Transport and Logistics Management

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EU enlargement in the Baltic Sea Region

Consequences for the Swedish ship owners

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Abstract

The purpose of this study is to provide an introduction into the current situation in the shipping industry within the EU (European Union) and how the future member states - in this case Poland and the Baltic countries - will and can affect the sea transport and the goods flows within the region, when entering the EU on the 1st of May 2004. Further on, the purpose is to introduce the shipping industry and its activities in the candidate countries, and also to identify what forces affect the competitive situation in the Baltic Sea region, from a Swedish perspective. This will result in an analysis of possible future impacts on the competitive situation for the Swedish Ship owners' Association, which is the assigner of this commission, and its members.

The goods flows, the regulations and the economy have been identified and described as the three most significant factors for the competitive situation, according to the authors, since they cover the seaborne transportation and the future development of the market in the region. There are two major goods flows that will function as a transit area for the massive Russian goods flow, and there is great need for improved standards when it comes to the infrastructure that surrounds the ports. This is the case in Poland as well.

One can assume that the consequences will probably be bigger for the ship owners in the Baltic countries and Poland, than they will be for the Swedish ship owners. This is because Sweden has already adjusted most of its regulations according to EU standards, and the Swedish ship owners have already worked under the competitive conditions that the candidate countries now have to adjust to.

The Swedish ship owners are generally well prepared for most kinds of competition, as long as it takes place under the same conditions. Those who are well prepared will probably get numerous advantages out of the expansion, but those who are not will fall back, and they will have to work hard to retrieve their position. One could say that, in general, it depends on how the Swedish ship owners adapt to the changes that the expansion will bring.

Key-words: Goods flows, Regulations and Guidelines, Competitive situation, Baltic Sea Region, EU, Ship owners.

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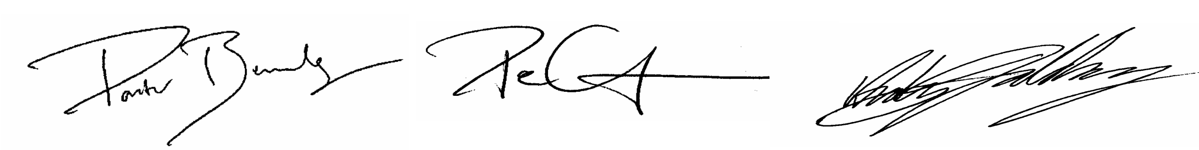
Our gratitude also goes to the people that we have interviewed. Friendly treatment and interest in our work has motivated us and made it possible to conduct this research. The people we would like thank in this regard are Jacob Terling and Christopher Frisk, and also Lennart Nilsson, Barbro Wilén and Andreas Krantz at SAI.

Finally, we would like to thank Linda Blücher at the Swedish Ship owners' Association for making it possible for all three of us to be part of a great adventure that consisted of a trip to BPO's seminar in Tallinn, Estonia. Thank you.

Göteborg, December 2003



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1. Background and purpose

This chapter will introduce the reader to the comprehensive problem examined in this master thesis, through a short description of the background of the current situation in the shipping industry in Sweden. The reader will also find an analysis of the problem followed by the purpose and the delimitations of the thesis.

1.1 Background

Sweden has a tremendous history when it comes to shipping and use of its fairways with great access to navigable channels. Shipping is today one of the most international industries in existence. With today's problem concerning the increased congestion within the central parts of Europe, there have been some heavy investments made in the domestic shipping industry in Germany, and into the eastern parts of Europe. Much development has already taken place in the shipping industry in the Baltic Sea with routes to Russia, Poland and the Baltic states.

The shipping industry is a growing industry and the governments in the involved countries ought to examine what possibilities there are to promote and support this development. A commitment in the shipping industry is of great significance when it comes to environmental impact, but also from the perspective of international competition.

During the last few decades, Swedish ship owners have been flagged out due to the Swedish regulations, which is a great problem for the Swedish shipping industry, since it impoverishes the industry, which cannot be accepted. Countries within and outside the EU (European Union) compete to offer attractive conditions to ship owners, creating anxiety in the international shipping industry. EU has adopted special guidelines for the shipping industry for the member states in order to create a harmonisation of the regulations for competition.

When contacting Bertil Arvidsson at the Swedish Ship owners' Association, head of unit; environment, technology and logistics, a discussion concerning the current situation within the shipping industry with all its future challenges, was held. Among them the expansion of the EU seems to be the most interesting. The EU is now facing its fifth expansion and the dialogue concerning the expansion includes ten nations at the moment. Among them are: Poland and the Baltic countries (Estonia, Lithuania and Latvia). These countries will probably affect the shipping industry within the region in one way or another, and this will result in certain consequences for the Swedish ship owners.

1.2 Analysis of the problem

Short Sea shipping in general, where maritime transport both compete and cooperate with other modes of transport is influenced by national transport, industry and regional policies. This can create conflicts between national policies on the one hand and more internationally dependant common policies, such as sustainable economic growth, environmentally friendly and safe transport systems on the other hand. This could be the case when the union expands to include the Baltic countries, since there will be consequences and changes that will appear because of new EU regulations and guidelines.

> The work within EU to develop common regulations and guidelines for transport, shipping and port policy clearly reflects the circumstances. The ongoing enlargement of the EU also underlines these conflicts of

interests and strongly contributes to a need for a more harmonised maritime transport sector in the Baltic Sea region.

On May 1st, 2004 there will be ten new countries entering the EU, among them are the Baltic States, and Poland. This means, more companies and freight traffic, working under the same regulations. This also implies that Swedish ship owners will have access to a new and greater home market, but also that new competitors will appear and establish new contacts and most likely start new links in the Baltic Sea market. The home market is defined as the whole EU including the candidate countries.

There will probably appear a lot of difficulties for the new countries when entering the EU, since they have to change and adjust their regulations in order to meet the current regulations concerning the shipping industry. Therefore, it is important to focus on the standards/conditions in the Baltic countries in question of regulations for the sea traffic and the Baltic ship owners today. One of the greatest questions when it comes to this issue regarding the entrance of the Baltic countries, concerns the changes over time when entering the EU, what effects they will have, how they will act based on their new opportunities and the threats that their entrance will pose.

The entrance will most likely reflect the Swedish market and create new opportunities and threats for the Swedish ship owners' Association and its members. New distribution patterns will lead to new routes and links, which will probably be developed hand in hand with new harbours and the expansion of already existing ones.

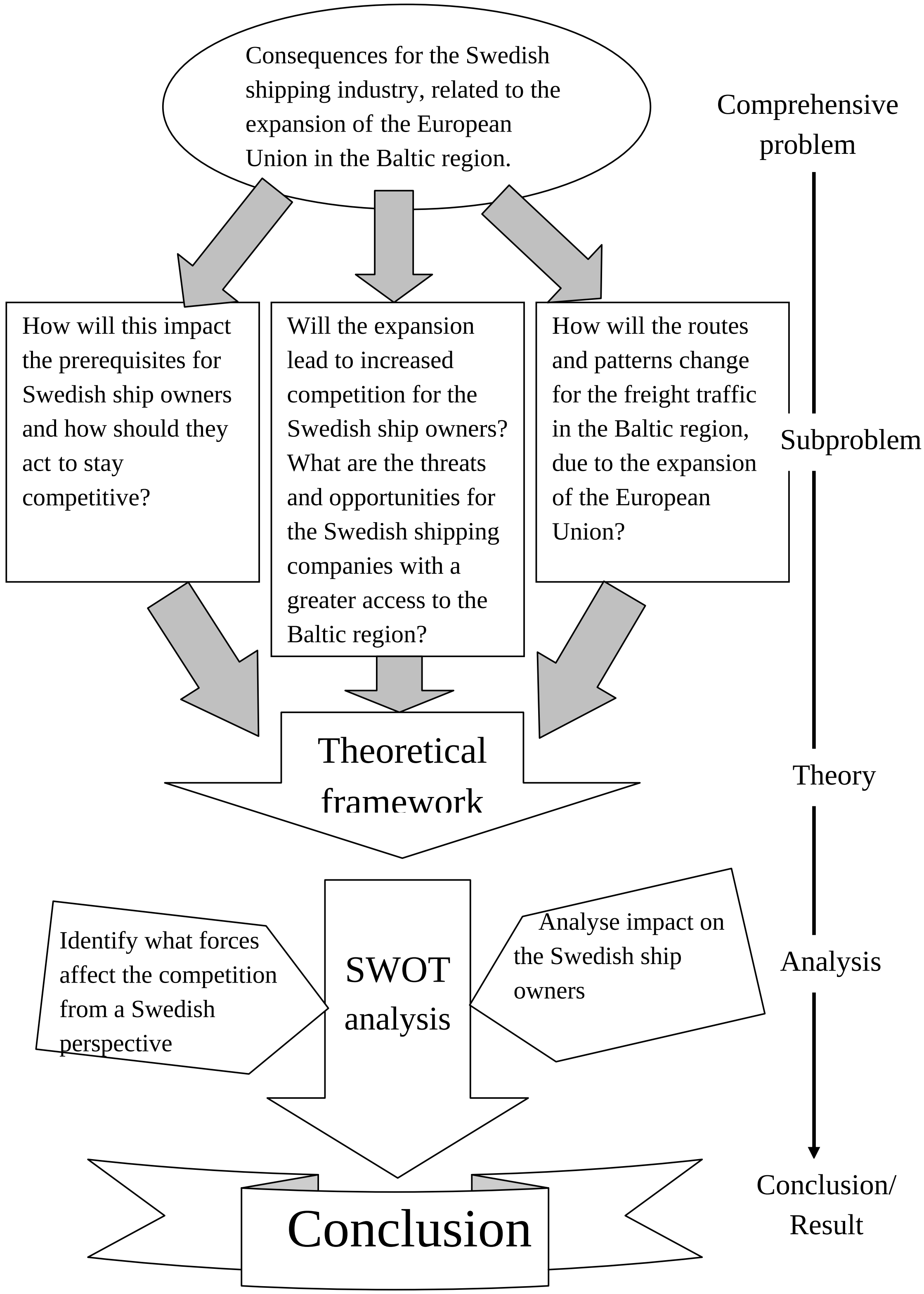
Together with the expansion of the EU, the home market will grow for Swedish ship owners, but there will also be a greater competition in the domestic market.

It is, therefore, important to identify and locate the strengths and weaknesses of the Swedish shipping industry compared to those of the Baltic countries, and to take necessary action. Sweden, who is already a member of the EU, puts lots of effort and focus into establishing permanent routes and links with the Baltic countries. If the Swedish ship owners have the possibility to adapt to new changes, they will have the upper hand when it comes to the competition between the shipping industries in the countries involved.

In today’s market, Swedish companies are dealing and acting with transport and ferry companies that are acting in an open and international market, where the competition is greater, which affects the transportation to other countries. This is because of the membership in the EU, where every country has the same regulations and guidelines, and the right to use other members territory. Sweden is a major player in the Baltic region and it would therefore be natural to expect Sweden to take an initiative towards further harmonisation of the competitive conditions.

It is important for the Swedish ship owners to be aware of the changes that will appear when the Baltic countries enter the EU, and knows how to act to stay competitive and be more attractive, than the new upcoming EU-countries.

Background and purpose



1.3 Purpose

The comprehensive problem of this master thesis is to identify the consequences for the Swedish shipping industry related to the expansion of the EU in the Baltic region, a task given us by the Swedish Ship owners' Association.

The purpose of this thesis is to provide an introduction into the current situation in the shipping industry within the EU and how the future member states - the countries around the Baltic Sea, in this case Poland and the Baltic countries - will and can affect the sea transport and the goods flow within the region, when entering the EU on May 1, 2004.

Further on, the purpose is to introduce the shipping industry and its activities in the candidate countries, and also to identify what forces affect the competitive situation in the Baltic Sea region, from a Swedish perspective. This will result in an analysis of the possible future impacts on the competitive situation for the Swedish Ship owners' Association and its members.

