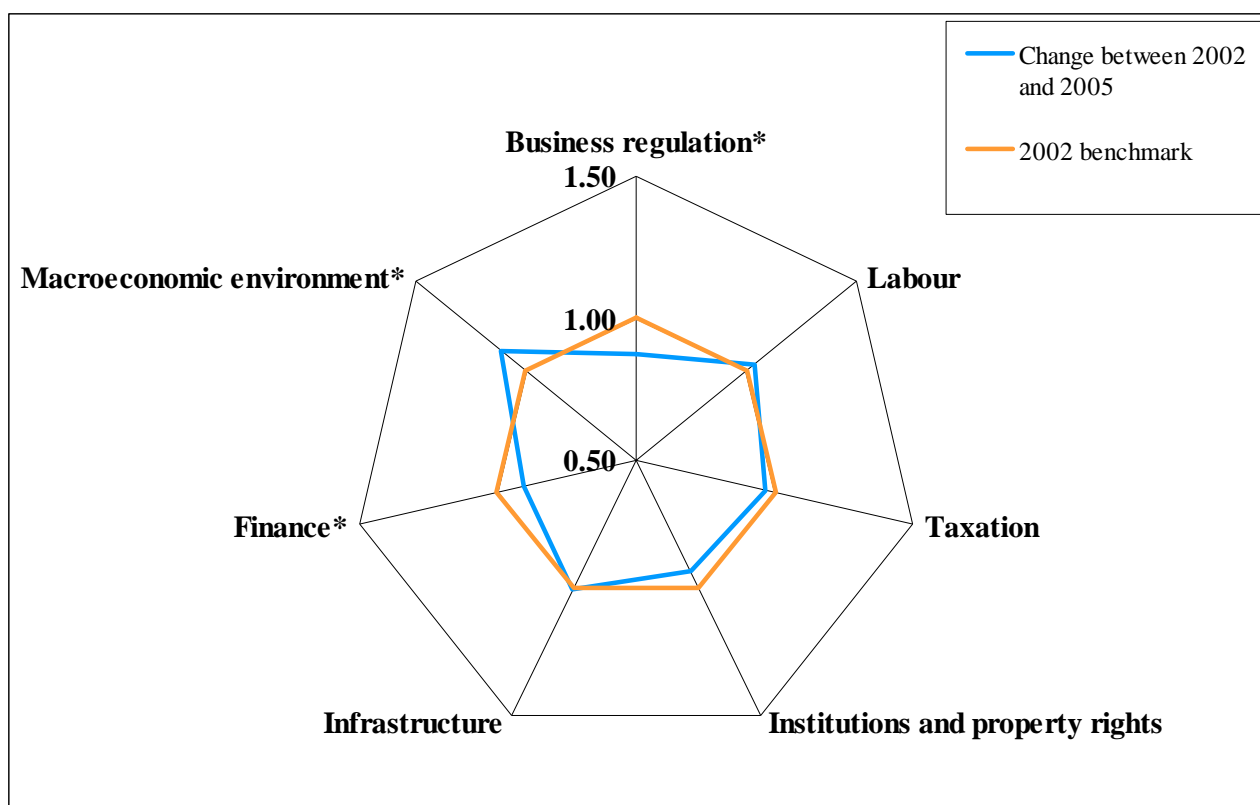
Another factor in Latvia's business environment is its relationship with Russia, particularly the presence of a Russian minority population. However Latvia and Russia also share important economic ties.

All new EU member countries have made overall improvements in the business environment and Latvia, currently undergoing an unexpected construction boom, is not an exception. However, the country now faces a decline in economic growth in the light of rising inflation, a large current account deficit of the balance of payments and overheated consumer demand.

Despite these trends however, foreign direct investment (FDI) in Latvia has remained high. The tax regime has also generally improved with Latvia's 15% corporate tax now being one of the most favourable in Europe.

At present, the primary goal of the Latvian government is to improve the macroeconomic environment in the country so as to create a stable and sustainable economy in the long term. The enforcement of laws (hampered by corruption and poor quality judiciary) also still remains a challenge.

Chart 3 – Changes in the business environment in transition countries, 2002-05



Sources: BEEPS 2002 and 2005

Notes: The spider charts show changes in seven aspect of the business environment between 2002 and 2005. The 2002 data represent a benchmark of no change. Where the line falls inside the benchmark, this represents an improvement in that aspect of the business environment. Where the line falls outside of the benchmark, this represents a deterioration in the business environment. Wherever the changes are statistically significant, the relevant categories are marked with an asterisk. The business environment was assessed on a scale from 1 (no obstacle) to 4 (major obstacle).

2. Evaluation of selected commercial laws

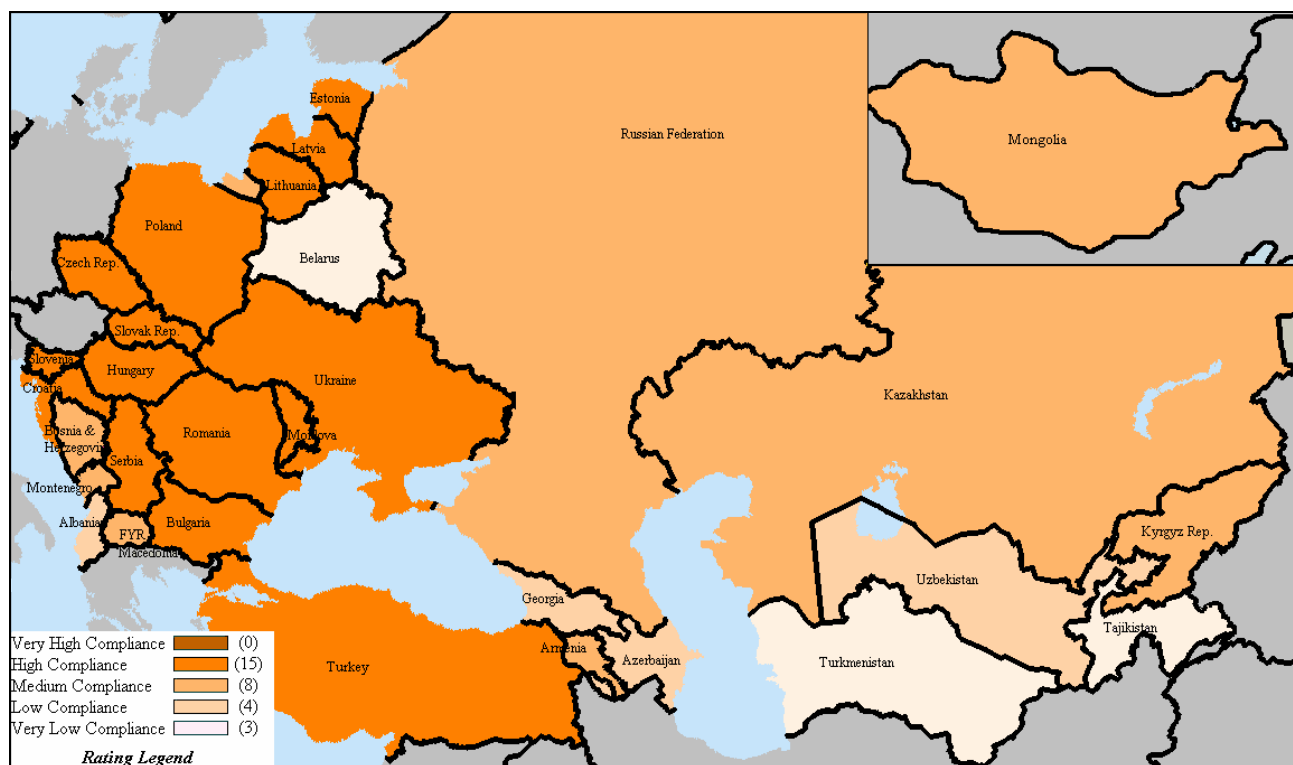
The EBRD has developed and regularly updates a series of assessments of legal transition in its countries of operations, with a focus on selected areas relevant to investment activities: capital markets, concessions, corporate governance, insolvency, secured transactions and telecommunications. The existing tools assess both the quality of the laws "on the books" (also referred to as "extensiveness") and the actual implementation of laws (also referred to as "effectiveness").

