Baltic States
December 2009

SHIPPING REVIEW

IMDO-Ireland
Marine Institute

INTRODUCTION

This shipping review covers the Baltic States – Latvia, Lithuania and Estonia. Lithuania has a small (99km) coastline, most of it comprising beautiful sand dunes and forest preserved as national parkland with the rapidly expanding port of Klaipeda, formerly Memel, and city. Klaipeda is one of only two Free Economic Zones in Lithuania and a Business Park within the zone which is owned and operated by an Irish citizen, Mr.James Clarke, www.bntp.lt. Trade between Ireland and Lithuania is relatively modest but has been growing steadily since a resident Embassy opened in the capital, Vilnius, in Sept. 2005. Since Lithuania became a member State of the European Union in 2004, Irish investment in Lithuania has been significant in commercial and residential property development. The Embassy, www.embassyofireland.lt, is available and interested in assisting the development of commercial and investment potential between Ireland and Lithuania. The Embassy has good contacts with the business community and port authorities in Klaipeda and can assist in establishing links for Irish companies.
Ambassador, Donal Denham

Estonia, along with Latvia and Lithuania, joined the European Union in 2004 which has brought about large economic benefits. The country has a modern market-based economy with one of the highest per capita income levels in Central Europe. In terms of trade the country benefits from strong electronics and telecommunications sectors. However the rapid growth over the past few years has meant that inflation has risen sharply with a large current account deficit putting downward pressure on the country's currency. Although the adoption of the euro has repeatedly been postponed, the government have said they are still committed to adopting the euro. Like other European countries Estonia's economy slowed down and fell into recession mid-2008, primarily as a result of an investment and consumption slump following the collapse of the property market. Estonia is a large export market for Ireland, worth more in value then imports from Estonia. By value 80% of Irish trade with Estonia is made up of Irish exports to the country. In order to facilitate trade between the two countries a double taxation agreement was signed in 1998.

Latvia is one of the central countries of the Baltic States and boarders the sea to the east, with major ports and cities of Riga, Ventspils and Liepaja situated along the coastline. In 2004 Latvia joined the EU along with Lithuania and Estonia and in the same year the country joined NATO. Since restoring Latvia's independence in the 90's the country has achieved rapid growth and development with a free market economy and successful price and trade liberalization. Between 2003 and 2007 Latvia's economy grew rapidly with average growth of 7% however like all other European countries, this rapid growth exposed the country to the global economic crisis. In 2008 GDP declined 4.6% as a result of the slowdown in lending leading to a fall in consumption and investment. However positively as a result in the downturn this has reduced the cost of labour as wage inflation has retracted, effectively increasing the competitiveness of Latvia. In terms of trade with Ireland, by value, Latvia has the largest proportion of trade out of the Baltic States, worth over €117m to the Irish economy. It is an important market for power generating machinery, iron and steel and cork and wood products.

TRAFFIC

Shortsea Links

Ports in the Baltic region have adapted rapidly since accession to the EU. Large infrastructure investments have been implemented to offer attractive handling environments for both transit and local business despite the emerging competition from Russian ports. Prior to the economic events of 2008, ports and the shipping industry in particular ferries, benefited from strong economic growth in the region. The countries covered in this review are Latvia, Lithuania and Estonia which are members of the Baltic Ports Organisation; the representative body for Baltic States to facilitate co-operation between ports and to promote the development of shortsea shipping in the region. The Baltic Sea region connects a market of more than 50 million people, therefore shortsea shipping is the preferred mode for facilitating commerce. Currently there are no direct shortsea links between Ireland and Latvia, Lithuania or Estonia. Although a number of feeder operators provide transhipment services via Rotterdam and Antwerp. For example OOCL have

Baltic States

feeder services between Rotterdam, Antwerp and the Baltic ports which connect with Irish services also calling at both Antwerp and Rotterdam. Containerships, offer a door-to-door service between Ireland and Baltic ports, while they do not operate vessels from Ireland they do provide customers with regular connections utilising 3rd party vessels from Ireland that meet with their own services from Rotterdam.