1.4 Delimitations

Since the problem that is discussed in this master's thesis is massive, some limitations have made it possible to carry out this thesis within the given time frame. Because of the freedom that was given, the thesis will focus on the sea transportation on the Baltic Sea and also introduce some of the EU cooperation programs within the EU.

When the expansion of the EU is discussed, it concerns only the entrance of the Baltic States and Poland.

Background and purpose

The future competitive situation for the Swedish ship owners in the Baltic Sea will be influenced by numerous factors. Of the factors that have been left out, the environmental and safety issues are of greatest significance.

The future goods flows in a northerly and southerly direction will of course be affected by the road tolls in Germany and many, many more factors. The goods might be shipped through Poland, since it might be a cheaper alternative. This has not been analysed in the thesis.

Russia, Finland, Denmark and Germany are all great players when it comes to the shipping industry in the Baltic Sea region. Malta and Cyprus are both great shipping nations that will enter the EU and contribute to the future competitive situation. Because of the time limitations, there has been no time to analyse their affect on the Swedish ship owners' future competitive situation.

There are numerous organisations and projects within the EU that will promote cooperation and future development within the Baltic Sea region. Some of this will be mentioned.

The target group of this thesis is mainly the Swedish ship owners' Association and its members. Therefore, some words and concepts haven't been explained since the ship owners already are aware of them.

2 Methodology

In this section, the reader will find a description of how this research has been carried out, how and where the compilation of data has been collected. Primary and secondary sources are described, as well as how the people to interview have been chosen.

2.1 Positivism and hermeneutics

There are to main approaches in science and when developing research, these two are; positivism and hermeneutic.

The positivistic approach is a classic scientific procedure, where all information has to be observed and proved objective. The outcome/result has to be repeated by other scientists to prove that the result really is objective. It is important for the scientist to set aside his understanding so as not to spoil the objectivity.[1]

The positivists have two ways to find knowledge, the empirical way and/or the logical way. The empirical way is observing through our senses to find the knowledge we are searching for. Yet, modern positivism is aware that what you see, hear, feel and so on, is not the undoubtedly fact that they so really want to believe. Also logic has a place in positivism.[2]

The hermeneutic on the other hand, does not have the same demand to guarantee fact and reach undoubtedly answers as the positivists do. The hermeneutic is based more on interpretations and humanistic science. Opposite to positivism, where there is only one right answer, there can be a number of different interpretations about whether the result is right or wrong. It is up to

[1] Thurén
[2] Ibid.

the individual scientist to come to his own opinion of what he believes about the specific subject. But these interpretations must be within the limits of the possibilities.[3]

These methods may appear very different from each other, yet they can be compared somewhere in the middle to reach a correlation. One option can be to use both positivistic and hermeneutic methods to acquire knowledge. This method of using both approaches is more or less appropriate for this study, where information has been gathered and interpretations made to find an answer. However the right answer is concealed in the future, and the future is very hard to predict absolutely accurate. Therefore, there are possibilities for other interpretations for gaming knowledge in this specific subject. Other people can come up with other answers for what they believe is right. Therefore this study has a more hermeneutic approach.

2.2 Qualitative and quantitative methods

Qualitative information can, for example, be verbal statements or written reports that are gathered through more or less structured interviews. This method's main purpose is to create understanding of the problem. It is important to gather information in order to reach a deeper understanding of the problem ahead. Qualitative research is used when it is hard to present and translate the results in numerical data.[4]

When it comes to the quantitative approach, it is according to Remenyi, often obvious what kind of information is needed to reach the purpose of the research. The result from a quantitative standpoint can be interpreted with the help of numbers and diagrams. Quantitative information is often gathered under

[3] Thurén

[4] Remenyi

structured conditions, such through a questionnaire. Measurements of a number of products in a goods flow can be an example of quantitative information.[5]

Both qualitative and quantitative methods have been used in this research. But the main method must undoubtedly be the qualitative method, where open ended interviews and reports concerning the problems have been of great use. One of the quantitative methods in this research has, for example, been to observe numbers and diagrams related to the goods flow between Sweden and the candidate countries and identify patterns that can tell us something about the future.

2.3 Collection of data

One important part in scientific research is the study of literature, which can be really time costly for the scientist in his search for knowledge. A literature study is never complete and the scientist should always be prepared to complement it with the latest literature on the subject until the work is published.

The literature should always concern the problem in the research and also give the scientist ideas about appropriate research methods and points for attacking the problem. Another important issue concerning the literature study is to never take anything for granted; the scientist should always have a critical view when studying the literature.[6]

During work on this study, data from both primary and secondary sources have been used. Secondary sources, which consist of existing information, have in this case consisted of literature, reports, articles and Internet sources. The

[5] Remenyi
[6] Ibid.

benefits of secondary data are that it is both time- and cost effective, and that there are a great range of sources. Some drawbacks can be that useful data is missing, that the data is given in the wrong unit of measurement, or that the data is out of date.

Primary data has been collected through interviews. The main advantages with primary sources are that the information is adapted to suit the research problem, it is current, and that there is possibility to design the data collection. Some of the drawbacks are that it is time consuming and that it requires some knowledge from the collector.[7]

Some personal interviews have been carried out in order to get hold of primary data. The questions have been written with the comprehensive problem of this master thesis as the starting point. The tutor has audited the questions and given feedback that included his ideas and comments, thereafter some adjustments has been made in order to get the most out of the interviews.

2.3.1 Choice of respondents

Strategic choices have been applied, which means that the choice of respondents fits the investigation. In the choice of what respondents to select, there have been some basic requirements. They should be respondents that act in the region, or have great knowledge about the Baltic Sea, the Baltic countries and Poland. The reasons for these requirements for the respondents arise from a wish for a relatively homogeneous group to investigate, which fits into the frame of the problem that the master thesis has.

It was important to show the branch from most kinds of views, from the companies, from EU and also from other kinds of organisations that are

[7] Christensen *et al*

involved in the shipping industry in the region. Contact was made with people in the leading positions, with expert knowledge of the subject in question.

Some contacts were made at a seminar in Tallinn, and the picture of the current situation and the future was made clearer. Exchanging addresses with important persons made it possible to keep in contact, and later, to send them questions, or to interview them. Some respondents have their offices abroad or far away, which made it difficult to conduct interviews in person.

Experts in the shipping industry and in the EU have helped make it possible to get hold of the correct and current information, which made the thesis fresh and up to date. The ambition was to provide the Swedish Ship owners' Association and its members with the most current information concerning the future, and competitive situation for the Swedish ship owners.

2.4 Reliability and validity

Reliability means that the measurements for attacking the problem have to be made correctly.[8] It is also important that the results of a study can be used in other environments than where the study was carried out.[9]

According to Remenyi all situations and organisations are different from each other, and therefore the result can be different and not recreated in detail. If a research study has high reliability, it should be done all over again with the same methods and providing the same results.

Validity is to observe and measure the right things that are related to the specific problem. One way to reach validity in the study is to create

[8] Thurén

[9] Remenyi

triangulation in the research. That means gathering information from a number of independent sources to get the whole picture of the problem. This makes it easier to come to a specific conclusion.[10] The writers believe that this is the way that they have constructed the research. Gathering of information from many different sources contributed to getting the whole picture of the problem. The interviews are based on the same fundamental questions, and delivered to different actors concerning this specific problem.

2.5 Research design

The comprehensive problem of this master thesis, which is to identify the consequences for the Swedish shipping industry, related to the expansion of the EU in the Baltic region, has been divided into three sub problems. They are:

Sub problem one:

How will this impact the prerequisites for the Swedish Ship owners' Association and how should the members act to stay competitive?

Sub problem two:

Will the expansion lead to increased competition for Swedish ship owners? What are the threats and opportunities for the Swedish shipping companies with a greater access to the Baltic region?

Sub problem three:

How will the routes and patterns change for the freight traffic in the Baltic region, due to the expansion of the EU?

In order to answer these questions, a theoretical framework has been compiled where the logistical concept has been described, the shipping policies within

[10] Remenyi

Sweden and in the EU, the Baltic countries and Poland and its shipping industries have also been described. After this section, the reader will be aware of what the goods flows looks like today in the region, and also the potential future goods flows. Data from both primary and secondary sources has been used in the chapters “Theoretical framework”, “The Baltic Sea region” and “Goods flows in the Baltic Sea region”.

With the material described above, an analysis has been carried out, based on the theory of the SWOT model. The analysis concerned the three main areas that the authors consider to be the most crucial when it comes to the ability to compete for the Swedish ship owners, when their home market grows and new competitors enter the market. In order to highlight the most critical Strengths, Weaknesses, Opportunities and Threats, a compilation of these factors has been made, followed by a short discussion concerning the areas involved.

The analysis will lead to a final conclusion where answers to, and discussions concerning the three sub problems will be given. This will be followed by an answer to the comprehensive problem of the master thesis.

Finally, a few suggestions for further research will be given of how one could increase the knowledge and understanding concerning the consequences for the Swedish shipping industry, related to the expansion of the EU in the Baltic region.

3 Theoretical Framework

The reader will in this chapter be introduced to the cornerstones in the concept of logistics and seaborne transports. Further on, an introduction to the shipping policies in Sweden and in the EU will follow.

3.1 The Logistics Concept

The origin of modern logistics concepts in business can be traced to the developments in military logistics during World War II. The Persian Gulf War, which is referred to as the “logistics war”, demonstrated the importance of logistics during a successful military effort. The integrated logistics concept was obviously critical to the military success in the Gulf War.

There are numerous of definitions for logistics, therefore, no definition is more right or wrong than the other. One can generally say that logistics is about the way of the product, from birth to ripening, decline and recycling.

Jan Olhager describes logistics as a “military term from the World War II that implies the meaning of movement and coordination of troops and material, to predetermined locations”. Within the industry, the term has been accepted mean the movement and coordination of finished products, from the producing unit via distribution to the end customer.[11]

Göran Persson and Helge Virum define logistics as “the science about efficient and effective material flows” and describe logistics in the civilian version with the seven R’s; the Right product, in the Right amount, in the Right quality, in the Right way, at the Right time, to the Right customer and at the Right cost.[12]

[11] Olhager (2000)
[12] Persson & Virum

One of the most widely used and cited definitions of logistics is as follows:

> "*Logistics is the process of planning, implementing and controlling the efficient, effective flow and storage of raw materials, in-process inventory, finished goods, services and related information from point of origin to point of consumption (including inbound, outbound, internal and external movements) for the purpose of conforming to customer requirements*."[13]

Implied in the definition is that the logistics process provides a systems framework for decision making that integrates transportation, inventory levels warehousing space, materials handling systems, packaging and other related activities that encompass appropriate trade-offs involving cost and service. Another definition of logistics states that logistics involves the efficient and effective management of inventory, whether in motion or in rest, to satisfy customer requirements and organisational objects. An important aspect of the later definition is that the transportation service is recognised as inventory in motion; therefore, the true cost is more than the actual rate charged by the transportation company.[14]

3.1.1 Logistic activities

Down below, a list of logistic performance and activities will be presented.[15] These activities are, mostly, what logistics is about. The list is not complete, but a guideline within the area under discussion.

[13] Coyle, Bardi, & Novack
[14] Ibid.
[15] Beverskog & Blidmo

1. Transport

Transportation is the part in the material flow that most people connect with logistics. The planning of transportation comprises, among other activities, the choice of transport mode, route planning and the planning of possible consolidation.

2. Warehousing

This area contains storage- design, handling and efficiency. Managing of the total warehouse investments, models and methods to use when determining lot sizes and safety stock are some of the basic activities when it comes to warehousing and storage.

3. Materials handling and packaging

This area is of high importance and can create great problems within the supply chain if something goes wrong. Physical activities in warehousing such as the choice of equipment and facilities for internal transports and the packaging handling are significant issues.

4. Order handling and customer service

Ordering, order receiving, order handling and delivery are some very typical logistic activities. The contact with the customer is a key issue here, by giving the customer the accurate information concerning the state of the order, the product accessibility and time for delivery, one can gain great advantages. It is also a very critical point for the shape of the whole logistical system.