All available results of these assessments can be found at www.ebrd.com/law.

2.1. Capital markets

In Latvia the basic legislation on the securities markets is contained in the Financial Instruments Market Law (FIML), in force since January 2004. The FIML regulates the issuing of securities, takeovers of public companies, investment services, the activities of the stock exchange and the securities depository. Separate legislation exists for pension funds and collective investment funds. The securities markets legal framework was most recently amended in 2007 when new regulations on indirect holdings, notification of significant shareholdings and reporting obligations of listed companies were introduced. Further amendments for the implementation of the “Market in Financial Instruments Directive” (so-called MiFiD). were adopted in October 2007. The securities markets regulator is the Finance and Capital Market Commission, which is also responsible for banking, insurance and pension fund regulation.

Chart 4 – Quality of securities market legislation in the EBRD Countries of operation



Source: Securities Markets Legislation Assessment 2007

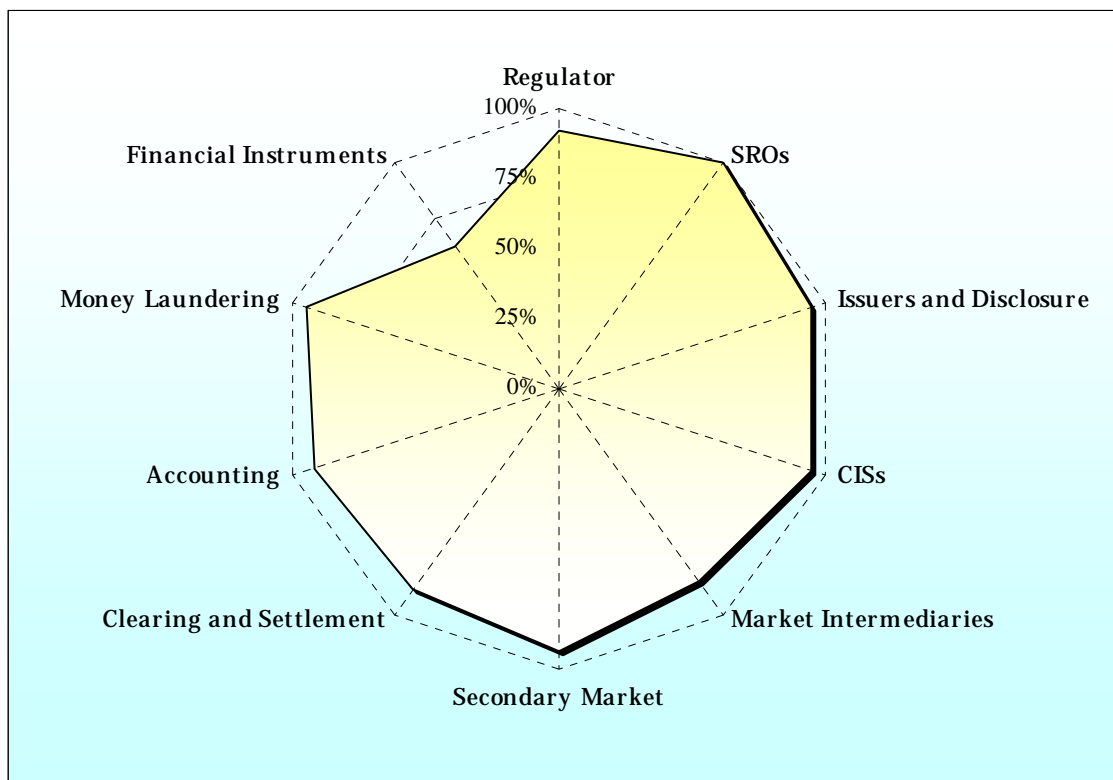
Note: The various categories represent the level of compliance of a given country’s legislation (the “laws on the books”) with international standards such as the IOSCO Principles. The asterisk indicates in which category Latvia ranks.

The 2007 EBRD Securities Markets Legislation Assessment (see chart above), found Latvia in “high compliance” with the Objectives and Principles of Securities Regulation published by the International Organization of Securities Commissions (IOSCO) showing only minor weaknesses in the legislation on bonds.

In order to understand how securities market legislation works in practice, the EBRD recently concluded the 2007 Legal Indicator Survey (“the LIS”). Practitioners in the region were asked to comment on a hypothetical case study, advising an investor who lost his savings after buying shares in a national company’s Initial Public Offering (IPO), misled by erroneous information in the prospectus. In particular, the Survey concentrated on effectiveness of prospectus disclosure requirements, private and public enforcement mechanisms and authority of the market regulator.

The LIS revealed that although IPOs in Latvia are seldom used as a source of funding, disclosure practice follows relatively good standards. The documentation included in the prospectus is considered reliable and financial reporting practices sound. EC Regulation 809/2004 directly applies detailed disclosure requirements and is reported to be well implemented. Private enforcement mechanisms (i.e. legal action before a court) show some weaknesses as procedures might be complex and characterised by heavy burdens of proof. When looking at public enforcement mechanisms, the Survey revealed that the regulator is developing expertise in investigating complex securities cases but the corresponding capacity of prosecutor remains low.

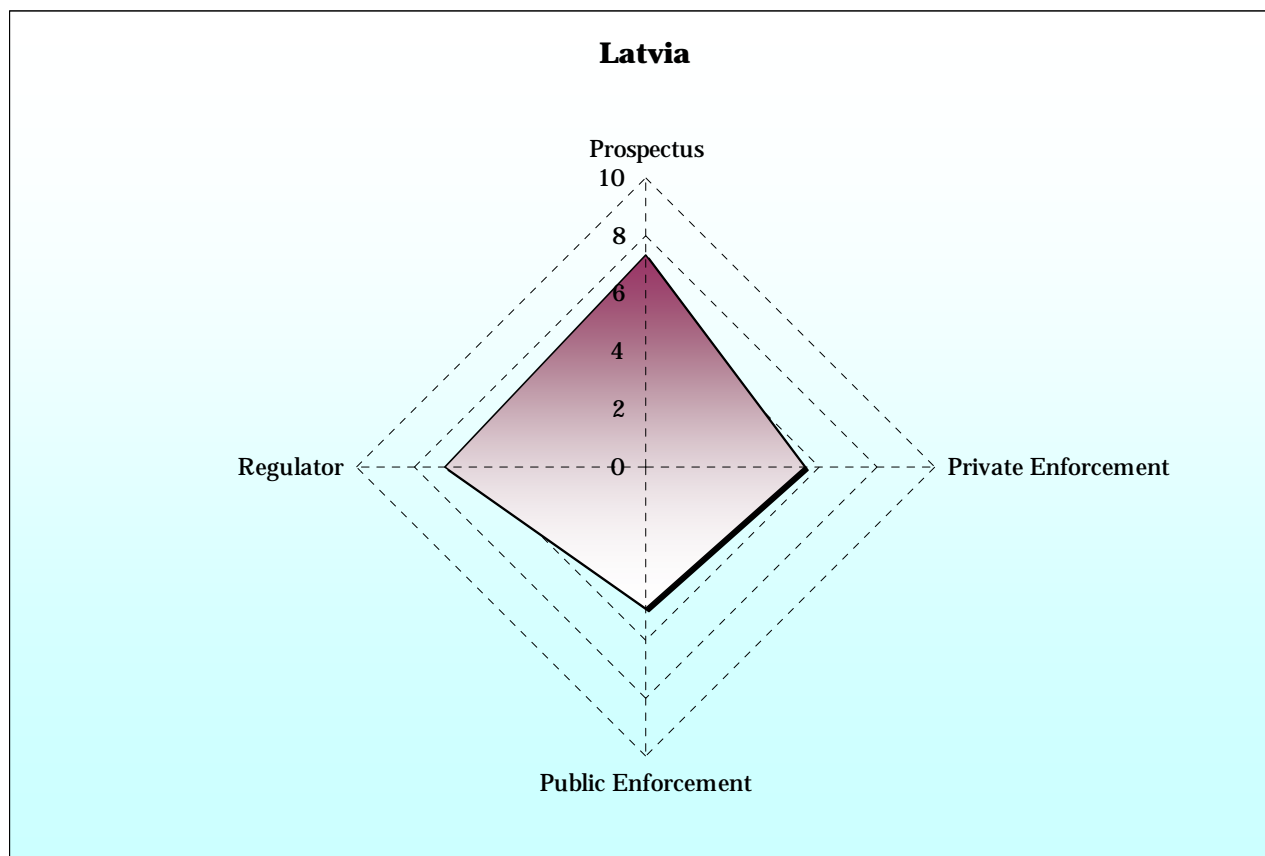
Chart 5 - Quality of securities market legislation – Latvia, 2007