Port Facilities

Ports in Latvia, Lithuania and Estonia rely heavily on trade with Russia, however since accession to the European Union this dependence has diminished due to increased trade opportunities with the rest of Europe. The main ports in Latvia are Ventspils, Riga and Liepaja. Over 90 per cent of cargo handled at Latvian ports is transit cargo, mainly from Western European countries. The ports benefit from the status a Specialised Economic Zone, allowing companies working within these zones up to 80 per cent discount on their tax. Port traffic is primarily bulk cargo, but increasing investment in container handling facilities have been initiated.

Klaipeda, the main port in Lithuania, is a multi-purpose port and provides a direct link between Western Europe and Russia. As it is ice free it is one of the few ports in the area that remains operational year-round. The port is well connected with the surrounding industrial hubs of Belarus and Western Russia.

The Port of Tallinn in Estonia is a bulk handling port. In 2007 the port experienced an increase in liquid bulk cargo traffic. This was as a direct result of the increased oil exports driven by the high oil demand in the world market. The demand for oil has since declined which has also had an effect on the port throughput of liquid bulk cargo. Tallinn is considered one of the most attractive ports on the Baltic coast, and is therefore a popular passenger port. This is mainly attributed to the port's location, with its nearest rival at least a day's sailing away. The port is a member of the Baltic Cruise project; an Interreg 3B funded project to promote and develop the cruise industry in the Baltic Region.

Port Investment

Latvia, Lithuania and Estonia, are all undertaking major investments to improve existing port facilities in order to become more competitive. The port of Riga in Latvia has invested in safe and reliable transport chains of Dangerous Goods in the Baltic Region (DaGoB). This involves the diffusion of best practice across all the authorities involved in the transportation of dangerous goods to improve safety, security and competitiveness. During 2009 the Freeport of Riga handled 291,328 passengers, including 50, 846 cruise passengers. The total number of passengers at the Freeport of Riga has increased by 60.2% when compared to 2008[1].

In Lithuania, the port of Klaipeda is investing €107 million in port development, including the remodelling of the port entrance, reconstruction of existing quays, construction of new quays, roads, railways and dredging of its entrance.
The port of Tallinn in Estonia is investing €370 million in improvements of the port infrastructure.

Trade

In May 2004, Latvia, Lithuania and Estonia became members of the European Union. Situated on the eastern periphery of Europe; the Baltic States act as a direct link between Western Europe and Russia. EU accession of these three countries has given the EU access to a cheaper labour force and a wider market for trade. The region is seen to hold new opportunities for ship owners to develop door-to-door transport chains linking factories and raw material sources in Eastern Europe. It is envisaged that all three Baltic States will adopt the Euro by the end of 2010. Prior to the global economic downturn in 2008, growth in the economy of all three countries had been driven primarily by transport, communications and an increase in household consumption with an average growth rate of 8.7 per cent in 2007.

Estonia has a modern market-based economy and one of the highest per capita income levels in Central Europe. In mid-2008, however, the economy fell into recession due chiefly to an investment and consumption slump following the collapse of the real estate market bubble. Annual figures for 2008 saw Estonia's GDP real growth rate fall to -3 per cent.[2] In a similar fashion, Latvia's economy experienced GDP growth of more than 10 per cent in 2006/07 but entered into recession in 2008 with a GDP growth rate of -5% as a result of an unsustainable current account deficit and large debt exposure. The IMF, EU, and other donors have provided assistance to Latvia in an attempt to reduce the fiscal deficit to 5 per cent of GDP. Lithuania, the third of the Baltic States, grew an average of 8 per cent per year for the four years prior to 2008, driven by exports and domestic consumer demand. The current account deficit rose to roughly 15 per cent of GDP in 2007/08. Despite Lithuania's EU accession, Russia, and to a lesser extent Central and Eastern Europe, dominate the share of total trade. Unlike the other Baltic States the GDP real growth rate in Lithuania for 2008 remained positive at 3.2 per cent.[3] However, estimates for 2009 forecast that the Lithuanian economy will experience a sharp contraction of up to 16 per cent due to a drop in domestic demand and a fall in exports.[4] In their transition from command to market economies, the governments in all three of the Baltic States have partially or fully privatised state assets, encouraged via bilateral assistance and commercial foreign investment.