5. Prognoses

The logistics department of a company administrates this very central part, which is based on sales forecast and sale plans. For prognoses concerning the actual flow of material, they have to be very detailed, which is why the warehouse management and this area are very closely related.

6. Production planning

The main objective when it comes to production planning is to make sure that the production capacity will be used efficiently. At the same time, the company has to manufacture what the market wants and needs in the right amount, which is the key to success. What determines the capacity of the logistic activities is the company's rules of priority, lot sizes and differences in production capacity.

7. Purchasing and materials management

Purchasing and sales of raw material, components and completed goods, supplier selection, ordering and receiving goods, among other activities are central issues within this area under discussion. All this, combined with high quality and deliveries at the right time, are decisive for the price of the product. The quality of the suppliers and their logistic process are as important as the quality of the company's own logistical performance. That is why a good relationship with the suppliers is of high importance.

8. Other activities

In addition to the seven activities that have been mentioned above, there are numerous other logistical activities needed to make a logistical chain work properly. They can be about keeping spare parts in storage, dealing with returned/damaged goods, services and other types of service and maintenance activities.

3.1.2 Information systems

In order to make the above mentioned logistical activities work together, one will need a well functioning information and communication system, for example and EDI system (Electronic Data Interchange), to be implemented throughout the supply chain.

An information system is a specialised type of system and can be defined as a set of interrelated elements or components that collect (input), manipulate (process) and disseminate (output) data and information in order to provide a feedback mechanism to meet an predetermined objective The value of the information is directly linked to how it helps the decision makers achieve their organisations goals. For example, the value of information might be measured in the time required to make a decision or in increased profits to the company.[16]

Electronic Data Interchange (EDI) is an inter-company, application-to-application communication of data in standard format, permitting the recipient to perform the functions of standard business transactions, such as processing orders. Connecting corporate computers among organisations is the idea behind EDI, which uses network systems and follows standards and procedures that allow output from one system to be processed directly as an input to other systems, without human intervention. With EDI, the computers of customers, manufacturers and suppliers can be linked. This technology almost eliminates the need for paper documents and substantially cuts down on costly errors. Customer orders and inquiries are transmitted from the customer's computer to

[16] Reynolds & Stair

the manufacturer's computer. The manufacturer's computer can then determine when new supplies are needed and can automatically place orders by connecting with the suppliers' computer.[17]

Track and trace systems are almost a required service by today's transportation buyers. By implementing such a system, customers and supply chain members can get hold of valuable information in an easy way at any time, almost wherever they are. Below, a list of some of the benefits with a track and trace system is presented[18]:

- Service customers better from anywhere by giving them access to up-to-date shipment information.
- Immediate access to inbound shipments for receivers, buyers, planners and expeditors.
- Speed up invoice verification and rate auditing with online access to shipment information, supporting documents and invoices.
- Answer inquiries immediately with access to information on all active and historical shipments.

3.1.3 Sea transportation

There are several factors that make transports at sea very cost effective, both for goods and people. The most important factor is the great loading capacity that vessels and other ships have compared to other transport modes. But also the free fairways, together with the mobile operating costs, that most of the times are comparatively low, makes that the seaborne transportation mostly have a lower cost per tonne kilometre than the other transport modes.

[17] Reynolds & Stair
[18] Clarke Link

The demand for seaborne transports has varied during the last few decades, because of increased oil prices and economic recessions. An advantage of transporting goods at sea is that the transport can be flexible and cost efficient, which makes even low valued goods cost efficient to transport.

One drawback with sea transportation is similar to the drawbacks of other transport modes. For example, it demands great volumes in order to be cost efficient. Another drawback is the speed; seaborne transportation has to be planned in advance in order to keep up to schedule.

Even though the development is on a march forward concerning new engines and ships, the lack of environmentally friendly characteristics is significant when it comes to diverse kinds of discharges and more.

As sea transports has developed a focus on the efficiency in the loading- and unloading operations, new dimensions have been introduced. The capacity of a boat in regular service is more frequently measured as the maximum number of possible load carriers. For certain ships, the hold is converted into TEU, “Twenty foot Equivalent Units”, 20-foot containers. In the same way, the loading capacity of a RoRo-ship is expressed as the total length of the lanes on the car- and trailer decks (lane meters).

A common measurement of waterborne transport is the volume of the hold expressed in cubic feet or meters. There are two different volume dimensions for the hold, depending on the kind of load being transported – grain volume and bale volume.

The grain volume defines the possible volume of the unfixed load in the hold, while the bale volume defines the volume of bales, boxes and containers, which can be stowed on board with respect taken to constructions sticking out in the hold (frames).[19]

3.1.4 Structure for maritime line systems

The design of a line system demands fixed frequencies, departures and arrivals, in order to meet the demands of the transport buyers. The maritime transport buyers must in the same way as most other transport relations and links - be connected into the transport chain in order to be a part of the network. The connections of ports into one or several sea relations lead to different systems. Each one of these systems is specific regarding its possibilities of frequencies, capacity, handling, etc.

3.1.4.1 One single link

The simplest system means that two specific ports are connected into one relation. This creates the possibility of many alternative solutions regarding what ship to be used. At very odd relations, the frequency can be kept down in order to adapt the capacity of the system to the possible smaller volumes. At the same time, it is a very efficient system at every form of ferry traffic, as the frequency as well as the capacity can be adapted to almost any kind of demand.

The ship will always be completely unloaded at every call at a port, the port is always an O/D-terminal. This means that the loading- and unloading operations are simplified, as all kinds of sequencing and tracking of the load is eliminated. Additionally, the definition of the transportation cost for single cargo and of single passengers is facilitated.[20]

[19] Lumsden
[20] Lumsden

3.1.4.2 Several links

In order to be able to increase the frequency of a system with one link, larger amounts of cargo must be found. One way of doing this is to extend the system with one or several links in each end. This will of course prolong the cycle time of the system. The result is either that the frequency will be lower or that several ships must be used in the system in order to maintain the frequency.

In the original system with several links, the ship will either only load or only unload in all ports with the exception of the ports in the farthest legs, i.e. the ports where the ship turns. At the same time, sequencing and tracking of cargo will be necessary. As a result of the fact that more ports are to be called to before the single cargo reaches its final destination, the cargo will be delayed compared to a direct relation. It should, however, be pointed out that the handling costs are kept down on the condition that flanging, i.e. repositioning of the cargo onboard the ship in order to facilitate the unloading, is not necessary. Additionally, the ship will always be completely unloaded in the final port.[21]

3.1.4.3 Several links with a central link

In a system with several links, one of the links in the middle is normally the central link in some way. The reason could be that one link is the connection between two part systems, e.g. the link between two continents (Europe – North America) or between to geographically separate districts (the Nordic countries – the Baltic countries). Therefore, it is crucial to have a fully loaded ship in the central link.

Where the cargo is loaded onto the ship before the central link is of smaller importance, as the same handling and the same costs are involved, independent

[21] Ibid.

of where the cargo has been loaded onto the ship before the central link. The cost for the transportation itself in the short links is insignificant. It is of the same reason associated with the same handling and the same costs independent of where the cargo is unloaded after the central link. This means that all the ports in a line system principally have the same status, base ports. It is, consequently, very important to be a part of the system with base ports as the cost is always the same independent of where the cargo is loaded into the system.[22]

3.1.5 Inter modal transportation

Inter modal transportation combines two or more modes to take advantage of inherent economies of each and thus provide an integrated service at a lower cost. Many efforts have been made over the years to integrate different transportation modes. Initial attempts at modal coordination trace back to early 1920s, but began to develop more successfully during the 1950s with the advent of integrated rail and motor service, commonly termed *piggyback service.* [23] Malcolm McLean, a successful truck line owner, developed the concept of using a trailer to move freight both by highway and water. McLean’s service grew into sea-land services, one of the largest water carriers. This was a logical outgrowth of the use of the highway trailers for railroad piggyback service, the development of a standard container that could be interchanged among all modes made modern inter modal transports possible. Standardisation of dimensions, hold down devices, and related items allowed the service providers to design ships, railcars and highway chassis knowing the container would fit.

[22] Lumsden

[23] Bowersox, Closs & Cooper

A mode common to most forms of inter modal transportation is the motor carrier. The motor carrier's high degree of accessibility enables it to serve points that other modes are physically incapable of serving. Trucks can go to the shipper's door, pick up the freight, deliver to the port, and at the destination port deliver the freight to the consignee, like the concept door-to-door service. Similar conditions exist for rail, air, and pipeline transportation. The inter modal service combines the advantages, and disadvantages, of each transport mode. The popularity of such offerings has increased significantly as a means to achieve more efficient and effective transportation.[24]

3.1.6 International Maritime Organisation (IMO)

IMO is an international organisation developed within the United Nation with 162 members from all over the world. Their main idea and purpose is to provide machinery for cooperation among governments in the field of governmental regulation and practices relating to technical matters of all kinds affecting shipping engaged in international trade. This is in order to encourage and facilitate the general adoption of the highest practicable standards in matters, concerning maritime safety, efficiency of navigation, prevention and control of marine pollution from ships. The Organisation is also empowered to deal with administrative and legal matters related to these purposes. Sweden has been a member since 1959 and the organisation started in 1948.

IMO has a staff of 300 people and one of the smallest of all United Nations agencies. But it has achieved considerable success in achieving its aim of "safer shipping and cleaner oceans". Ship casualty rates have declined and the amount of oil entering the sea from ships has been cut.[25]

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[24] Reynolds & Stair

[25] International Maritime Organisation

3.2 The Swedish Ship owners' Association

Today, the Swedish Ship owners' Association (SSA) has 120 members and approximately 600 vessels. Since 2001, the association is purely for those in the trade where shipping companies and other companies that are involved in the industry that is performing activities within Sweden. Håkan Friberg is president of the association.

The main objective of the association is to strengthen the member's ability to compete. In other words, to make the competition as fair as possible concerning rules and regulations, set by the state, compared to the other transportation modes. The international work is of great importance for the association since the activities are mostly performed on an international level, where the Swedish shipping companies are performing their activities in a very competitive market. Another objective for the association is making all the vessels, no matter what their nationality, compete under the same conditions.

Economic commercial policy matters are one of the most important responsibilities that the Swedish Ship owners' Association are dealing with, in order to improve the competitiveness of the shipping industry. The Swedish Ship owners' Association have always been working for the ship owner's interests concerning the environment and EU, for example. [26]

3.3 The development of the Swedish shipping policy

In consideration of the current situation in the international shipping policy, the Swedish government decided in 1996 that the Swedish shipping policy should be concentrated to increase the competition in the long-time perspective for the Swedish shipping industry. This should be done by a governmental financial

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[26] Swedish Ship owners' Association *a*

support of SEK 400 million per year, for a five year period. The financial support was aimed only at the part of the merchant fleet that carried goods. The government introduced a bill concerning a commercial policy for the shipping industry with the goal of introducing the same competing conditions as those of Sweden's closest competing countries.

The financial support was supposed to be replaced step by step, by common and similar regulations, as in the EU concerning governmental financial support. In the spring of 1997, the European commission made a decision regarding new guidelines about governmental financial support to the shipping industry. The Swedish government appointed a commission at the same time, with the purpose of investigating and analysing the Swedish merchant fleet and its competitive situation.

The European commission is the institution that operates the work of the EU by taking initiatives for the legal provisions. They also administrate the budget and make sure that the member states are following the treaties of EU and other common regulations and guidelines.