Source: EBRD Securities Market Legislation Assessment 2007

Note: The extremity of each axis represents an ideal score in line with international standards such as the IOSCO Principles. The fuller the ‘web,’ the more closely the country’s capital markets laws approximate these standards.

Chart 5 – Effectiveness of securities market legislation – Latvia, 2007



Source: EBRD Securities Market Legislation Assessment 2007

2.2. Concessions

Latvia adopted a PPP Policy Framework first in 2002 and then in 2005 and developed a PPP Action Plan, due to be finalised in 2009. The tasks in the Action Plan include establishing an adequate institutional set-up for PPP's and promotion framework, legal framework, PPP's interaction with national planning instruments and effective dissemination of knowledge on PPP, largely undertaken by the Latvian Investment and Development Agency in cooperation with the Ministry of Economy. The Action Plan further provides for the drafting of a new and more detailed Concessions Law, which has already been done (with the EBRD's assistance; this law has been approved in the second out of the three hearings at the Parliament). The Action Plan also provides for drafting of government regulations on PPP in accordance with the EU directives.

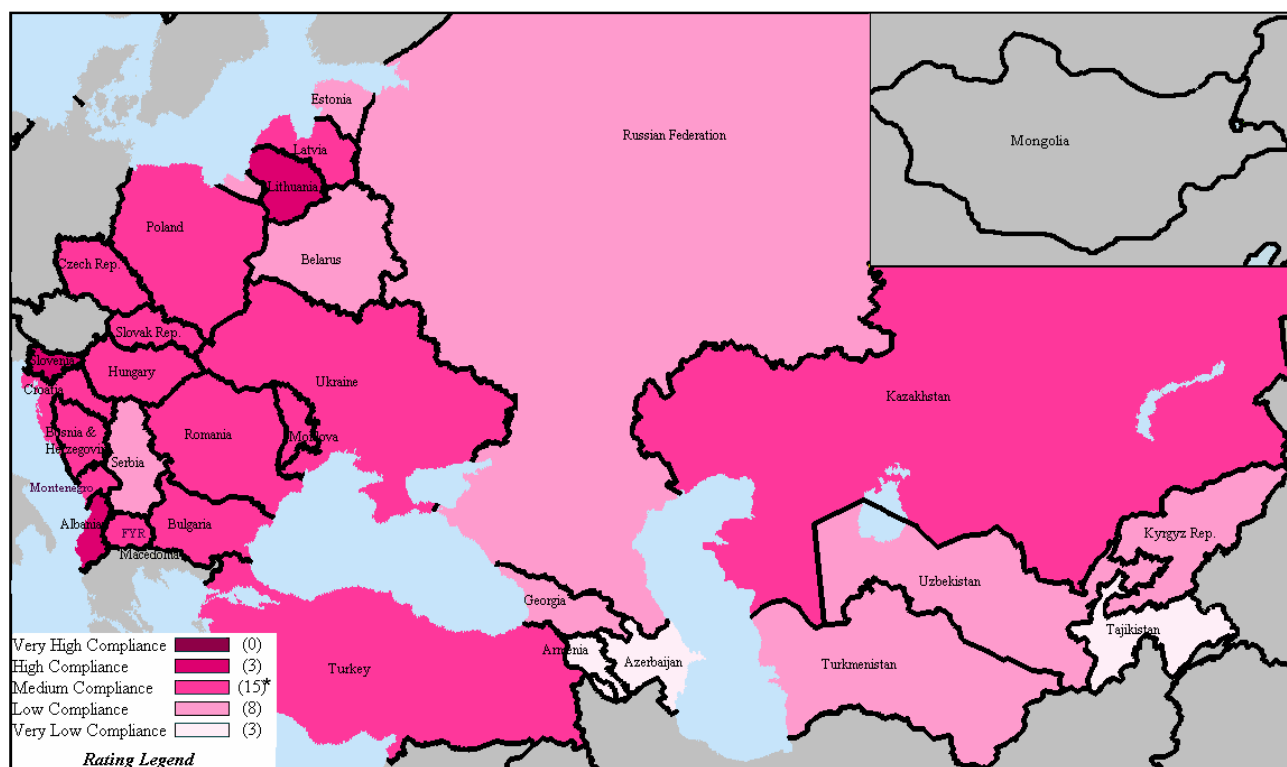
The current Latvian Concession Law was adopted in 2000 (the "Law"). The Law is too general as far as the majority of Core Areas are concerned. Its scope of application needed to be improved (the Law seems to narrowly limit its application to agreements entitled "concession" only and vaguely identifies the sectors/types of infrastructure/services). The selection procedure also needed to be specified (no reference to the possibility of a pre-selection procedure; unsolicited proposals and direct negotiations not regulated). Many issues in the project agreement are to be included in "conditions for granting concessions" (e.g. termination, tariffs), and it is unclear whether such conditions can be negotiated or not. The Law is rather restrictive as far as financial securities are concerned (e.g. prohibition of pledge of concession resources). On a positive note, however, as far as government support issues are concerned, the Law refers to the "guarantees of a conceder to a concessionaire regarding financial and commercial risks" to be provided in "conditions for granting concession", and to the Law on the Control over State and Local Government Aid Provided for Commercial Activity which provides for different types of government support.

The Law required improvements in order to constitute a sufficiently solid legal basis for the development of PPP in the infrastructure and utility services in Latvia, hence plans for a new Concessions Law are underway.

Amendments to the Law on the Control of State and Local Government Aid Provided for Commercial Activity are also under consideration. Both of the draft laws have been before the Parliament for quite some time, however the dates of their final approval and enactment are somewhat unpredictable.

The 2007/8 EBRD Assessment of Concession Laws undertaken to evaluate applicable regimes throughout the EBRD countries of operations (the laws on the books only rather than how they work in practice), revealed that current Latvian laws had “medium compliance” with internationally accepted standards in this sector. As can be seen from the spider graph below, project agreement, security rules as well as definitions and the scope of law are the areas primarily in need of improvement.