In 2008 the value of Irish exports to the Baltic region reached €129 billion, up from €84 million in 2007. The large increase was primarily due to a jump in the export of power generating machinery and equipment to Latvia, yet, indicative of its high valued added per tonne, it only amounted to 0.2 per cent of exports by volume. The food and drinks industry dominated export volumes to the Baltic States in 2008. Beverages were the largest export commodity by volume (and third in terms of value) and meat and meat preparations were the second largest, each accounting for nearly a third of all exports by volume. The value of imports to Ireland from the Baltic region increased slightly from €96 million in 2007 to €98.9 million in 2008. From practically non-existent imports in 2006, power generating equipment and machinery has become the main import commodity in value terms rising to €10.5 million in 2007, and continuing to increase to €27 million in 2008. Petroleum and related products were the second largest import by value (€15.3 million) and the highest import by volume.

[1] http://www.freeportofriga.lv/eng/zinas_arhivs.asp?ID=210
[2] CIA World Factbook
[3] CIA world factbook
[4] IMF 'Lithuania - 2009 Article IV Consultation', available at: http://www.imf.org/external/np/ms/2009/062209.htm (accessed 28/07/09)

Business Links

Latvia, Lithuania and Estonia have a combined population of only 7.1 million. The Baltic States are among Europe's fastest growing markets, and they have strived to achieve greater presence in the international community by joining a number of political and economic arenas. In 2004, all three Baltic States joined the North Atlantic Treaty Organization (NATO) and the European Union.

One of the biggest advantages of entering into business with the Baltic States is its access to markets in Russia and CIS. The fastest growing business sector in the Baltic States is information technology and telecommunications. Latvia has fully embraced the IT sector, with an approximate annual growth rate of 150% prior to the financial crisis.[5] The Lithuanian government has set IT development as its main priority, implementing programs for e-government, and striving for a knowledge-based economy and society. In Estonia, telecommunications is the fastest growing market due to major investment in the sector by Finnish and Swedish telecoms companies. This sector has substantial potential to become a growth area for Irish companies.

All three Baltic States have development agencies promoting business links between Ireland and the region. The Estonian Trade Council is an organization to promote trade between Ireland and Estonia has a representative in Ireland.

Business Links

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Estonian Trade Council
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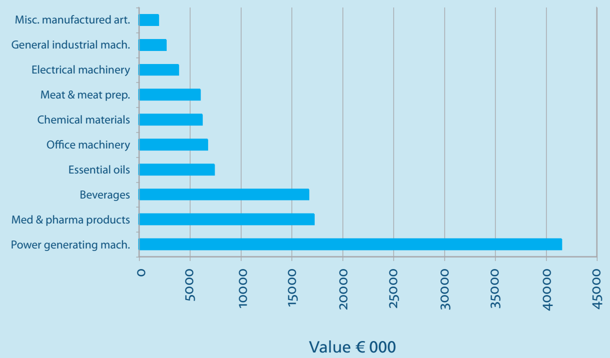
Fax: 01 2196731
Email: embassy.Dublin@mfa.ee

