

Baltic Newsletter

Legal News at Your Glance

Summer edition, 2006

Law Office Ots & Co (Estonia), Baltmane & Bitans Law Office (Latvia) and Law Firm Saladžius & Partners (Lithuania) hereby present the sixth edition of the Baltic Newsletter. In this newsletter you will find the most recent business law related updates on legal issues in the Baltic region generally and every State in particular. You will receive the Baltic Newsletter quarterly and each edition will include the overview of the EU business law as well as legal updates in the Baltic region. We will also introduce you with the internal news about our Law Firms in the Baltics.

We hope that the Baltic Newsletter will contribute in helping the foreign investors to get up-to-date understanding of the legal environment in the dynamically growing Baltic region.

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Amendments to the Law on Companies

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EUROPEAN UNION LAW

Roaming prices for mobile communications

On 12 July 2006 the European Commission (EC) submitted a proposal for an EU regulation in which it has planned up to 70% price reduction for use of mobile phones abroad. It is planned to achieve with this regulation that the prices paid by 5366 TDuction Tw 0 -o1opeu5(Co)obis regd berv-5(t a-1.3r theces p

In addition, the requirement to assess the in kind contributions to the company's share capital prior to the signing of the instrument of incorporation or act of establishment is revoked. Besides, the annual report of the company (this term changed the present term "report on the activities of the company") shall be approved by the board of the company, instead of general meeting of shareholders of the company as it was before approval of amendments. The managing director of the company shall be responsible for drawing up the annual report of the company.

For further information please contact Rimtis Puišys at rimtis.puisys@splegal.lt

Construction law

LATVIA

Amendments to the Construction Law

On 28 June 2006, the amendments introduced by the Latvian Parliament (*Saeima*) to the Construction Law came into force. These amendments foster public awareness and support public opinion polling, as well as increase the authority of local municipalities in the event of illegal construction on its territory.

The amendments set the criteria of proposed construction meeting which public opinion polling is required, and define a publicly significant building. In order to ensure public awareness, local authorities are now required to inform regularly, by local newspapers and Internet websites and at least on a monthly basis, their residents of new construction initiatives in the municipal territory.

Criteria for mandatory building inspection are set, and local authority is now vested with a right to decide on dismantling a building constructed illegally.

The amendments provide for equal competition opportunities and increase the level of public awareness regarding construction initiatives in the territory of the local authority.

For further information please contact Agris Bitāns at agris.bitans@baltmanebitans.com

Competition law

ESTONIA

Major Amendments to the Competition Act

On 1 July 2006 major amendments to the Competition Act came into force. Under the amendments the procedure for grant of exceptions (permitting business practice in conflict with competition principles) was annulled. This means that starting from 1 July 2006 an entrepreneur must by itself assess whether its business activities (including agreements with other entrepreneurs, concerted practices and decisions) comply with the requirements of the Competition Act, and if required by the Estonian Competition Board to motivate and substantiate that its activities are in line with the requirements of the Competition Act. Nevertheless, most important changes relate to the rules of concentration control. The threshold of worldwide turnovers which was condition for determining whether a concentration was subject to control was replaced with that of turnover in Estonia (i.e. turnover from sale of goods and services to the purchaser located in Estonia). Starting from 1 July 2006 a concentration shall be subject to the concentration control if aggregate turnover in Estonia of parties to the concentration exceeds 100 million Estonian kroons and the turnover in Estonia of each of at least two parties to the concentration exceeds 30 million Estonian kroons. The amendments also provide to draft a concentration notice in a simplified form provided that the concentration does not influence markets or its influence is limited to a certain degree.

For further information please contract Mr. Toomas Pikamäe at toomas.pikamae@otsco.ee

Copyright law

ESTONIA

The Copyright Act amended

On 30 June 2006 amendments to the Copyright Act became effective. The reason of the amendments is the need to bring the Copyright Act in compliance with the Directive 2001/84/EC of the European Parliament and of the Council of 27 September 2001 on the resale right for the benefit of the author of an original work of art.