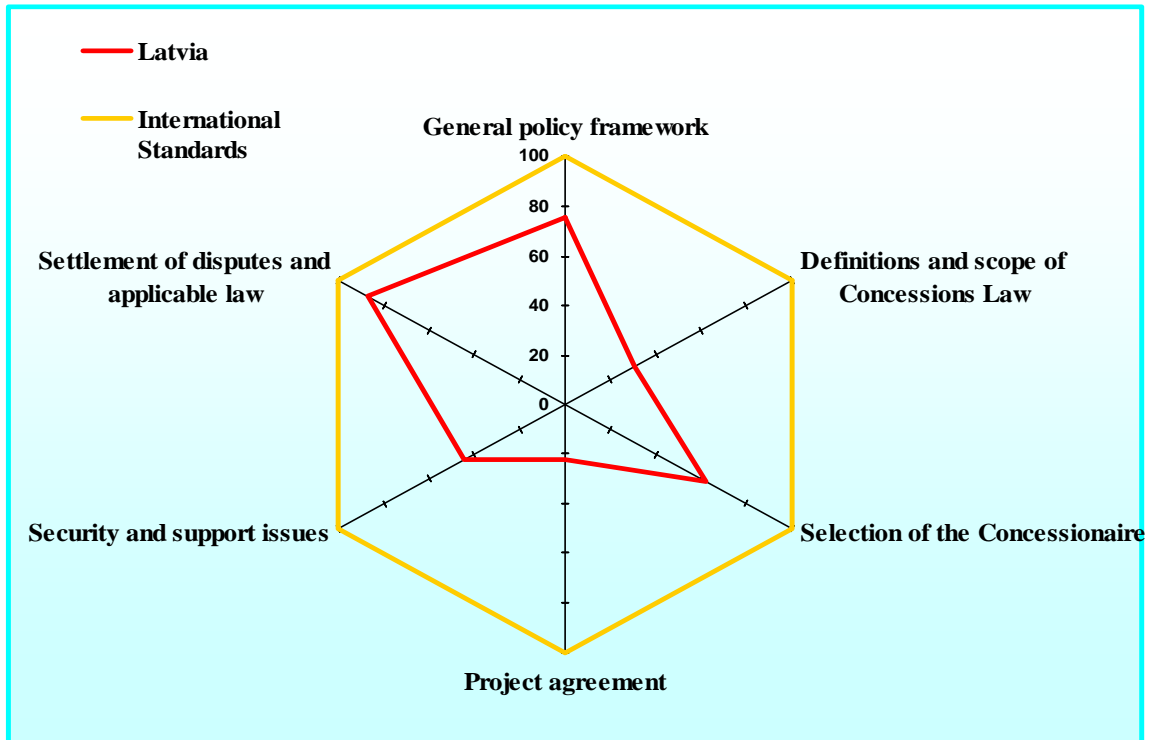
Chart 6 – Quality of Concessions legislation in the EBRD Countries of operation, 2008



Source: EBRD Concessions Sector Assessment 2008

Note: The various categories represent the level of compliance of a given country’s legislation (“the laws on the books”) with international standards such as the UNCITRAL Model Legislative Provisions on Privately Financed Infrastructure Projects. The asterisk indicates in which category Latvia ranks.

Chart 7 - Quality of Concessions legislation – Latvia, 2007



Source: EBRD Concessions Sector Assessment 2007

Note: The extremity of each axis represents an ideal score in line with international standards such as the UNCITRAL Legislative Guide for Privately Financed Infrastructure Projects. The fuller the 'web,' the more closely the country's concessions laws approximate these standards.

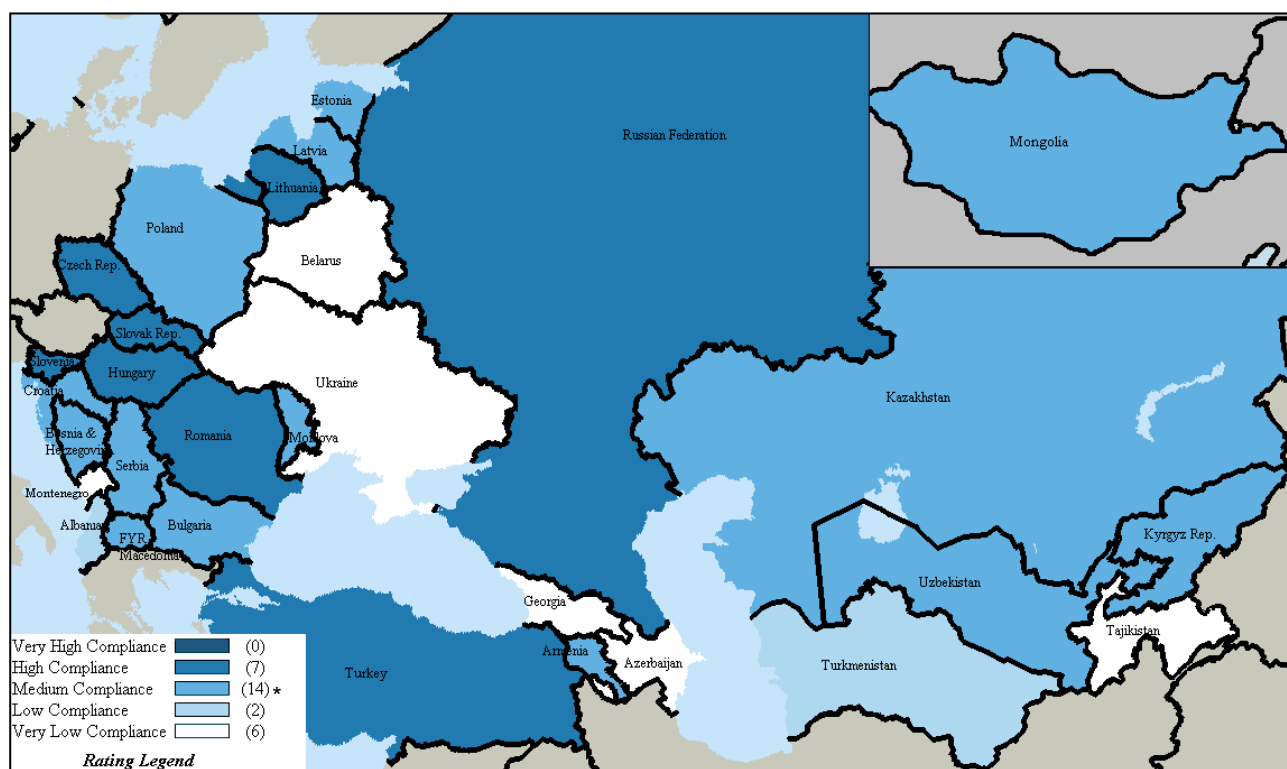
2.3. Corporate Governance

The main legislation governing corporate governance in Latvia is contained in the Commercial Law (enacted in 2000 and amended last in 2006) and the Financial Instruments Market Law (enacted in 2004 and amended last in 2007).

A voluntary corporate governance code (the “Corporate Governance Principles and Recommendations for their Implementation”) was developed by the Riga Stock Exchange in 2005. Listed companies are required to comply with the Principles or to explain the reasons for their non-compliance (so-called “comply or explain” mechanism).

According to the preliminary results of the EBRD’s 2007 Corporate Governance Sector Assessment, under which the quality of corporate governance legislation in force in November 2007 was assessed, Latvia showed a good level of compliance with the relevant international standards (the OECD Principles of Corporate Governance), but with some shortcomings (see chart below). In particular the mechanisms for ensuring the basis for an effective corporate governance framework and the role of stakeholders in corporate governance need to be improved.