The international developments within the shipping industry lead to a discussion in Sweden concerning the Swedish merchant fleet and its ability to compete, which lead to an agreement between the Swedish Ship owners' Association and the shipping unions. This agreement has then been complemented with skeleton agreements in order to create possibilities for temporary employed personal (TEP) onboard the Swedish vessels. The measures concerning the raised governmental financial aid and the TEP-agreements means that the Swedish flagged fleet has reached the same level of ability to compete as today's most important competitors, among them Germany, Norway and Denmark.[27]

In the autumn of 1998, the government made the initiative to start new negotiations in order to reach a new agreement, with the aim of strengthen the competitive ability for the Swedish ship owners. The new policy came as a reaction to the Danish decision to allow state aid also to ferries. Faced with the threat of a major flagging-out of Swedish ferries and the possible loss of numerous jobs at sea, the parliament acted promptly and ordered the government to find a solution.[28] The decision they made involves the shipper support. The support comprised repayment of personal taxes and an allowance of SEK 58 000 / sailor, employed on a yearly bases, which would cover the social expenses. Under the terms of the existing agreement, came the possibility for the parties to take advantage of the TEP-agreement according to the model that the government had been appointed to.[29]

By simplifying the procedure of employment, the model creates an opportunity to reduce the costs for employing, the possibility to employ sailors living outside the EEA – European Economic Area (EU and Norway, Iceland and Liechtenstein) – for a shorter time period, up to six months. In the earlier system the ship owner paid income taxes and social security contributions for the seafarers employed on their vessels to the state and then had to apply for reimbursement of the taxes and a part of the social security contribution. Today they keep the tax money and they don't have to pay any of the social costs. The

[27] Swedish Maritime Association *b*
[28] Scandinavian Shipping Gazette
[29] Swedish Maritime Association *a*

agreement should guarantee the employed sailors security when it comes to salaries and job security.[30]

The European shipping policy has had the required affects on the shipping policies of the member states, which the guidelines of the European commission sought. Limitations for governmental support have been agreed upon, and more and more countries are getting closer – with the help of different support measures – to the level of competition towards the third country, that the guidelines required. By the time such measurements are carried out, the competition between the member states of the EU tend to converge and then become a minor problem. The member states that do not take advantage of the opportunities that the measurements in the guidelines can offer will fall behind when it comes to competition.[31]

Sweden has a tendency to formulate their own regulations that stretch beyond the regulations and guidelines that are accepted in the EU. These rules are most of the time drawbacks for the Swedish ship owners with regards to competition. Examples of these strange rules are the leaning of the stairs on the Swedish ships has to be different compared to other ships within the EU, and the doors have to be wider on Swedish ships. Last but not least of these strange regulations, one can include the termination of halon in the fire extinguishers on board the ship. The EU has a termination plan for it, but Sweden has decided that they will phase out the use of halon a few years earlier then the rest of the EU. This, together with other strange regulations is a major problem that is an expense for the Swedish industry that costs about SEK 50 billion per year.[32]

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[30] Swedish Government
[31] Swedish Maritime Association *b*
[32] Arvidsson (2003)

Country	*Votes*
Germany	29
Poland	27
Sweden	10
Denmark	7
Finland	7
Lithuania	7
Latvia	4
Estonia	4
Total	**95**

Table 3-1: Number of votes/country according to the Nice treaty. Source: P Stenmarck (2003)

Together with the Baltic States, Poland, Germany, Denmark and Finland, Sweden has a great opportunity to influence the voting sessions in the EU when it comes to the ability to strive for interests around the Baltic Sea region. As can be seen in the Table 3-1, these countries have 95 votes altogether. These votes can be used as a blocking minority (where 90 votes are needed) that can stop a proposition, if the Baltic Sea countries are of the same opinion.

3.4 The development of the shipping policy in EU

The European commission presented in the spring of 1996, a white paper concerning the European shipping policy by the name "Towards a new Maritime Strategy", that was accepted as a resolution in the Council of Ministers. The resolution aims to satisfy the shipping industry within the union, within four main areas, and they are[33]:

- International competition for the shipping industries within the union
- Open markets
- Healthy competition
- Safety

[33] Transport RTD Programme

The resolution mentions a number of areas where measures have to be taken. Among them one can find that the member states within the EU support the IMO's internationally developed criteria of quality for ship registers and shipping administration.

As a result of the resolution, the commission has also established new guidelines for governmental financial support to the industry. The new guidelines presented an increased number of possibilities for financial support that were more flexible than before.

The loss of an accepted common policy and guidelines has, during the recent years, resulted in initiatives taken buy a number of the member states, independently from each other, in order to protect and maintain their own merchant fleets. These measures have led to reductions in the conditions in the national shipping registers, establishment of a second register or international registers, the use of financial support, or a combination of the ones mentioned above. This development, lead by the great shipping nations, has cleared the way for new, more flexible regulations for governmental financial support within the EU.

The financial support systems are not supposed to develop at the expense of the economies of other member states, neither in such a way that they imbalance the competitive situation between the member states, so it obstructs the common interests. There is a comprehensive rule that explains that the governmental financial support is exclusively for ships and vessels registered in a member state.

Every form of governmental financial support is supposed to be made aware to the member states. It will also be reviewed by the Commission, from the point of view that the accumulated support is not allowed to exceed what was supposed to be paid in taxes and social expenses for companies in the shipping industry.

In the EU directive about acquisition of new ships and vessels, there will be a great restriction when it comes to governmental investment support. To some extent, support can be given if it helps to improve the equipment onboard the ship, and also if it stimulates the use of safe and environmentally friendly vessels by upgrading the vessels that are registered in the register of the union, in addition to the compulsory standards.[34]

The EU has decided to speed up the process of getting rid of the tankers with single hulls within two to five years, depending on the age of the tanker. There will be no single hull tankers from 2005 to 2010 that will tie up to a port within the EU or EES, carrying oil.[35]

All ships within the EU will, gradually, be equipped before 2008 with so called “transponders” that will send information telling the identity of the ship, its course and speed, to other ships and control stations within the area. The information will help to increase the level of security when navigating a ship, but it can also be used to, for example, track oil discharges from tankers.[36]

3.4.1 The 2001 White Paper on transport policy

On September 12, 2001, the Commission adopted the “White Paper on European transport policy for 2010: time to decide”. In its communication, the Commission noted that the aim of the document is to bring substantial

[34] Swedish Maritime Association *a*
[35] Metrofinans (2003)
[36] Lilja (2003)

improvements within the quality and efficiency of transport in Europe and to provide the Community with a strategy to gradually decouple transport and economic growth.

The opening of the markets has been a success for the common transport policy, but it did not make it possible to correct the unequal growth of the different modes of transport. Road transports now represents 44% of the goods transport market, compared to 41% for short sea shipping, 8% for rail and 4% for inland waterways. It is necessary to restrain the growing predominance of road transport by achieving a modal rebalancing. This will be achieved through 60 proposed specific measures for rail, maritime and inland waterway transport and for inter modality.[37] These measures are designed to shift the balance until 2010, by revitalising the railways, promoting inland waterway transport and linking up the different modes of transport.[38]

When it comes to promoting transport by sea and inland waterways, creating “sea-motorways” within the framework of the master plan for the Trans European Network is a key issue. To promote the re-flagging of as many ships as possibly to member state registers, the Commission has proposed a directive on the tonnage based taxation system, which is a tax related to the total amount of freighted goods that will replace the corporate tax. It is important that the competitive situation is neutral between the ship owners in the member states. Sweden has a net model today when it comes to taxes for the ship owners, but the most important cornerstone is missing, that the Swedish merchant fleet needs to be further developed. The tonnage based taxation is an important issue for the EU, and for Sweden, which is the only country within the EU that has not introduced the tonnage based taxation system or something similar. The

[37] Nordic-Baltic Transport Cooperation
[38] European Commission

experiences of other member states of the EU shows that it is the introduction of a tonnage based taxation system that has made the national merchant fleets grow. There is proposition, signed by most parties in the Swedish government (but not the Social democrats), that demands that the matter concerning the tonnage based taxation system will be reviewed as soon as possible.[39]

The efforts for maritime safety will continue. To combat ports and flags of convenience more effectively, the Commission will propose incorporating minimum social rules to be observed in ship inspections and developing a genuine maritime traffic management system. To reinforce the position of inland waterway transport, “waterway branches” must be established and transhipment facilities installed.[40]

[39] Swedish Ship owners’ Association *b*

[40] Nordic-Baltic Transport Cooperation

4 The Baltic Sea Region

The reader will in this chapter be introduced to the political work in Sweden regarding the Baltic countries and Poland and the forthcoming enlargement of the EU. This will be followed by an introduction to the Baltic Sea region including a short presentation of each country, that this master thesis concerns, and its shipping industry.

4.1 Sweden and EU in relation to the Baltic Sea region

During the past fifty years, the Baltic Sea has acted as a moat between east and west. The same sea now unites free countries and people through growing trade, cultural exchange, political cooperation and contacts between municipalities, companies and social movement. The Baltic Sea region has all the prerequisites to being one of Europe's most dynamic growth areas from a long term perspective.

Sweden's efforts on behalf of the Baltic Sea region – both within the EU and globally – are determined by changes in the conditions underlying foreign policy. Foreign and domestic policy have converged. The relationship between politics and economics is increasingly clear. Foreign policy involves both trade and investment, such as cooperation for development. Sweden's membership in the EU has provided Sweden with a platform for strengthening cooperation for development in our hinterland, in which the Baltic Sea plays a major role. [41]

4.1.1 The current Swedish Baltic Sea policy

In 1998, the Swedish parliament allocated SEK 1 billion for a programme entitled "Baltic Sea Billion 2" to be distributed over the next five years. The main purpose was to develop business and industry, and to improve the living

[41] Swedish Maritime Association *c*

conditions in the Baltic region. The Swedish government has selected a Baltic Sea Committee to write guidelines on how these funds should be used. The allocated funds have a definite business policy objective for Sweden. The idea is that the funds will strengthen the presence of Swedish business and industry, primarily in the Baltic States.[42] The Baltic Billion Fund 2 is used to implement the supportive measures recommended by the Committee on Economic Cooperation in the Baltic Region to address the needs of Swedish trade and industry. Public authorities and government-funded bodies are commissioned to carry out the measures with funds from the Baltic Billion Fund 2 in accordance with the approved guidelines, including one condition that they report back to the government. [43]

Of the million SEK 105 allocated in the 1999 budget, million SEK 43 has taken the form of a grant to the Swedish Trade Council and its involvement in what is referred to as "Marketplace Baltic Sea" *Action Plan for Maritime Transport in the Baltic Sea Region* programme. Other areas in which the Baltic Sea Billion 2 programme could be applied include its use as risk capital and for network building. Under the slogan "Sweden - Poland: Baltic Neighbours in the New Europe", stated in 1999 the government conducts a broad-based investment programme in order to increase contact between Poland and Sweden.[44]

4.1.2 Organisations and programmes for Baltic Sea cooperation

The Council of the Baltic Sea States (CBSS) was established in 1992, and its members are the five Nordic countries, the three Baltic States, Poland Russia and Germany, but also the European Commission. The organisation is working towards integration and cooperation within Europe. Through membership in CBSS, the Commission works together with the member states in order to

[42] Swedish Maritime Association *c*
[43] Ministry of Foreign Affairs – Baltic Billion Funds
[44] Swedish Maritime Association *c*

increase trade and investments, and to achieve other objectives, such as economic cooperation. Together with the eleven countries in the region, the European Commission signed two cooperation agreements in the port and maritime area. This work led to what is known as the Coordinating Committee, with participants from each country and the commission.[45]

The region is also achieving EU support, for example, the EU supports regional cooperation in the Baltic Sea region CBC (Cross-Border Cooperation) within the framework of the EU's Phare-programme; environment and transport investment support. The Phare-programme is a pre-accession instruments financed by the European Communities, to assist the applicant countries of central Europe in their preparations for joining the EU. The programme is aimed at two main areas: institutional development (30 %) and investments (70 %). Support focuses on the requirements imposed ahead of EU membership. The intention is that financing via Phare shall function as a base in which supplementary efforts and other international financial institutions, such as the World Bank, can provide assistance to help the preparation work. In practical terms, this means giving a new force to development actions based on cross-border networks of cooperation involving regional and local government, chambers of commerce, and other economic actors in neighbouring countries throughout the Baltic Sea Region.[46]

The BPO (Baltic Port Organisation), with 60 of the largest Baltic Sea ports as members, is an important body in the maritime and ports context. In response to a Swedish initiative, the shipping associations within the region have

[45] Swedish Maritime Association *c*

[46] EU Enlargement Information Centre

commenced the development of cooperation and, similarly, there is a regional cooperation in the trade union area.[47]

4.2 The enlargement of the European Union

One of the key tasks for Sweden in recent years has been preparation for the enlargement of EU, a process that encompasses all candidate countries, including the Baltic Sea countries and Poland. Major efforts are being made to adjust legislation as well as administrative structures to meet EU standards in the candidate countries.