Pursuant to the amendments author of an original work of art (e.g. works of graphic or plastic art such as pictures, collages, paintings, drawings, engravings, prints, lithographs, sculptures, tapestries, ceramics, glassware and photographs) shall have the right to receive a royalty based on the price obtained for any resale of the work, subsequent to the first transfer of the work by the author. The right applies to all acts of resale involving as sellers, buyers or intermediaries art market professionals, such as salesrooms, art galleries and, in general, any dealers in works of art. The rates of the royalty vary from 5% to 0, 25% of the sales price depending on the size of the price but may not exceed EEK 195,000 (EUR 12,460).

For further information please contact Ms. Maivi Ots at maivi.ots@otsco.ee

Employment law

LITHUANIA

Amendments and supplements to the Labour Code of the Republic of Lithuania

Pursuant to the amendments, as from 1 July 2006, if the father and mother of the child are married, the father shall be endowed with paternity vacations for the period from the birth of the child till the child reaches age of one month. During this period the father of the child will be granted allowance as it is established in the Law on Illness and Maternity State Social Insurance of the Republic of Lithuania.

The amendments and supplements to the Lithuanian Labour Code came into force on 1 July 2006.

For further information please contact Maksimas Saveljevas at maksimas.saveljevas@splegal.lt

LITHUANIA

Regulation of the Government of the Republic of Lithuania concerning the Criteria and Order of Establishment of Shorter Working Time

On 9 June 2006 the Government of the Republic of Lithuania approved the regulation concerning Criteria and Order of Establishment of Shorter Working Time According to the Factors in the Working Environment (hereinafter referred to as the "Regulation") in order to implement certain provisions of the Labour Code of the Republic of Lithuania.

Regulation contains the criteria on establishment of shorter working time, whereby employers must establish the shorter working time for the workers who perform work in the working environment in which, based on evaluation of occupational risk exposure, the proportions of hazardous factors exceed the permitted limit values and it is technically or otherwise impossible to reduce them to the permitted limit values as established in regulations on safety and health at work.

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Environmental law

ESTONIA

The New Forest Act passed

On 7 June 2006 the Estonian parliament passed the new Forest Act that replaces the current Forest Act and that becomes effective as of 1 January 2007. Nevertheless, provisions relating to requirement to provide forest district with a guarantee of reforestation for clear cutting came into force already on 1 July 2006. The new Forest Act aims to achieve the following goals: obtaining by state authorities of objective overview of status and management of forests; securing that the use

of forests corresponds to regeneration of forests; guarantee the quality of cutting etc.

For further information please contact Rando Maisvee at rando.maisvee@otsco.ee.

Financial law

LATVIA

Export Credit Guarantees

A Latvian registered company exporting Latvian origin goods or services to a country outside EU may now apply to the Government for export credit guarantee.

The Latvian Parliament has passed an act setting out the rules how the government supports export credit guarantees and how the government incurs liability in respect of them. Such guarantee is issued in favor of the Latvian company exporting goods or services and secures the payment, in accordance with export agreement, by the purchaser from a country outside EU. The export credit guarantee will cover both: commercial risks, e.g., insolvency of purchaser, and political risks, e.g., government act restricting imports.

The Cabinet rules are expected explaining how the damage claims are filed, reviewed and the damages compensated.

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LATVIA

Refinancing Rate

On 14 July 2006, the central bank of Latvia increased the refinancing rate from 4% to 4.5% per annum, applicable from 15 July, 2006. Among others, this rate is applied when calculating tax and duty arrears.