Chart 8 – Quality of Corporate Governance legislation in the EBRD Countries of operation



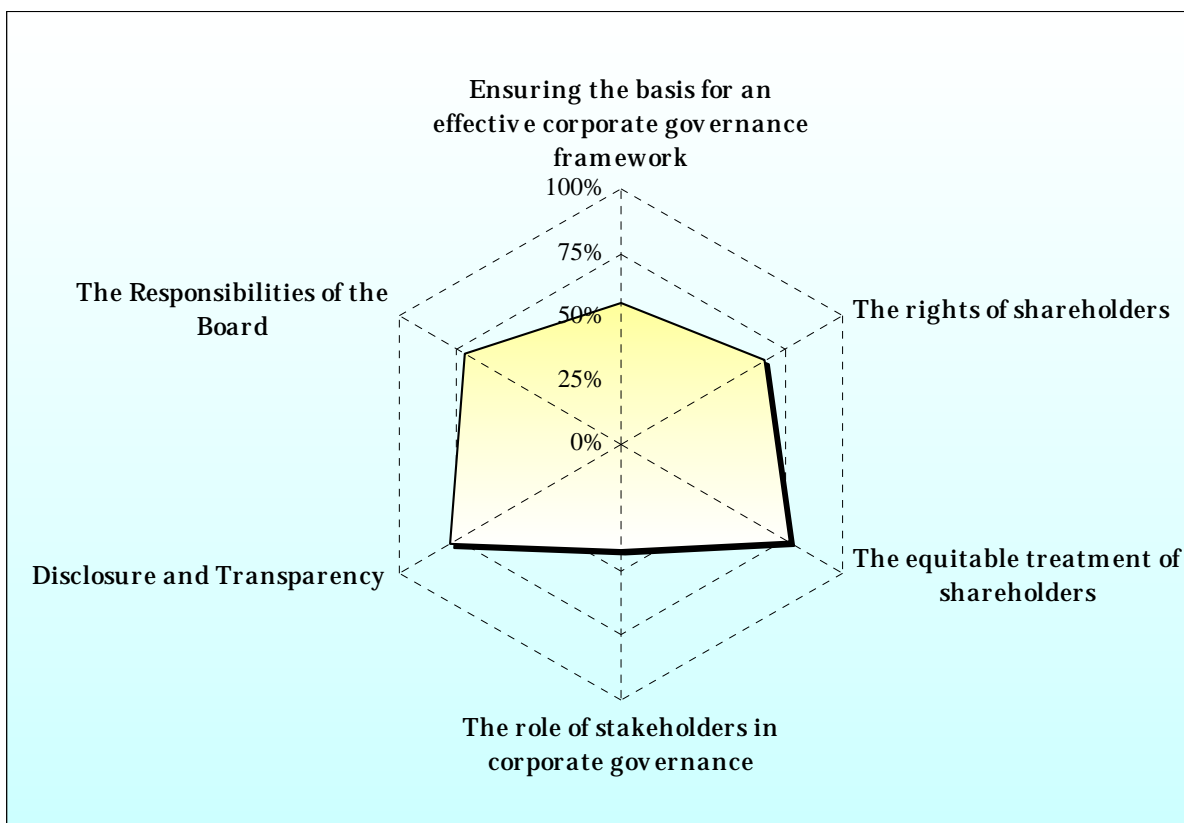
Source: EBRD Corporate Governance Sector Assessment 2008

Note: The various categories represent the level of compliance of a country’s legislation (the “laws on the books”) with international standards as set out in the OECD Principles of Corporate Governance.

In 2005, the EBRD launched a survey for testing how the corporate governance legislation works in practice. A case study dealing with related-party transactions was designed. The case study investigated the position of a minority shareholder seeking to access corporate information in order to understand if a related-party transaction was indeed entered into by the company and on how it was possible to obtain compensation in case damage was suffered. Effectiveness of legislation was then measured according to four principal variables: institutional environment, enforceability, complexity and speed.

The Survey revealed a series of problems, in particular concerning the time possibly needed to conclude the proceedings (it is reportedly easy for the defendant to delay the procedure) and the institutional environment (courts and prosecutors are not very experienced in complex corporate cases, there is little case law available offering guidance on interpretation, statutory auditors – especially in smaller companies - are not independent from the management).

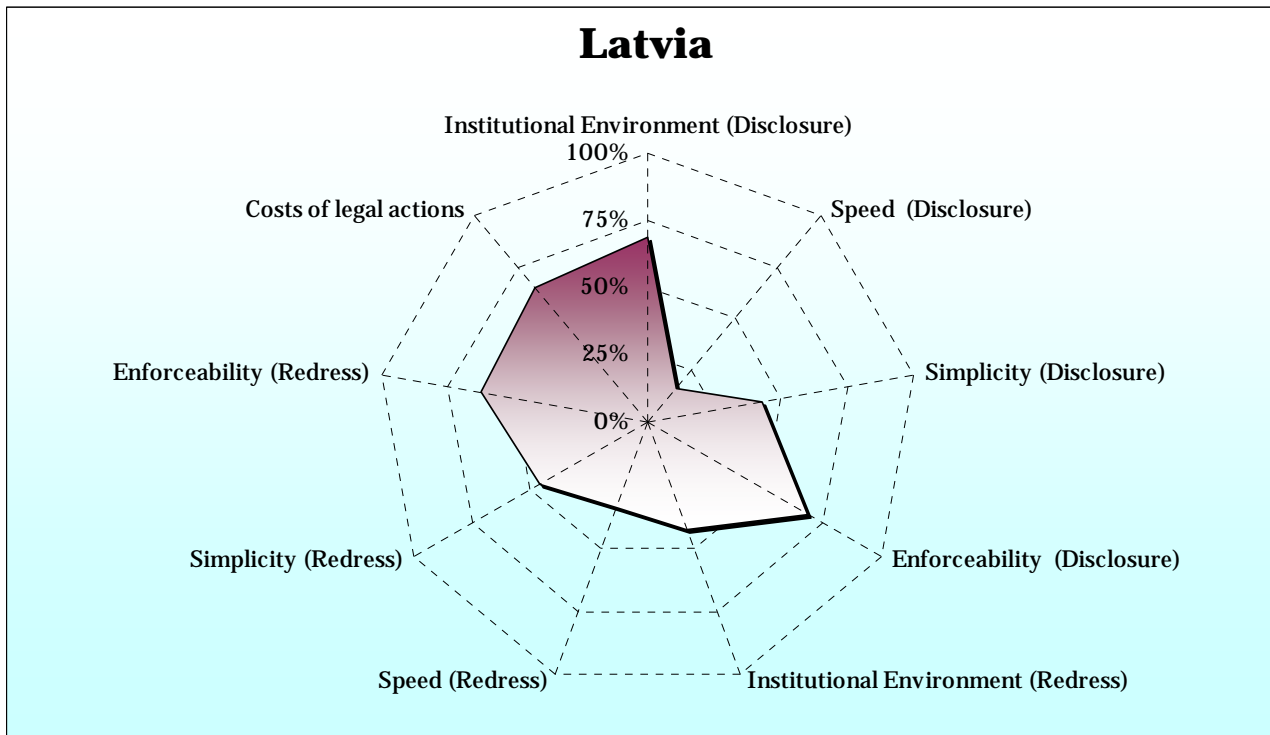
Chart 9 – Quality of Corporate Governance legislation - Latvia 2008



Source: EBRD Corporate Governance Sector Assessment 2008

Note: The extremity of each axis represents an ideal score in line with international standards such as the OECD Principles of Corporate Governance. The fuller the 'web,' the more closely the country's corporate governance laws approximate these standards.

Chart 10 – Effectiveness of Corporate Governance legislation - Latvia 2005



Source: EBRD 2005 Legal Indicator Survey on Corporate Governance

Note: The graphs show disclosure, redress and the institutional environment in Romania. The average results from the case study scenarios are shown. Disclosure refers to a minority shareholder’s ability to obtain information about their company. Redress refers to the remedies available to a minority shareholder whose rights have been breached. Institutional environment refers to the capacity of a country’s legal framework to effectively implement and enforce corporate governance legislation. Costs refer to the expenses a minority shareholder must pay to take legal action. The extremity of each axis represents an ideal score: the fuller the ‘web’, the better the corporate governance framework.