A decisive qualitative step for the integration of the states into the EU was taken when the bilateral Europe agreement came into force on 1 February 1998. As a result of these agreements, contact interfaces between the various national administrations and the EU system were broadened. The possibility of participating in EU programmes in such areas as education, research and environment were opened up. In its review of the regulatory system with candidate countries, the EU Commission examines the legal provisions implied by the combined regulatory system and their importance.[48]

A referendum was held in Latvia on September 20th (2003), just a week after the Estonian referendum. Latvia were the last of the ten candidate countries to vote for a membership in the EU. The countries will become members together with Poland and Lithuania.[49]

[47] Baltic Ports Organisation
[48] Swedish Maritime Association *c*
[49] Svenska Dagbladet (2003)

4.3 Introducing the Baltic Sea region

The Baltic Sea area is a growing centre of economic activity, located at the crossroads between the industrial EU and the East, with rich natural resources and with a population of 300 million people. It will inevitably lead to a significant increase in goods flows in the near future in both directions, from east to west and vice versa. In total, 516 ports and terminals in the Nordic-Baltic Sea range had a total port throughput close to 700 million tonnes in 1998, of which 600 million tonnes were in international traffic.[50]

The Baltic Sea is in the northern part of Europe, where Sweden is one of the main actors in the region. Together with Germany, they dominate some of the links with 21 million tonnes, followed by Finland with 12 million tonnes. Germany is totally dominant in liquid bulk, dry bulk and manufactured goods. Germany's geographical position means that substantial cargo volumes to and from western and southern Europe pass through the country, which also is a gate to central and southern part of Europe.

According to forecasts, trade in the Baltic area will continue to expand in the years to come, with an annual growth rate between 4 to 6%. Consequently more ships will cross the Baltic Sea, which means more ships entering the ports in the region. The Intra-regional trade will play a significant role in the future Baltic Sea transport development.[51]

The standard of the ships in the merchant fleets in the Baltic countries were in bad shape in the beginning of the 1990s, even if there were some high standard ships. Most of the ship owners in the Baltic countries have been privatised during the last decade, and the fleets have been improved/modernised hand in

[50] Nordic-Baltic Transport Cooperation
[51] Ibid.

hand with the privatisation. Ships and vessels have been bought from abroad, and they are usually of a higher standard than the older ships in the fleets. There is a long tradition of shipping in these countries and they have great access to qualified and experienced people working in the industry. This contributes to making the shipping industries of these countries competitive.[52]

The shipping industry in the region has made tremendous strides and has adjusted to today's needs. The ships are bigger, more powerful, more environmentally friendly and safer than before. These changes have caused escalation in the risks related to safety at sea and to the pollution of the environment. The task of the regulatory regime developed by IMO instruments is to minimise such risks and at the same time to ensure that goods can be delivered to meet demand in an economical, timely and efficient manner. Shipping is probably one of the world's most international industries, but also one of the most potentially dangerous ones. IMO activities and EU policy in maritime safety plays a significant role.[53]

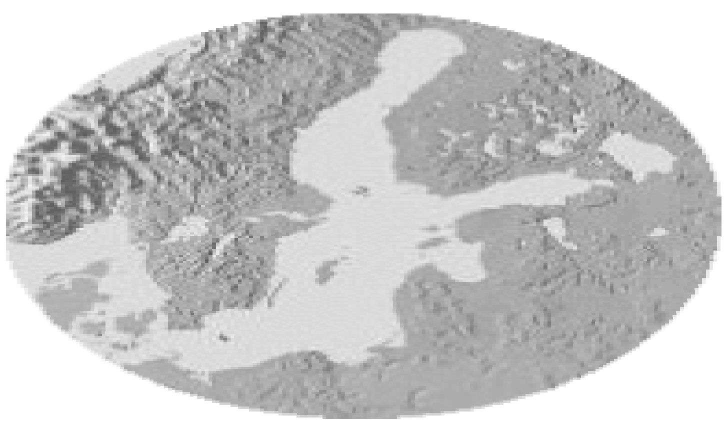

Figure 4-1: The Baltic Sea Region. Source: SCOPE

There is a demand for specific transport infrastructure within the candidate countries. Lithuania and Latvia emphasise the need to improve the

[52] Lilja (2003)

[53] Nordic-Baltic Transport Cooperation

infrastructure regarding tourism. The development of harbours and ports is slowly going forward, and also the infrastructure, but the countries economies is low and are in great need of financial aid. The ports today are just capable of dealing with some kinds of ships. Small harbours are considered as an opportunity for regional development.

Following the positive tendencies of cross-border and trans-border cooperation, the Baltic Sea Region can be considered as a positive example, where social and economic problems exist. The main objective is to improve the living conditions of the people, to promote mutual contacts and eliminate historical prejudices.[54]

4.4 Sweden

Sweden's geographical position and its dependence on foreign trade mean that shipping plays an important role in the Swedish transport system. The economy has recovered in recent years after a deep recession in the beginning of the 1990's. The Swedish Maritime Administration expects the international shipping volume to and from Sweden to grow by 2% per year in the years ahead. The reduction of the Swedish merchant fleet continued in 1998 but then ceased at the end of the same year as a result of a new maritime policy agreed by the Swedish government and the parties in the maritime labour market.[55]

At the end of 1998 the Swedish flagged merchant fleet consisted of 412 vessels with a gross tonnage of 2.7 million. The decline of the Swedish controlled fleet continued during 2002. By the end of the year, the fleet stood at 567 vessels of 10.33 million dwt according to statistics from the SAI (Institute of Shipping Analysis) in Göteborg, down by three vessels and 0.73 million dwt since the

[54] Euroregion Baltic Council

[55] Baltic Maritime Outlook 2000

end of 2001. The fleet has been reduced by more than half since 1997 when figures over 23 million dwt were recorded. The reason for the decline is almost entirely the loss of some great shipping companies, whose ownership has been taken over by foreign investors. In spite of the decline, 2002 became a positive year for Swedish shipping when also 10 new ships with a total dwt of 0.5 million tonnes were delivered to Swedish ship owners during 2002. It was the first full year when the industry benefited from the new shipping policy, introduced by a large Parliament majority in the autumn of 2001.[56]

Swedish ship owners control a considerable merchant fleet under Swedish and various foreign flags. In comparison, Sweden has one of the largest foreign flagged fleets among the European maritime nations and the fleet is among the 10 largest merchant fleets in the world.[57] The trend of flagging out Swedish ships has almost been stopped and some tendencies of re-flagging of ships have been seen. Since the measures concerning the governmental financial aid and the TEP-agreements was adapted, some 20 vessels have been registered in the Swedish register, and there are a few more expected. Seen to the potential effects, Sweden has a good shipping policy that takes care of the opportunities in the shipping policy of the EU.[58]

Depending on the type of ship, size, age and acquisition value, the share of costs can vary greatly in the production for some ships. The part of capital varies between 20-70% and the employment cost from 5-30%. From 2001, all the tax and the total social costs for the personal onboard are credited by the employer. It ought to be noted that according to Swedish agreements 50% of the onboard personal should be EU/EES-citizens, while the share is about 15-

[56] Scandinavian Shipping Gazette

[57] Swedish Ship owners' Association

[58] Swedish Maritime Administration *b*

30% among other countries. Depending on the amount of employees onboard a vessel that are not members of the EU, together with the factors mentioned above, the costs for identical ships, under the same flag can vary.

The change in the payment costs, both as contracted and payment movement, has been hold responsible for Sweden a decrease for the year 2000/2001 by 5% down to 4%. The payment movement is usually lower on smaller ships than on bigger ones.[59]

4.4.1 Ports and shipping in Sweden

The Swedish Maritime Administration is the government body responsible for fairways, pilotage, ice breaking, maritime search and rescue. Through its Maritime Safety Inspectorate, the Administration is also responsible for the safety onboard Swedish ships and in Swedish waters, port state control. The objectives are to promote safe and environmentally-friendly shipping and to do so in a way that recognises shipping as an effective mode of transport.

Although it is a government organisation, all costs are in principal covered by fees and dues on ships calling Swedish ports. The government steering of the Administration is performed by predetermined goals for every sector of activity and financial goals concerning solvency, pricing and rate of return for the Administration as a whole.

In recent years principally important parliamentary resolutions have given the Swedish Maritime Administration a wider role to play by imposing a sector-oriented responsibility for the entire maritime area. Extensive development work is in progress within the EU in the area of transport and shipping policy. The port sector has recently become a prioritised area within EU and the

[59] Swedish Maritime Administration *b*

Swedish Maritime Administration, together with the Ports Association of Sweden, has reviewed the Swedish ports' situation.

Traditionally the local port authority covers its costs by fees based on the ships and on the goods according to a stipulated tariff. The individual stevedoring company covers its costs by commercial agreements. Today, Sweden has about 50 public ports and a number of industry-owned loading wharfs. Of these ports, the ten largest handle 80% of the total volume in Swedish ports. The development in the Swedish port system has to date resulted in an integration of the administrative and stevedoring functions. So far, about 30 businesses have merged to form larger units. The municipality is in most cases the majority shareholder in port companies. Such organisations have been established in a number of ports, including Göteborg which is the biggest port in Sweden, Malmö and Stockholm.

The Ports of Stockholm are comprised of the ports in Stockholm, Kapellskär and Nynäshamn. The Port of Stockholm is the central port for freight and passengers to and from Finland, Russia and the Baltic states. The ports at Kapellskär, 90 km north of Stockholm, and Nynäshamn, 60 km south of Stockholm, are the outports which, with their shorter entrance channels, form a supplement to the central port.

The port of Oxelösund is a full-service port situated just north of Norrköping. The port handles and stores heavy fuel oils.

The Port of Norrköping, also situated on the east coast of Sweden, has the capacity to handle most types of cargo. The most important products are timber, oil and agricultural products. A speciality of the port is the handling of very heavy cargo.

The Port of Karlshamn is the dominant industrial and commercial port on the south-east coast of Sweden. The port handles different kinds of products, e.g. oil products, forest products and minerals, raw materials for the food industry as well as containers and Ro Ro-cargo.

The Port of Trelleborg, Sweden's most southerly port, is one of the largest ferry ports in Scandinavia. Some 99% of the handled freight is ferry volumes. Freight transport is growing at a high rate and the Port of Trelleborg handles approximately 15% annually of Swedish foreign trade in terms of value.[60]

These five ports are the most important ports in Sweden when it comes to goods flows and permanent links to the Baltic countries and Poland, because of their location on the coast of the Baltic Sea.

4.5 The Candidate countries

A long time ago, Lithuania became one of the most powerful nations in Europe, its territory stretched from the Baltic to the Black Sea. The Estonians and Latvians came under Swedish rule in 1561 and 1629 respectively, and then, in the course of the 18th century Russia annexed the territory of all the Baltic countries. Not until 1918 were the three countries able to declare their independence. During the first few years under the former Soviet Union, a large proportion of the Baltic population were killed in action or deported to Siberia, or fled to other countries. In 1991, all three Baltic countries regained their independence.[61]

[60] Baltic Maritime Outlook 2000

[61] Utenriksdepartementet

The Candidate countries are located on the eastern coast of the Baltic Sea: Estonia in the north, Latvia and Lithuania in the centre and Poland in the south. In east Estonia and Latvia border Russia, Latvia and Lithuania to Belarus, and in the south-west Lithuania borders Poland and the Russian Kaliningrad area. The Candidate countries are covered by large tracts of forest and fertile farmland in a low-lying, undulating landscape.[62]

The Candidate countries are republics where the president has somewhat greater power in Lithuania and Poland than in Latvia and Estonia. A characteristic feature of the political system since independence has been the large number of political parties and frequent changes of government. Economic development is now under control in all four countries. After a few years of high inflation, the rise in prices is now less than 15 per cent per year, the exchange rate is stable in all three countries, foreign investment is rising, and the economy in general is moving in the right direction. However, there is still a considerable degree of social inequality and many people live in poverty.[63]

The Baltic countries are particularly well known for their song festivals, when tens of thousands of choir singers from all over the country fill the stadium of the capitals every five years.