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LITHUANIA

A 33rd business accounting standard on “Financial Statement of Financial Brokerage Firms and Management Companies” was approved

The 33rd business accounting standard was approved in order to implement Council Directive (86/635/EEC) adopted on the 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions and the Directive 2001/65/EC of the European Parliament and the Council of 27 September 2001 amending Directives 78/660/EC, 83/349/EEC and 86/635/EEC as regards the valuation rules for the annual and consolidated accounts of certain types of companies as well as of banks and other financial institutions. The aim of this standard is to set the order of composition of the financial statement of financial brokerage firms and management companies (hereinafter referred to as the “Companies”). It is noteworthy, that other financial companies may follow the provisions of this standard, if it helps to disclose properly information about the company’s financial position, results of the activity and the cash flows.

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Immigration law

ESTONIA

The New Act on the Citizen of European Union

On 1 August 2006 the new Act on the Citizen of European Union became effective. The passing of the Act was due to the need to comply with the requirements of the Directive 2004/38/EC of the European Parliament and of the Council of 29 April 2004 on the right of citizens of the Union and their family members to move and reside freely within the territory of the Member States.

The Act aims to establish the bases for stay in Estonia of citizens of the European Union and their family members. For the purposes of the Act, the term “citizen of European Union” includes not only

citizens of the Member States of the European Union other than Estonia but also citizens of the Member States of the European Economic Area and citizens of the Swiss Confederation.

Under the Act, a citizen of the European Union may stay in Estonia on the basis of a travel document or personal identification card. This means that citizen of the European Union is not required to apply for or hold a residence permit. However, not later than upon expire of three months as of his or her arrival in Estonia, the citizen of the European Union must register his or her place of residence in the Population Register.

For further information please contact Mr. Tambet Toomela at tambet.toomela@otsco.ee

LATVIA

Entrance and residence rules for nationals of the members states of European Union, European Economic Area and Swiss Confederation and their family members

Regulation of Cabinet of Ministers No. 586 „The Rules pursuant to which the nationals of the members’ states of European Union, European Economic Area and Swiss Confederation and their family members enter and reside in the Republic of Latvia” entered into force on 21 July, 2006.

The aforementioned regulation defines conditions that must be met by the above nationals, who wish to reside in the Republic of Latvia for more than 90 days, as well as sets out the rules under which they may acquire permanent residence right in Latvia, and defines residency restrictions and expulsion procedure.

For further information please contact Kristine Stege at kristine.stege@baltmanebitans.com

IP law

LITHUANIA

Laws amending and supplementing the Lithuanian Law on Patents, Law on Trademarks and Law on Design.

The purpose of these laws is to implement Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights (hereinafter referred to as the “Directive”). This Directive is the first directive of European Union, which purpose is to harmonize the provisions on the enforcement of intellectual property rights. This Directive pursues to unify the provisions of national laws of the member states on protection of intellectual property rights, in order to ensure the high and effective level of the protection of the said rights.

The provisions concerning persons who can put claims against violation of their rights, nature of the claim of interested parties are elaborated in the abovementioned laws, as well as the provisions on the right to information, interim protection measures and security of proof. The issues concerning reimbursement of pecuniary damage and announcement of court judgments are also regulated by these laws.

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LITHUANIA

The new Order on Filing the European Patent Application and Effects of the European Patent in the Republic of Lithuania

The order on filling the European patent application and effects of the European patent in the Republic of Lithuania changed the instructions on extension of effects of European patent No ER/01/95, which were applicable since 1995. The new order provides for more detailed rules on filing the European patent application to the State Patent Bureau of the Republic of Lithuania directly or by

mail, and the effect of the European patent in the Republic of Lithuania.

For further information please contact Rimtis Puišys at rimtis.puysys@splegal.lt

Real estate

LATVIA

Land Register officers may attest signatures on registration requests

Similarly to attestation of signatures at the Companies Registry, the same simplified procedure is introduced now at the Land Registry. Public officers of the Land Registry are now authorised to verify the identity of and to attest the signature of a person filing a registration request. Signature attestation by a public notary is optional or mandatory in specific limited cases.