2.4. Insolvency

Latvia adopted a new Law on Insolvency (the “new Law”) at the end of 2007, which entered into force on 1 January 2008. The new Law is meant to replace the old Insolvency Act of 1996 that was regarded as outdated and containing many gaps.

The new law addresses the existing gaps in the insolvency primary legislation, at the same time introducing legal novelties into the framework. Among the most significant changes to the established system is the regulation of insolvency of individuals, allowing individuals to file for bankruptcy.

In addition, a separate Insolvency Register has been introduced where companies subject to insolvency proceedings shall be registered together with the status of such proceedings. The criteria for a company to be considered insolvent have also changed, now providing for five detailed criteria of insolvency based on the debtor’s payment capacity. The supervisory role for implementation of the Law was vested in the Insolvency Agency which is also in charge of controlling the activity of insolvency administrators.

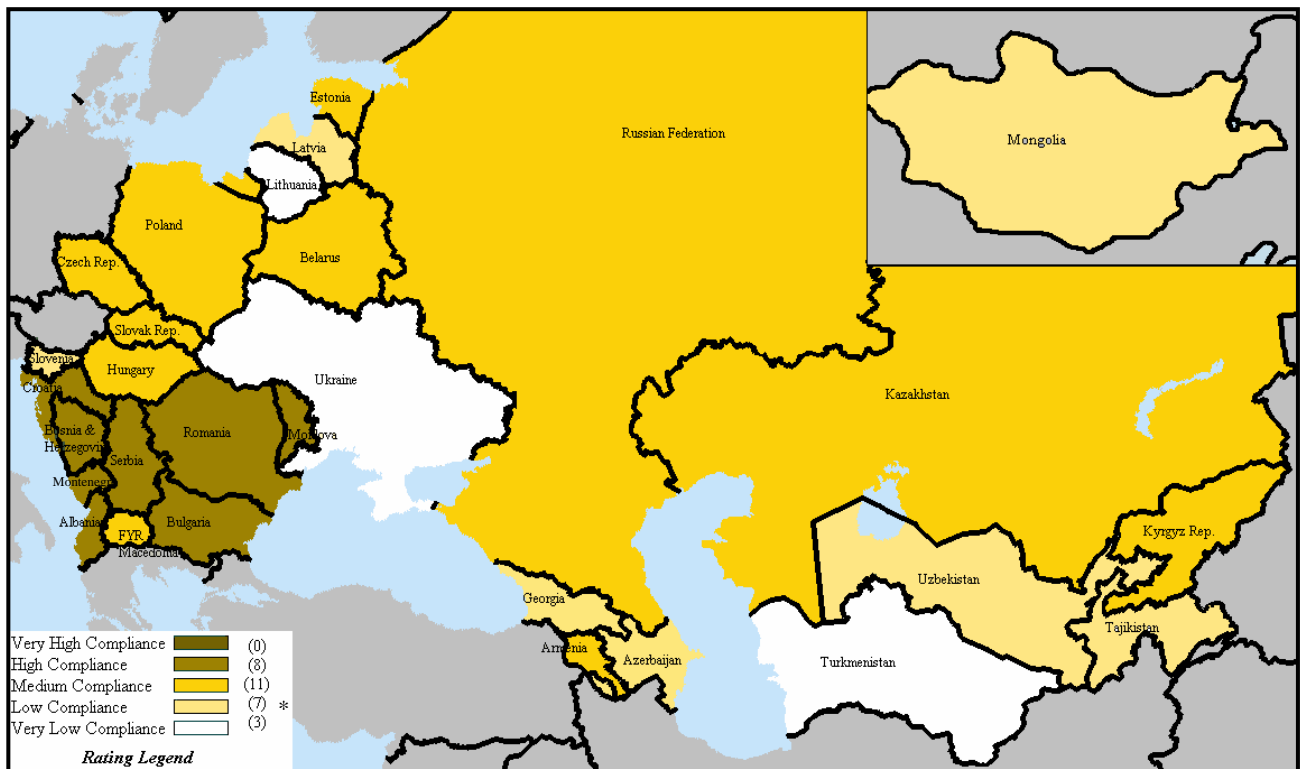
The new Law emphasises the role of the insolvency administrator entrusting him with a range of key powers during the insolvency proceedings, including the decision on acceptance of creditors’ claims. The new Law provides certain safeguards to ensure the administrator’s proper fulfilment of his obligations. These include sophisticated requirements for obtaining a license, mandatory training, and mandatory liability insurance that the administrator must hold against any losses caused by his actions.

The new Law appears to place an emphasis on measures for revival of a company. The law provides for a stage preceding insolvency – legal protection proceedings. The debtor may seek application of this measure which has as main effect a temporary stay of payments for most liabilities of the company to allow it to stabilise its payment ability. Moreover, the insolvency proceedings include the settlement, recovery and bankruptcy stages. These first two stages, again, aim to allow the company to recover, either by negotiating and settling the payments with its creditors, or by coming up with a recovery plan (this includes the reorganisation plan). Any of these measures would need to be approved by the creditors and the court in order to go ahead.

In case of liquidation, the default method for realisation of assets is by public auction. The law is not quite clear in which circumstances the auction can be avoided. This has the potential for making the realisation process unreasonably rigid.

The new Law appears to be of good quality despite the tendency to over detail some procedures and an abundance of cross-references to specific articles in other laws.

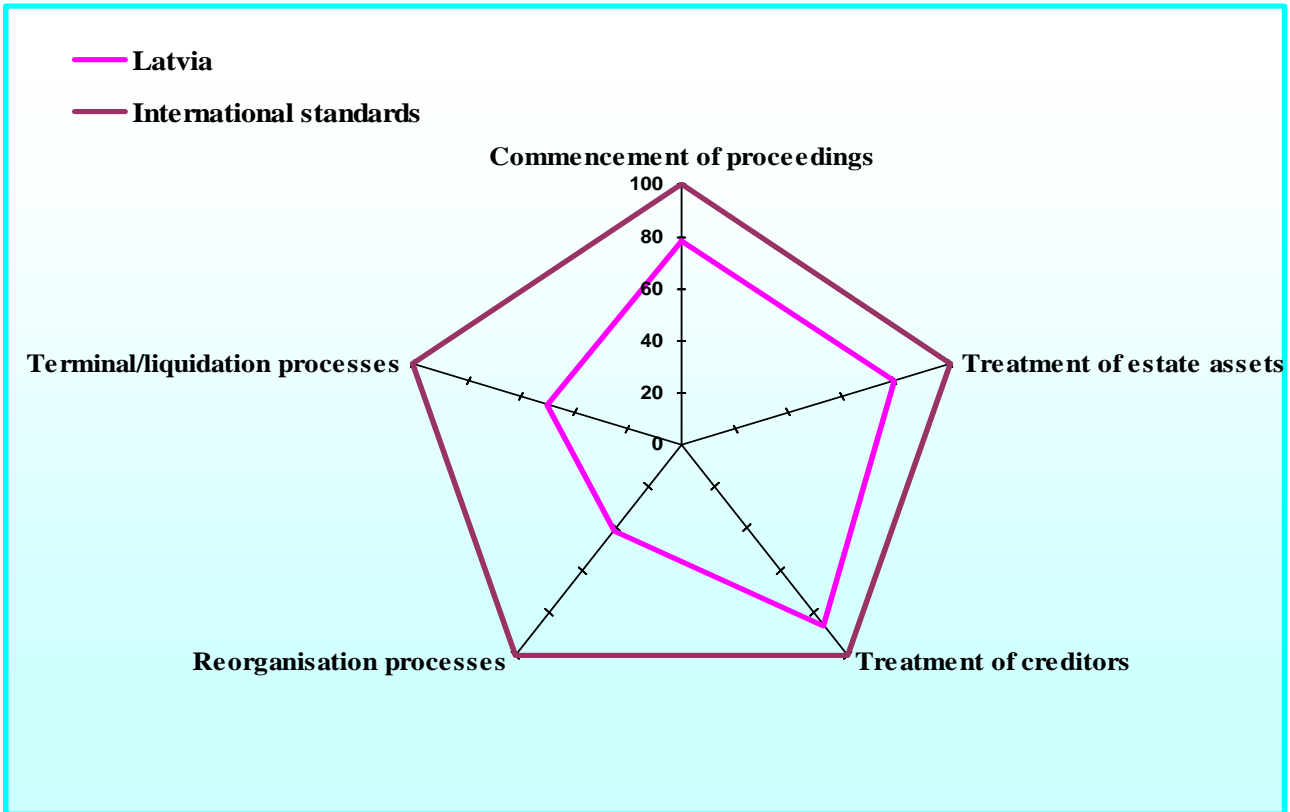
Chart 10 – Quality of Insolvency legislation in the EBRD Countries of operation – Latvia, 2006