[62] Utenriksdepartementet
[63] Ibid.

4.5.1 Estonia

Estonians has been in the Baltic region since approximately 2,500 B.C., which makes them the longest settled of the European peoples. Due to Estonia's strategic location as a link between East and West, it has been highly popular through the ages by rapacious kings and conquerors.

Figure 4-2: Estonia. Source: www.baltic.ws (2002)

In the late 19th century a powerful Estonian nationalist movement arose. In 1918, Estonia declared its independence. The independence was short, and Estonia was forcibly controlled by the Soviet Union in 1940. But in 1991 Estonians again reasserted their independence, and peacefully broke away from the Soviet Union.[64]

Estonia is known as an important transit country since old days, when products where transported through the country, like a passage from the coast to the inland. In recent years it has emerged as one of the fastest adjusting and developing economies in the Baltic Sea region. Also the transport infrastructure has been developed in a quick way and much as a result of Estonia's coastal location.[65]

[64] Baltic countries
[65] Brodin

The capital of Estonia is Tallinn, which also has the major port of the country. The port was one of the first large state enterprises to be formed as a stock company where the state is the main shareholder.

Since Estonia will become a future member of the EU, the eastern border of the country will turn out to be the eastern border of the EU. To make it possible for transit volumes to continue to rise, a continued high level of investment in infrastructure as well as transport support functions must be maintained. From a transport point of view, it can only be expected that a positive development in Russia can help to make the Estonian transit corridor increase it's attractiveness for transit cargo, and to maintain the development.[66]

Sea transportation and transportation in general, play an important role in the Estonian national economy. The main part of transportation income is generated by international shipping and port services. Transit traffic and management of roads are the main activities for more than 3 500 enterprises, which make up nearly 9% of the GDP for Estonia and employ 7% of the workforce.[67] Transit services are a profitable export sector for the nation, and their future development is therefore a top priority in Estonia's economic policy work, especially now after entering the EU.

Transport via Estonia has, proportionally, grown the most among the Baltic countries, with the amounts almost doubling to reach 17 million tonnes over 1993-97. The last year of the period was one of strong growth: transport grew by 18%. Growth in the share of liquid bulk (oil products) was especially strong, and this category now constitutes 47% of transport tonnage.[68]

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[66] Brodin
[67] The Baltic Maritime Outlook 2000
[68] Seminar; New trade Patterns

4.5.1.1 Ports and Shipping in Estonia

In the last couple of years the Estonian and Finnish flag have been dominant, and their share of the number of port calls is also increasing. When looking at the export-import volumes, most part is transported by ship, around 48%, 41% respectively 11% by rail respectively trucks. The general volume of investment in the transport sector represents 20% of the total investment in Estonia. Total port throughput in Estonia amounted to 27 million tonnes. Of this, 11 million tonnes (41%) are estimated to be intra-regional.[69]

One of the largest and most important ports is Tallinn from an international point of view. Tallinn has the biggest port enterprise in Estonia and is located strategically in the middle of the coastline. The ports are divided into four harbours, Muuga, Vanasadam, Paljassaare and Paldiski Lounasadam. These ports handle all kinds of cargo, with the Muuga port being by far the most important one. The ports, compared to others in Estonia, are technically well equipped. They have capacity to both store and process goods of many kinds.

The port of Muuga was opened as recently as in 1986. Today, the port has been turned into a multipurpose port with a capacity to handle oil products, coal, fertilizers, metals, cars, containers and many other types Ro-Ro and Lo-Lo cargoes. There are a total of 25 handling companies working in the harbour. The majority of them, and also the biggest, work with the handling of oil products, which has expanded fastest of all cargo products during last couple of years[70].

[69] The Baltic Maritime Outlook 2000
[70] Brodin

The City Port has turned into a passenger port that brings about 6 million passengers per year back and forth during the last three years. Still some transportation of goods, a mix of clean goods, like containers and metal occurs.

The maritime infrastructure through the Estonian National Maritime Board and the Vessel Traffic Service is administered by the Maritime Department at the Ministry of Transport. Even if the ports have been transformed into independency for the companies, the state owns all the shares and the Ministry has the greatest responsibility for the ports.[71]

The largest and oldest shipping company in Estonia is ESCO (Estonian Shipping Company). In 1999 the full privatisation of ESCO was completed, having started from the initiative of the Estonian Government in 1997. By now ESCO is one of the major shipping companies in the Baltic States, based on Norwegian private capital through the ownership of ESCO by Norwegian shipping group Tschudi & Eitzen.[72]

[71] The Baltic Maritime Outlook 2000
[72] Estonian Shipping Company

4.5.2 Latvia

Latvia is a former constituent republic of the USSR, the old Soviet Union. It borders, Estonia, Lithuania, the Baltic Sea and Gulf of Riga, Russia, and Belarus. The largest city, Riga is also the capital. After seven centuries of foreign domination, Latvia is once again independent and transforming itself into an economically enthusiastic democracy, ready for the challenges of the 21st century.[73]

Figure 4-3: Latvia. Source: www.baltic.ws (2002)

Latvia has been an important trading centre and strategic pawn in the Baltic region for centuries. Latvia has been independent for more than 600 years. But in 1940, the Russians took over the country once again, after which Latvia was incorporated into the Soviet Union. In 1991 Latvia's independence was finally secured and a few years later they changed from the Rouble to their own currency, EEK (Kroon).

Latvia plays an important role on a European scale. Although it is a small country, geographically, it is located between two big markets – the Russian Federation and the EU. Latvia is the biggest maritime transport country among the Baltic countries, being responsible for almost half the goods transport on the eastern coast of the Baltic Sea. Growth at its ports has also been fast, totalling over 80% a five year period.

[73] Baltic countries

During the last two years, the Latvian economy has made a strong recovery following virtual stagnation in the aftermath of the Russian crisis. Real GDP grew by 6.6% in 2000 supported by strong growth in exports and private investment. While growth in 2001 is likely to decelerate given the external environment, the indications so far are that growth is continuing at a strong pace.[74]

Transport via Latvian ports focuses very much on transit, which accounts for over 90% of goods transport in the country's most important ports. Total port throughput in Latvia amounted to 47 million tonnes. Of this, 22 million tonnes (47%) are estimated to be intra-regional.[75]

4.5.2.1 Ports and shipping in Latvia

In Latvia there are ten commercial ports, of which three dominates the goods volumes completely. The main ports are Ventspils, Riga and Liepaja, where Ventspils dominates the volume with the port's focus on handling liquid bulk products. Together, the three ports had a volume of 48 million tonnes loaded and unloaded in 1997.[76]

The growth of transport in Latvian ports arises from goods other than the traditional oil. At Riga, the transport of containers and metal has grown. Railway statistics show that the significance of the Belarus area has risen, with growth having increased by as much as 83% last year.

The Latvian Ports are headed by the Council of ports in a hierarch way. This is a visionary and long-term strategic decision making body of the Latvian ports structure. In charge of the council is the Prime Minister of Latvia.

[74] European Bank
[75] Brodin
[76] The Baltic Maritime Outlook 2000

Representatives are also administrators and local governments' leaders. Each port has a port board, which is responsible to the municipality where representatives from Ministry of Transport, local government, companies sit. The port authority assumes operational responsibility for the port and makes the infrastructural investment decisions and is responsible for the maintenance of the ship channels.[77]

The biggest of the three major ship owners in Latvia is the Latvian Shipping Company, which is state owned and mainly has tankers and reefers, and also many vessels. The other two are Riga Shipping Corporation and Riga Transport Fleet, the first one owned by the Norwegian company Norlat Shipping and the other one is owned by a Greek shipping company. Latvian ship owners do not receive state aid or subsidies of any kind from their own government.[78]

Ownership is dominated by Latvian companies, organisations and private individuals, but many ships, such as vessels and other types are owned by foreign interests. The majority of the reefers and the larger tankers are foreign flagged.

[77] The Baltic Maritime Outlook 2000

[78] Ibid.

4.5.3 Lithuania

Lithuania was one of the first republics to break away from the Soviet Union at the time of its collapse in 1991. Today, Lithuania is an independent democratic republic. It has an elected president as the head of state and an elected parliament called the Seimas. Both the government and the Supreme Court are selected. The division of power is guaranteed by the Constitution, which was adopted by national referendum in 1992.[79]

Figure 4-4: Lithuania. Source: www.baltic.ws (2002)

Like the other Baltic countries, Lithuania has gone through a great restructuring process. The privatisation process has been completed, at least for small and medium-sized companies. Until 1996, more than 6000 companies had been privatised and there were some 1.5 million shareholders in the country. Such as process of privatising the larger companies has been slower. Industries like wood and textile have done well in all the Baltic countries during the period from 1996. The dependence on Russia is still substantial but is gradually decreasing. The transit of goods to and from Russia, Ukraine and Belarus is an important business for the country in general and for the port of Klaipeda mostly.[80]

[79] Baltic countries
[80] The Baltic Maritime Outlook 2000

4.5.3.1 Ports and Shipping in Lithuania

Activities in the ports and shipping industry in Lithuania are generally not financed by the state. Some activities such as searching and rescuing equipment are paid and sponsored by the government. Port developments are state guaranteed and Lithuania has received some credits and grants from international bodies such as the EU and the European Bank for Reconstruction and Development.[81]

Klaipeda is the main port of Lithuania from where they transport oil products and containers. In the last couple of years the port has not been developed at the same rate as other ports around the Baltic region, because of the financial background of the country.

The transportation grew in 1997, and even though the amount transported were smaller than at Tallinn, the growth increased. Overall, transport at Klaipeda developed more slowly than at competing ports.[82]

Klaipeda is the only port at the coast, besides the oil terminal in Buting, in Lithuania. The Klaipeda State Seaport Authority and the Harbour Master are responsible for the full range of port activities. The port authority is assigned many of the duties that in other countries fall under the supervision of a national maritime administration or another government body, such as keeping the ships and seamen’s register, ship inspections or search and rescue activities.[83]

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[81] The Baltic Maritime Outlook 2000
[82] Seminar; New trade Patterns
[83] The Baltic Maritime Outlook 2000

The Government of Lithuania is the main actor and head of the Maritime Administration organisation, with four ministries that are involved in one way or another. This is the ministries of Finance, Environment, Internal affairs and Transport and they control and regulate each sector.

The biggest and most powerful freight company in Lithuania is the LISCO (Lithuanian Shipping Company). The company is state owned and the majority of the ships are vessels.[84]

[84] The Baltic Maritime Outlook 2000

4.5.4 Poland

A proud country with a history that dates back at least 1,100 years, many countries have tried to conquer Poland, among them Sweden. From 1830 on, Poland became more and more influenced by Russia. In 1939, Germany attacked Poland along with the Soviet Union. Poland had one of the largest populations of Jews in Europe, at that point. Poland suffered great losses during the world war, including the destruction of nearly its entire population of 3,000,000 Jews.

Figure 4-5: Poland. Source: www.help/ev.deigure (2003)

By 1949, the communist party was in control of Poland. Under communist rule, Polish inhabitants lived under tight control. Solidarity, a national labour union, became a uniting force for the country and its charismatic leader Lech Walesa, became president. Poland has become a strong economic force in Eastern Europe, with much foreign investment. In 1999, Poland joined NATO, the ultimate step in ensuring Poland's protection from any Russian plans to re-establish domination over the area.[85]

Poland is the largest among the East European countries, and will in 2004 join the EU together with the Baltic States. Poland’s size is comparable to Italy or Germany, and with a population of approximately 39 million, it ranks among

[85] Nation by nation

the most influential and remarkable countries in central and Eastern Europe. Poland is nowadays a country with a stable democracy.