Changes have affected mortgage registrations as well. A written consent of a creditor is no more required upon registration of mortgage on a property, nor needs a creditor to sign the registration request. An electronic mortgage registration/deletion will be available to credit institutions. The banks wishing to avail this benefit will only have to enter in a respective agreement with the Land Registry.

For further information please contact Kristīne Steģe at kristine.stege@baltmanebitans.com

Tax law

ESTONIA

Amendments to the Income Tax Act, Social Tax Act, Gambling Tax Act and Credit Institutions Act

On 31 May 2006 the Estonian parliament passed several amendments to the Income Tax Act, Social Tax Act, Gambling Tax Act and Credit Institutions Act. Depending on the nature of amendments (whether favorable for a taxpayer or not) certain amendments are applied retrospectively as of 1 January 2006, certain amendments came into

force on 1 July 2006 and certain amendments will become effective starting from 1 January 2006.

Although majority of the amendments aim to clarify existing regulations rather than provide new tax rules, there are also changes which amend substantially the existing regulations. Starting from 1 January 2007 Estonia shall levy corporate income tax on transfer pricing agreements made between associated resident companies. Currently corporate income tax is imposed only on these agreements which are made between resident company and non-resident or natural person associated with the resident company. Additionally, the definition of the low tax rate territory was amended. Under the new definition, a tax rate of the low tax rate territory is less than one-third of the income tax in Estonia instead of the previous two-third tax rate. Furthermore, as of 1 January 2007 the Land Register, the Motor Vehicles Register and the Aircraft Register are required to inform the Tax and Customs Board within one month as of the entry of transaction under which foreign legal entity or stateless person have transferred title to a realty or structure as a movable or limited real right. The latter amendment aims to secure that the referred persons fulfill duly their income tax obligations.

For further information please contact Mr. Toomas Pikamäe at toomas.pikamae@otsco.ee

Two Draft Double Tax Treaties approved

The Government of the Republic approved draft Conventions for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital with the Grand Duchy of Luxembourg and the Republic of Georgia. However, one can reasonably estimate that the entry into force of the referred conventions will not take place before two years.

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OTHER NEWS

Law Office Ots & Co

Maivi Ots, partner, has delivered lectures concerning the planned changes to the Estonian Commercial Code. The lecture took place at 2 June 2006.

Further to the successful co-operation with Estonian Business School, the largest private university in Estonia, Law Office Ots & Co. and Estonian Business School have agreed upon the delivery 80 academic hours lectures by the attorneys of the Law Office within a legal program addressed to high and middle level managers. The lectures will be delivered in December 2006 and January 2007.

Maris Kuurberg, Attorney-at-Law prolonged her stay at the European Court of Justice. She was offered a lawyer's position at the Court and she will not return to the Law Office before 1 February 2007. Therefore, starting from 1 February 2007 the Law Office Ots & Co. will have an attorney with complete and detailed knowledge of the court proceedings of the European Court of Justice.

Baltmane & Bitans Law Office

Māris Vainovskis, partner, and Dace Cīrule, associate, have recently published the following articles:

- *Institute of Legal Presumption of Fact in the Criminal Procedure Law: Topical Issues (I)*,

published in *Likums un Tiesības*, June 2006, No 6(82);

- *Institute of Legal Presumption of Fact in the Criminal Procedure Law: Topical Issues (II)*, published in *Likums un Tiesības*, Jul 2006, No 7(83);

We are pleased to announce that Jānis Lagzdiņš, legal assistant, has joined Baltmane & Bitans Law Office. Jānis has extensive experience in the commercial law. Formerly he was legal assistant at Law Office DBD. He practices in the fields of commercial law.

Law Firm Saladžius & Partners

On 11-13 June assistant-to-attorney-at-law Rūta Radzevičiūtė participated in the conference *Private practitioner and enlarged Europe: never-ending challenge*, in Brussels, Belgium.

On 21-22 June managing partner Jonas Saladžius presented a report *Development of large infrastructure projects* in the international conference in Vienna, Austria.

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