Source: EBRD Insolvency Sector Assessment 2006

Note: The various categories indicate the level of compliance of each country’s legislation (the “laws on the books”) with international standards, such as the World Bank’s Principles and Guidelines for Effective Insolvency and Creditor Rights Systems, the UNCITRAL Working Group on Legislative Guidelines for Insolvency Law, and others.

Chart 11 – Quality of Insolvency legislation – Latvia, 2006

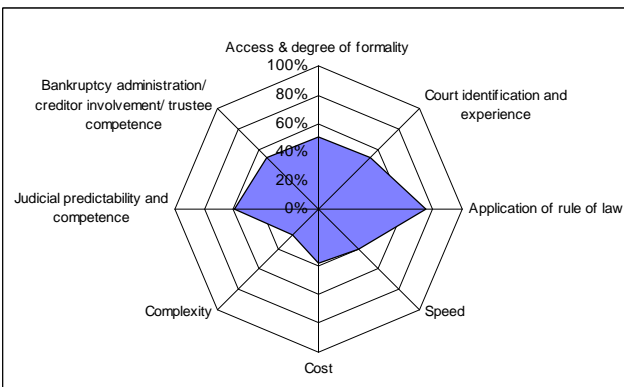


Source: EBRD Insolvency Sector Assessment 2006

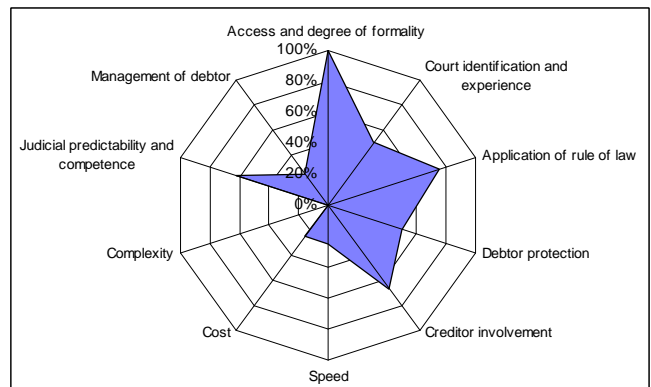
Note: The extremity of each axis represents an ideal score in line with international standards, such as the World Bank’s Principles and Guidelines for Effective Insolvency and Creditor Rights Systems, the UNCITRAL Working Group on Legislative Guidelines for Insolvency Law, and others. The fuller the ‘web,’ the more closely the country’s insolvency laws approximate these standards.

Chart 12 – Effectiveness of Latvia insolvency regime

Creditor-Initiated Insolvency



Debtor-Initiated Insolvency



Source: EBRD 2004 Legal Indicator Survey on Insolvency

Note: The results have been derived from stakeholder responses to questions about the practical functioning of the insolvency regime. The fuller the “web,” the more effective the country’s insolvency regime is.

2.5. *Secured Transactions*

Secured transactions law in Latvia underwent reform in 1998-99 to introduce a market-oriented, flexible and transparent system in the form of the “commercial pledge”, governed primarily by the Law on Commercial Pledge. The commercial pledge can be granted over movable (tangible or intangible) assets, specifically or generally described. Only enterprises (incorporated legal persons) can grant a commercial pledge. Individuals, partnerships and other unincorporated associations may only grant a commercial pledge on vehicles, aircraft, an enterprise as a pool of assets, and shares in companies and bonds – this restriction is mostly designed to avoid the commercial pledge being used for consumer loans. When the whole enterprise is pledged, it does not include the enterprise’s real estate or vessels.

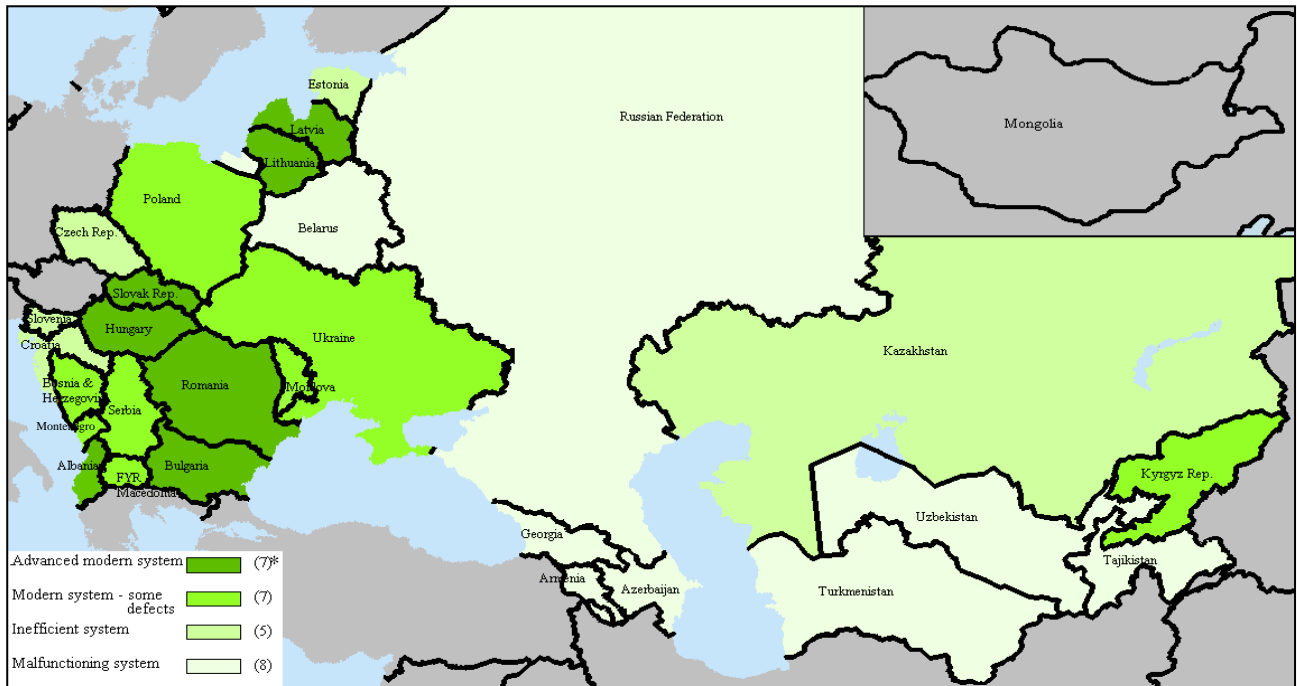
Commercial pledges must be registered with the Commercial Pledge Register, a database which is part of the Registry of Enterprises. Parties must present a signed registration statement and include copies of the loan document and the pledge agreement. Registration usually takes 5 days. Details of commercial pledges over registered assets are available on-line after agreement with the Register: www.ur.gov.lv. For assets whose titles are registered in separate registries, a registration of the pledge will also be made in these registries.