The 1990s have been a period of radical change in Poland and the process is not in any sense completed. On the external level, the intentions and directions for further development are outlined were the membership of EU is a new starting point. How fast the progress will be depends on many internal factors, like the privatisation and the development of some components. Components like efficiency improvements, ability to attract private capital into the transport sector and choice of strategies.[86]

4.5.4.1 Ports and shipping in Poland

The major commercial seaports in Poland are Gdansk, Gdynia and Szczecin-Swinoujscie. These ports together handle more than 95% of the total through put, which is about 50 million tonnes. General cargo and container volumes have been greatly developed during the last couple of years, but had peaked in 1994.

Both Gdynia and Gdansk are located in the same county and on the basis of political decisions made earlier, Gdansk specialises in bulk and Gdynia in container and general cargo. The situation now after the reorganisation of ports is that there is growing competition between these ports for container goods. Gdynia is totally dominant in general cargo and containers, but Gdansk has plans to also build a new container terminal to be able to compete in the fast growing container, feeder market. Stiff competition between the ports points to a need for new investment.

[86] StayPoland.com

The Polish shipbuilding industry, which is an important income for the port, has clearly consolidated its position in the Polish economy over the past two years. In mid 2000, it ranked fourth in terms of shipbuilding orders and eighth among leading ship producers in the world. Its order book suggest good development prospects, as it tries to differentiate income sources and make itself independent from trends on the international shipbuilding market.

Polish Maritime Administration, in charge of Minister of Transport and Maritime Economy, provides the access to all harbours of major importance for the national economy, by establishing fairways, anchorages and study of the shipping conditions in approach areas of the harbours and marinas. These are the duties of the maritime administration and result from the Act on Sea Areas of the Republic of Poland and Maritime Administration. Fairways with buildings, equipment and installations – including navigation and positioning systems, which are connected with marine fairway's functionality, are an infrastructure providing the access to harbours and marinas.

Polish Ocean Lined is the biggest liner and shipping company in Poland. It is still a state owned enterprise but is well on the way to privatisation. Another big company is the Polish Steamship Company which is a state owned stock company, also on its way to become privatised.[87]

[87] The Baltic Maritime Outlook 2000

5 Goods flows in the Baltic Sea Region

This chapter will introduce the reader to the present goods flow and the different types of goods that are shipped between Sweden and the candidate countries in the Baltic Sea region. Two of the main flows in the region will also be presented. A simulation of the potential future goods flows will then follow, together with an introduction into the current competitive situation and a supposed future development of the competitive situation in the Baltic Sea region.

5.1 Transit trade in the Baltic countries

Development of transit industry has a critical role in the development of the economies in the Baltic States. Transit is a vital industry, which is experiencing a very rapid growth at the moment. Research shows that this industry has one of the brightest future outlooks and it will show substantial increases in its competitiveness, when the Baltic States have entered the EU. Ports are fundamental for the links in the cargo transit in the territory of the Baltic Sea region, and there are favourable prerequisites for development of their operations. There are also some heavy investments required in infrastructure in the Baltic countries and Poland, in order to transport the goods away from the harbours to the end customers.[88]

Hansabank Group, which is the largest financial institution in the Baltic countries[89], has established a special department for financing transit and commodities in each of the Baltic States. They have made some large investments into the arteries of the Baltic transit – ports of Riga, Ventspils, Klaipeda and Tallinn. Currently the most rapid growth has been experienced by

[88] Frisk (2003)

[89] Hansabank Group

the port of Muga in Tallinn City. With the help of financing provided by the Hansabank Group, new terminals for oil products and coal are being built. In Lithuania, they have helped to rapidly develop the port of Klaipeda. The Hansabank Group has financed the Riga Central Terminal, Ventspils Free Port and other objects related to the transit business in Latvia.[90]

According to Mr. Druvis Murmanis, Head of Corporate Banking Division Hansabank Group, transit industry will experience a rapid growth, as soon as the Baltic States have joined the EU. The Baltic States will be the eastern boarder of the EU and European countries will still be large consumers of Russian raw materials, therefore the importance of advantageous geographical location of the Baltic States will certainly grow. Development of the transit industry will be fostered by the availability of resources from the European structural funds because a large part of these funds are envisaged for financing of logistics and the establishment of cargo distribution hubs. Mr. Murmanis also believes that transport and transit industries in the Baltic States have a huge growth potential, especially in the sectors related to goods transportation by sea, which still is the cheapest kind of transportation.[91]

Because of the expansion, “new” goods flows will appear in an east-west direction since Poland and the Baltic States will have access to the free movement on the inner market. The EU has already investigated what can be done to avoid major congestion problems on the roads in Europe, if all goods should be shipped by road in east-west-east direction. Proposals in the so called TEN- project suggest that the goods from the countries in the Baltic Sea region should be transported by sea. Sweden is well prepared for such a scenario.[92]

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[90] Transport Weekly
[91] Murmanis (2003)
[92] Terling (2003)

The infrastructures in forms of roads and railways have the capacity for handling big goods flows, but the problems today are the border crossing difficulties.[93]

[93] Lilja (2003)

5.2 Port calls in the candidate countries

In Table 5-1, the total amount of port calls in the candidate countries is illustrated. The table presents the total amount per year of port calls from all the different countries and for all kinds of ship types. The table gives a picture of what the goods flows looks like in the candidate countries in the Baltic Sea region. The bulk and the dry cargo are without question the two biggest flows. Container, RoRo, chemical tanker and product tanker are other ship types that are common.[94]

	2002				2001			
Ship Type	**Estonia**	**Latvia**	**Lithuania**	**Poland**	**Estonia**	**Latvia**	**Lithuania**	**Poland**
Bulker	1,256	1,557	738	1,862	1,290	1,685	677	2,080
Combination	48	65	13	4	53	79	2	6
Dry Cargo	2,121	2,809	1,255	3,183	2,384	2,500	1,298	3,184
Container	338	223	112	635	418	222	90	747
RoRo	300	199	275	879	248	175	247	743
Reefer	39	64	181	184	36	73	158	247
Passenger	163	144	18	109	77	101	70	101
Miscellaneous	5	2	5	4	5	1		8
Crude Oil Tanker	122	111	70	48	97	189	56	50
Product Tanker	615	733	246	453	640	714	320	454
Chemical Tanker	273	562	134	517	330	453	177	521
Gas Tanker	4	59	7	149	3	82	7	123
Offshore	2	7	2	4				1
Unclassed	130	111	68	273	102	118	119	345
Total	**5,416**	**6,646**	**3,124**	**8,304**	**5,683**	**6,392**	**3,221**	**8,610**

Table 5-1: Port calls in the Baltic countries. Source: Lloyd's Marine Intelligence Unit & Lloyd's Register Fairplay (2003)

The grey areas in the table illustrate an increase between 2001 and 2002. It is hard to determine patterns because the table is based on only a one year interval.

[94] Lloyd's Marine Intelligence Unit & Lloyd's Register Fairplay

The total amount of port calls can vary from year to year, and the patterns have to be based on a period of years. But according to the table, the amount of port calls in Estonia, Lithuania and Poland have decreased in the two years. A reason for this is higher utilisation of the vessels and more effective transportation. Another interesting aspect is that the RoRo traffic has increased in all the four countries in the Baltic region.

Poland has the highest number of port calls, followed by Latvia, Estonia and then finally Lithuania with the lowest number of port calls. The only country that has increased its number of port calls is Latvia.

When focusing on the relation between Sweden and the candidate countries when it comes to Swedish port calls per year, one can see a similar pattern in number of port calls in Table 5-2.[95]

COUNTRY	**FLAG**	**No of port calls**	**No. Of ships**
Poland	SWE	540	63
Latvia	SWE	391	64
Estonia	SWE	208	47
Lithuania	SWE	101	31

Table 5-2: Swedish port calls in the Baltic countries. Source: Lloyd's Marine Intelligence Unit & Lloyd's Register Fairplay (2003)

Poland has the highest amount of visits followed by Latvia, Estonia and then finally Lithuania with the lowest number of port calls. But the numbers of ships that call to the Polish and Latvian ports are almost the same. In other words, the port calls in the Polish ports are more frequent with higher traffic.[96]

[95] Lloyd’s Marine Intelligence Unit & Lloyd’s Register Fairplay
[96] Ibid.

When focusing on the other direction one can see in Table 5-3 that the Lithuanian ship owners have the highest number of port calls in Swedish ports followed by Estonia, Latvia and Poland with only 48 port calls. Poland only has 5 ships serving the Swedish ports and Latvia only 2 ships.

COUNTRY	**FLAG**	**No of port calls**	**No. Of ships**
SWE	Lithuania	198	32
SWE	Estonia	106	21
SWE	Latvia	96	2
SWE	Poland	48	5

Table 5-3: Baltic countries port calls in Swedish ports. Source: Lloyd's Marine Intelligence Unit & Lloyd's Register Fairplay (2003)

5.3 Types of goods and goods flow in the Baltic Sea Region

The goods that currently dominate, and are expected to dominate the future trade between Sweden and the forthcoming member states differ in terms of imports and exports. Goods transported unpacked in bulk carriers, so called bulk goods, are the most common imports to Sweden. This import, about 7-8 million tonnes per year, consists mainly of oils, wood, raw materials, coals, ores, minerals and chemicals. Wood products are a major import category, especially from Estonia in the form of garments, and Poland in the form of furniture.[97] Sweden's balance of trade with the candidate countries is positive, meaning that exports are larger than imports, in terms of value. But there are considerable imbalances in goods flows. Import tonnage is much higher than export tonnage. Consequently, the value of Swedish exports is higher than the value of goods imported from this group of countries. This becomes particularly clear when one views exports and imports distributed by goods

[97] The Swedish Maritime Association *c*

category. Processed goods, machinery and engineered products account for a much larger share of total export in terms of value compared with the volume in tonnes.

When focusing on the import and export category from the Baltic countries to Sweden, one can see patterns in the goods flows in the Tables 5-4 to 5-9. There are six different categories of goods:[98]

- General cargo – including trucks, trailers and containers.
- Pulp wood – all types of wood in the form of logs and chips.
- Bulk – all forms of bulk cargoes not included in other categories.
- Ore – all types of mineral ores including metal scrap.
- Coal – all types of coal and coke.
- Oil – all types of crude oils and oil products.

5.3.1 Goods flow between Sweden and Estonia.

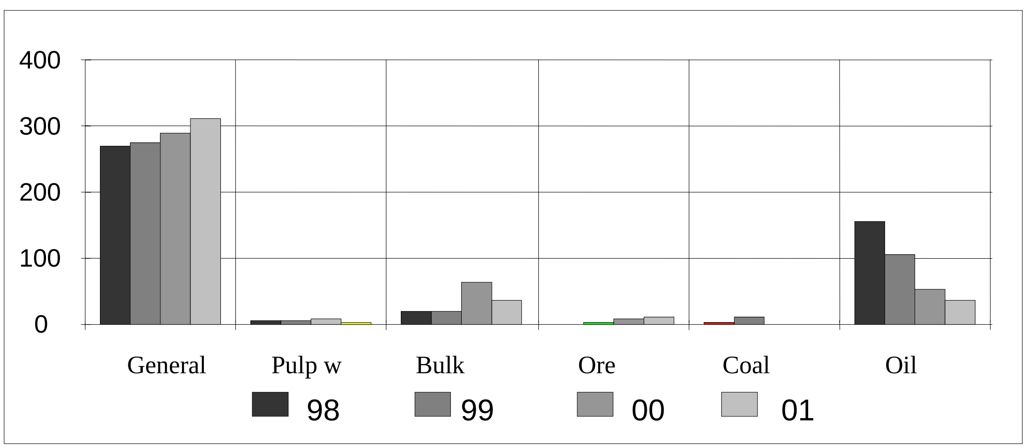

Table 5-4: Swedish exports/category to Estonia 98 – 01 (1000 tonnes). Source: A Brodin (2003)

As one can see in the Table 5-4, it is important to have a ferry connection for handling general cargo between Sweden and Estonia since the goods flows are

[98] Brodin

increasing. The Swedish export to Estonia is dominated by general cargo, as most of the total export to Estonia is classified in this category. Sweden started to export oil products to Estonia during the 1990's, a trade that Finnish suppliers dominate these days.

