

Key Trade and Transport Facilitation Issues in the Baltic States

by Lauri Ojala

On May 1, 2004 Estonia, Latvia and Lithuania joined the European Union. This had a significant impact on day-to-day business and trade practices both with EU and non-EU countries, notably that of Russia. However, the three Baltic States had already largely integrated to the world economy, and from a macroeconomic point-of-view, the EU membership did not dramatically change their trade or Foreign Direct Investment patterns. This also applies to multinational firms with operations in the Baltic States; they expected no major change in operations after May 1, as indicated in a forthcoming survey conducted by the European Logistics Association.

The Baltic economies have grown rapidly during recent years, and since 1998, the annual growth rates have exceeded the EU's average growth rate by 4-5 percent units and the latest forecasts expect the Baltic States' strong growth to continue in the next two years. Today, the EU is the main trading partner: in the first quarter of 2004, 68% of Estonian exports and 52 % of imports 52% was with the EU-15. For Latvia, the figures were 61% and 49%, respectively. In Lithuania, the EU trade covered only 43% of exports 41% of imports.

Interestingly, very few problems with trade documentation and border crossing practices in intra-EU trade were reported to our TTFBS team (see box below). Much of customs clearance work disappeared in intra-EU trade. As a consequence, many customs, customs brokers and freight-forwarding staff have become redundant. Persistent border crossing delays affected the trade with EU countries in late 2003, but the change to EU customs procedures was smooth in Estonia and Lithuania, but less so in Latvia.

The main trade, transport and border crossing problems are with Russia, and to lesser extent with some other CIS countries. Solutions to these problems are often political, and thus beyond the means of individual firms or authorities. The principal areas needing improvements are (i) border crossings with Russia (notably the Terehova and Grebneva border crossing points in Latvia) and Belarus where excessive delays occur; (ii) data exchange systems between ports and custom warehouses; and (iii) improved customs relations between the Baltic countries and Russia.

The key logistics problems of EU-Russian trade relate to dealing with Russian authorities, such as customs clearances, goods inspections and border crossings. International transport between the EU and Russia was perceived as being less of a problem. The new Russian customs code that came into force in January 2004, has markedly improved the situation. It provides a framework for feasible border crossings, transiting goods under customs bond, bonded warehousing services and customs clearance services. However, it remains to be seen how well the reform will be implemented in the Russian Customs, with approximately 63 000 staff.

Transport, storage and communications is an important sector in all current and new EU countries, but its share of Gross Domestic Product (GDP) is the highest in the Baltic States. In 2002, 15.5% of the Gross Value Added (GVA) in Estonia, 14.5% in Latvia, and 13.7% in Lithuania was produced by the transport, storage and communications sector. About 35% of the sector's GVA is produced in transport, 35% in storage and the remaining 30% by communications. In other words, transport and storage contributed from 10% to 11% of the countries' GDP in 2002.

Transport services trade is important for the Baltic States. Latvia has the highest net cash flow from trade in transport services, a situation mainly attributable to transit flow of oil and related products by railways and pipeline. By contrast, Estonia has the highest value of transport services sold to and bought from other countries, indicating the high degree of internationalisation of the Estonian transport sector. In 2003, trade of transport services generated a positive net flow of USD 595 million for Latvia, USD 470 million for Estonia, and USD 414 million for Lithuania.

The demand for transport grows rapidly in the Baltic States. In particular, demand for consolidated transport services, such as scheduled road transport and related terminal service, has grown fast. Moreover, privatisation has been widely used as a vehicle to restructure transport and transport infrastructure markets. Public-private partnerships have been introduced as a mechanism for providing good quality transport and infrastructure services at a reasonable cost.

The volume of transit oil and oil products handled at Baltic States and Russian Baltic Sea ports has increased from 50 million tons in 1997 to over 100 million tons in 2004. The economic impact of oil transit traffic through the Baltic States is significant to these countries: transit revenues represent 5 to 8 percent of GDP of the three Baltic countries.

The three countries have invested substantially in their TEN-T transport infrastructure. In 1996-2001, Estonia invested 235 million euros, of which almost half was in ports. In the same period, Latvia invested almost 370 million euros, 2/3 of which went into railways. Lithuania invested 270 million euros, half of which went into roads. For 2002-2010, Estonia and Latvia intend to spend over 600 million euros each; Estonia mostly on roads and ports and Latvia mainly on roads. Lithuania plans to invest over 1 300 million euros, mostly on railways and ports. Combined, this makes almost 2 500 million euros, not even counting the proposed Rail Baltica project.

The main short term activities include enhanced IT systems for ports and airports and regular monitoring of Customs and Supply Chain performance. In the medium term, apart from improving transport infrastructure, the capacity building of transport and trade authorities needs to continue. Other activities, albeit difficult to implement, include the need to enhance the public sector's possibilities to expropriate land for infrastructure projects of substantial public interest at lower than market prices as in the current legislation. A solution to Russia's current rail tariff policy should also be found as soon as possible.

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