As far as mortgages are concerned, the Civil Code governs the creation, registration and enforcement of the security right. Mortgages are registered with the Land Register departments of the regional courts. The database is centralised and fully electronic, and can be searched freely via the Internet. In case of mortgagor default, the mortgage can only be enforced by a public auction led by a court’s bailiff based on a court’s decision or based on the authorisation expressly given in the mortgage agreement or another agreement concluded with the owner consequently. Enforcement is reported to work efficiently. Difficulties may arise with eviction as occupants can be evicted only based on a court’s decision if agreed in the mortgage agreement.

Generally speaking, the legal framework serves the country’s needs well. There are however a few areas of uncertainty or complexity:

- The commercial pledge registration process would benefit from being simplified by not requiring presentation of the pledge agreement. Moving to this so-called “notice” system would mean that registration could happen in minutes, rather than days. The same problem of delay exists for mortgages registration.
- Expressing the secured debt in foreign currency for both pledges and mortgages, because the amount secured is the LVL amount that must be shown in the Register.
- The cost of enforcing a mortgage is quite high.

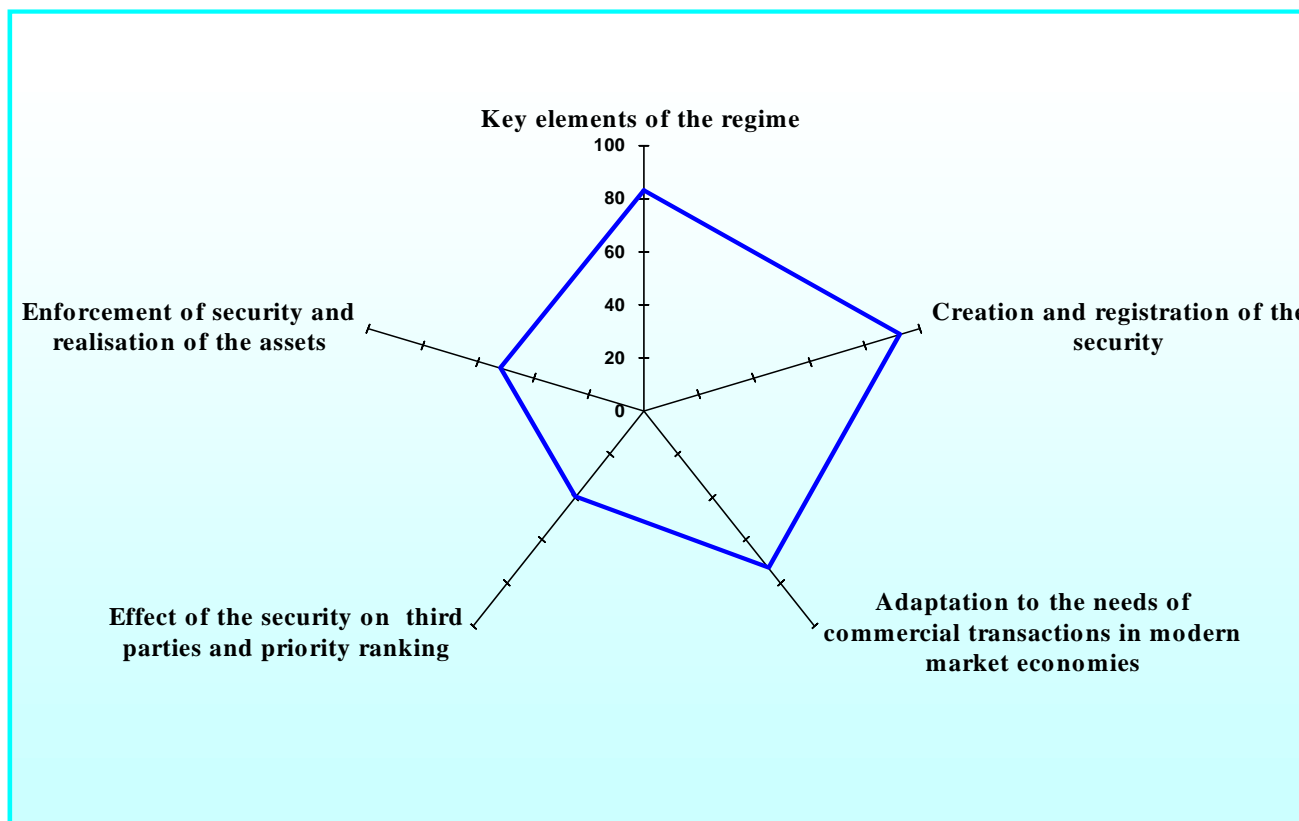
Chart 12 – Quality of secured transactions legislation in the EBRD Countries of operation



Source: EBRD Regional Survey of Secured Transactions Legislation 2004

Note: The level of reform referred to in the legend above is assessed in relation to the EBRD's Model Law on Secured Transactions and the 'ten core principles of secured transactions law.'

Chart 13 – Quality of secured transactions legislation – Latvia, 2004



Source: EBRD Regional Survey of Secured Transactions Legislation 2004

Note: Scoring is done on a scale of 1 to 100, with 100 representing the most advanced legal regime. The fuller the ‘web,’ the more advanced the country’s secured transactions legal system is.

2.6. Telecommunications

The communications sector in Latvia is currently governed by the Law on Electronic Communications of 2004 (the “2004 Communications Law”), as amended in 2007. Market regulation is the responsibility of the Public Utilities Commission (SPRK) and the Ministry of Transport is responsible for sector policymaking. The 2004 Communications Law (and related regulations and amendments) transposed the 2002 European Union (EU) regulatory framework into domestic law. SPRK was established in September 2001 by the Law on Public Services Regulators of June 2001. SPRK is a multi-sector regulator responsible for regulating energy, telecommunications, post and railway, financed from a levy on operators. Under the terms of the 2004 Electronic Communications Law, SPRK continues to supervise the market whilst the Electronic Communications Agency (functionally and institutionally supervised by the Ministry of Transport) deals with radio frequency spectrum and numbering resources.

In 1993, a Sonera-led consortium (Tilts) took a 49% stake in Lattelekom. The remaining 51% continues to be held by the state. TeliaSonera (as Sonera became) has since made efforts to increase its interest in Lattelekom, but has been met with reluctance on the part of the government which fears a negative impact on competition if TeliaSonera were to acquire controlling or full ownership.

The mobile market is shared by one CDMA (Telekom Baltija) and three GSM (LMT, Tele2 and Bite) mobile network operators. A number of Mobile Virtual Network Operators

(MVNOs) also offer services. LMT and Tele2 also hold 3G licences. Mobile teledensity is currently significantly above 100% (reported to be approx. 140%). While a third GSM operator entered the market in 2005, it remains effectively a duopoly between LMT and Tele2, with these operators controlling most of the market. Though the launch of mobile number portability (MNP) in 2005 (albeit pre-pay MNP was delayed until 2008) and entry of MVNOs had been expected to lead to increased competition, this has yet to happen. The maturity of the mobile market leaves little scope for significant change in make up of the sub-sector, though the recent introduction of MNP for pre-paid customers could impact.

At the beginning of 2008 the broadband density rate stood at 15%. Though this rate remains below the current European Union (EU) average of 20%, annual growth has been in close to 300% since 2006.

In line with membership obligations of both EU and WTO, Latvia has adopted almost all regulatory reforms necessary to harmonise the electronic communications framework. Some minor issues remain with respect to transposition of elements of the EU framework, which the European Commission have pursued through infringement proceedings. Overall, positive development continues in the sector in Latvia as competition continues to take hold with a resultant drop in retail prices.