Enterprise Ireland
www.enterprise-ireland.com

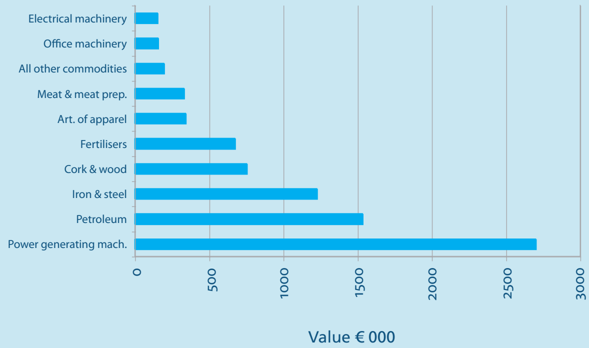
[5] Enterprise Ireland, 'Export Opportunities in the Baltic States', available at: www.enterprise-ireland.com

Value of Commodities Exported to the Baltic region 2008



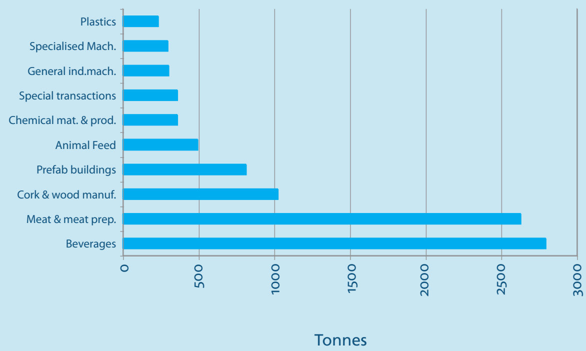
Source: CSO

Value of Commodities Imported from Baltic 2008



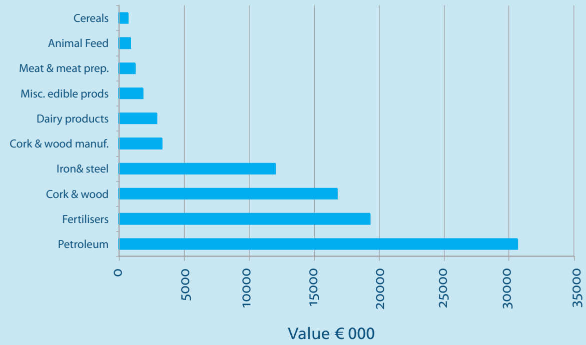
Source: CSO

Volume of Commodities Exported to Baltic 2008



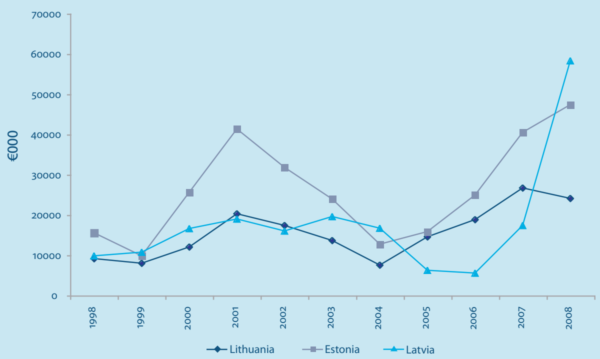
Source: CSO

Volume of Commodities Imported from Baltic 2008



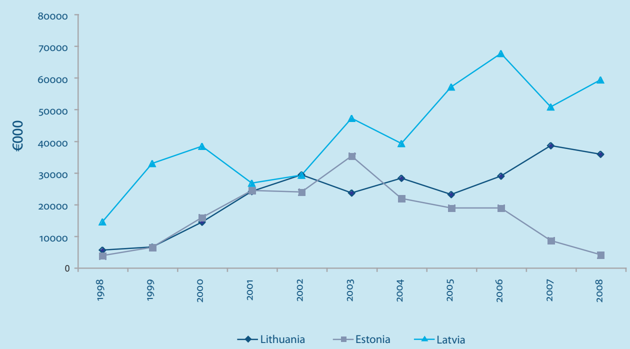
Source: CSO

Value of Exports from Ireland to Baltic States



Source: CSO

Value of Imports from Baltic States



Source: CSO