When it comes to the bulk volume, it is the agriculture-bulk export that makes up the most of the exports, but more than the full difference recorded between 1999 and 2000 was stone, which has been maintained during 2001. Out of the other categories one can see that the export of pulp wood, ore and coal are very small export categories from Sweden to Estonia.

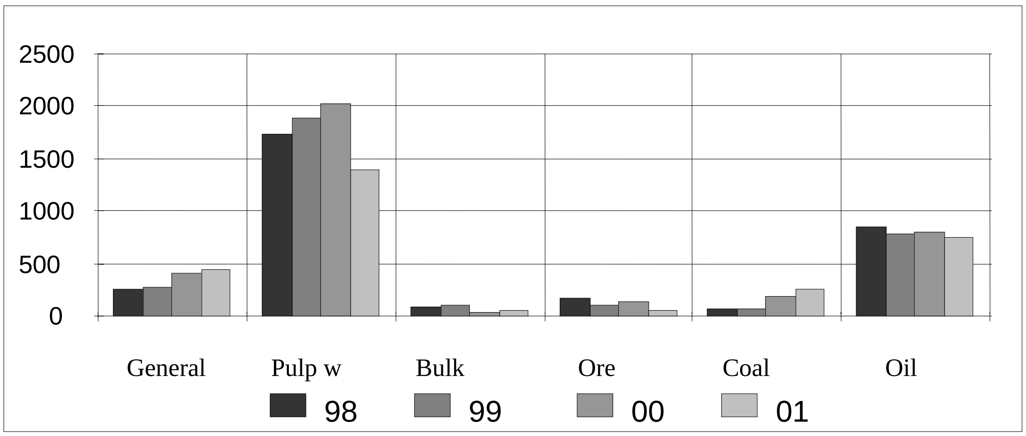

Table 5-5: Swedish imports /category from Estonia 98-01 (1000 tonnes). Source: A Brodin (2003)

In Table 5-5 the amount of goods are illustrated, which shows that the biggest category of goods imported from Estonia to Sweden is pulp woods.[99] The category has been growing in volume over the period, from 377 000 tonnes in 1993 to having passed 2 million tonnes in 2000, a growth of 420% of pulp wood. This is an insatiable volume that can be characterised in the table.

[99] The Swedish Maritime Association *c*

With regards to imports from Estonia the general cargo shows similar patterns of increase as on the export side. This pattern indicates that these two are fairly well balanced which means that this relation is probably developing into an exchange of goods, resembling the trade patterns between most industrial countries, and is to a lesser extent the result of transit trade.[100]

The expansion of oil handling in the port of Muuga has so far proved successful and Sweden has also come to import considerable volumes via Estonia. In 1993 the volume was only 124,000 tonnes, but has increased to 844,000 tonnes in 2001, and also stabilised at that amount. Coal handling has had a slight recovery during the last two years. The ore category shows a falling volume compensated by a rising share of scrap in later years. Transit volumes in Estonia of dirty bulk, like coal, ore and fertilisers, have probably been reduced also by local initiatives to move handling out of the City Harbour in Tallinn to the Muuga Port, to clear areas for expanding ferry traffic. In later years new areas in the Muuga port have been set aside for this kind of handling and large investments have been decided, so cargo handling can increase.[101]

5.3.2 Goods flow between Sweden and Latvia

Swedish exports to Latvia have seen a very quick expansion in the general cargo category. After a downturn in 1999, as can be seen in Table 5-6, it has increased steadily. For general cargo, the base flow has been counteracted by the same stop-and-go problem with the ferry connection servicing the Stockholm and Riga connection, while the Liepaja and Karlshamn connection has been operating since late 1995 and the connection to Ventspils from Västervik/Nynäshamn since 2000. As in Estonia, the exported volume of oil is decreasing. In 1997 Sweden exported about 216,000 tonnes of oil to Latvia,

[100] Brodin
[101] Ibid.

much because of increased domestic car ownership and non-existence of Latvian oil refining capacity. But that quick expansion declined to 140,000 tonnes in 1998 and has now been reduced steadily for every year that passes. There are no considerable export volumes from the last two years. The relatively large volumes in the bulk category for certain years are the combined result of Swedish exports of cereals and granite, for construction purposes, to Latvia.[102]

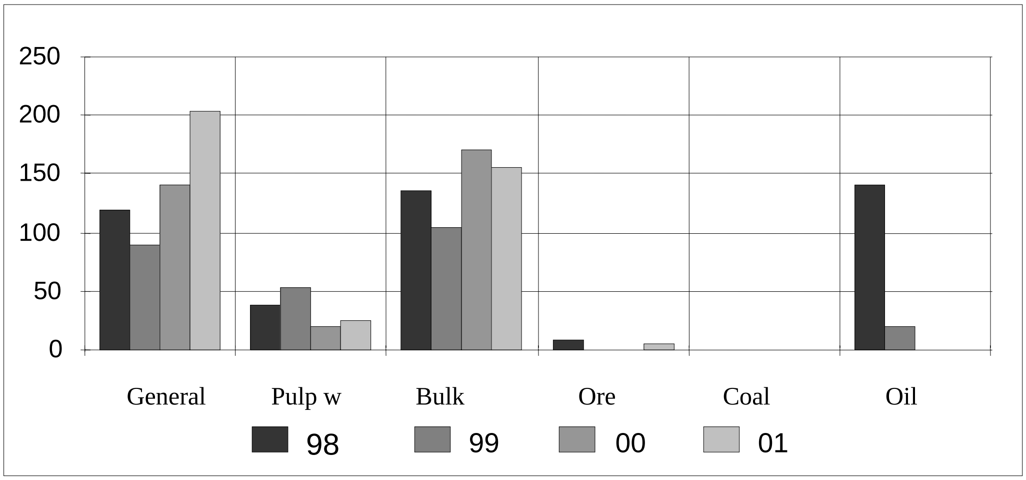

Table 5-6: Swedish exports /category to Latvia 98-01 (1000 tonnes). Source: A Brodin (2003)

The volumes imported from Latvia to Sweden are the largest from the Baltic countries, with the pulpwood volumes that clearly dominate Swedish imports. Shifts in demand in different years have been considerable. However, the last years volumes have been stabilised and are showing an increase.[103]

[102] Brodin
[103] Ibid.

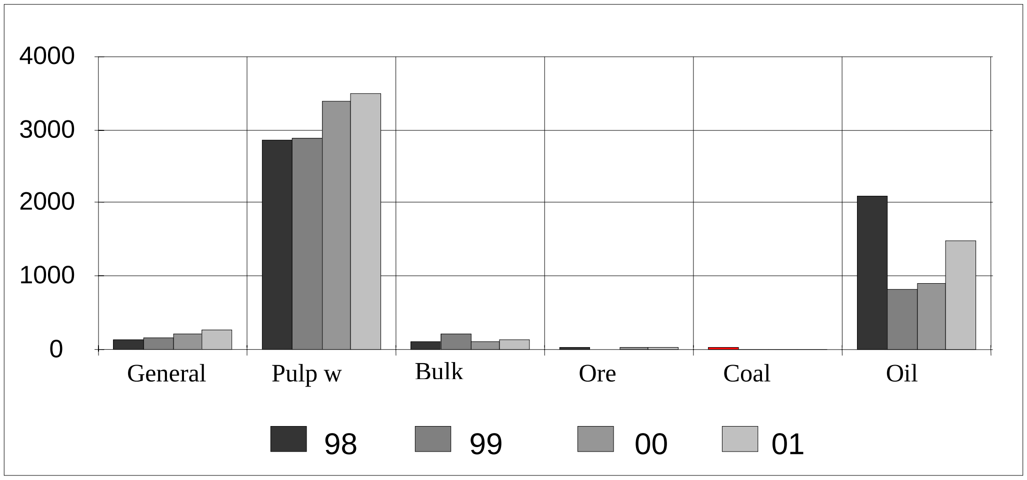

Table 5-7: Swedish imports /category from Latvia 98-01 (1000 tonnes). Source: A Brodin (2003)

Swedish import in the oil category has been above 850,000 tonnes over the last few years, with peaks in 1998 and again in 2001. General cargo turnover has been increasing over the last few years. The only other category with any sizeable turnover, although with a negative tendency, has been the bulk products, which in this case constitutes a number of different chemical products such as acid and fertilisers.

5.3.3 Goods flow between Sweden and Lithuania.

Swedish exports are most concentrated in the general cargo category in the case of Lithuania. One explanation for this, as for the other two Baltic countries, is primarily stable and expanding ferry connections. In this case these connections are between Åhus and Klaipeda and later also Karlshamn and Klaipeda.

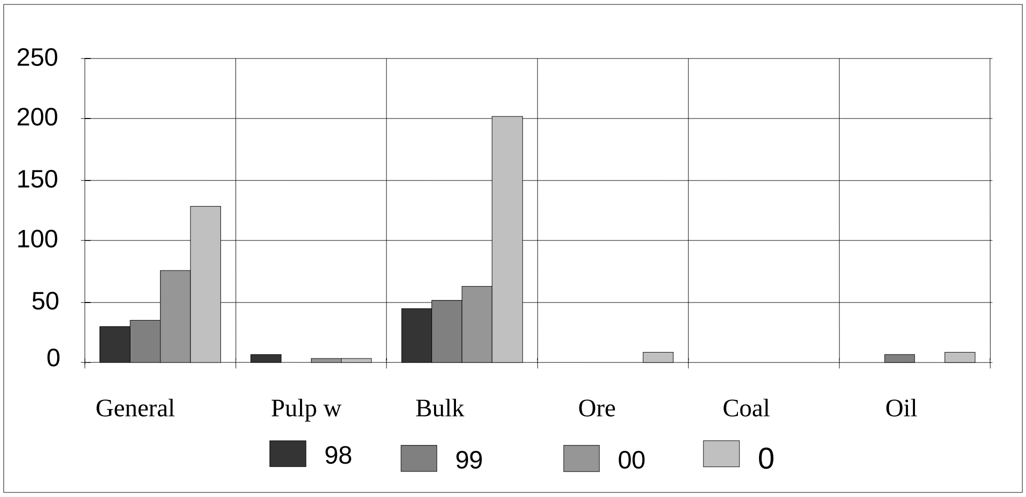

Table 5-8: Swedish exports /category to Lithuania 98-01 (1000 tonnes). Source: A Brodin (2003)

The large bulk volume exported, as in the case of Latvia, result in Swedish exports of cereals during the first few years and then nearly exclusively stone/granite. One can see that the bulk category has increased enormously during the last couple of years. Swedish export of oil products to Lithuania are nearly non existent the latest years. This can probably be explained by the fact that the capacity at the previously state owned Lithuanian refinery in Mazeikiai has been enough to satisfy domestic demand.

According to Table 5-8, one can see a trend, that the total Swedish export to Lithuania is growing for every year. When it comes to Swedish imports from Lithuania, the pattern is similar to the imports from other Baltic countries. Pulpwood and oil dominate it. In the mid 90's, this category of export to Sweden expanded in all Baltic countries, but this was not the case in Lithuania where it instead fell. This is a good example of how the dependence on unrefined products can be. When the prerequisites for a strong expansion had materialised in nearby Latvia, it took over the lost Lithuanian volume and instead doubled its own volume in 1995.[104]

[104] Brodin

In contrast to Estonia, the import volumes of the trucked general cargo from Lithuania are much smaller than the Swedish export volumes, resembling the pattern in Latvia. This imbalance indicates a large dependence on transit trade for both Latvia and Lithuania in the category of general cargo.

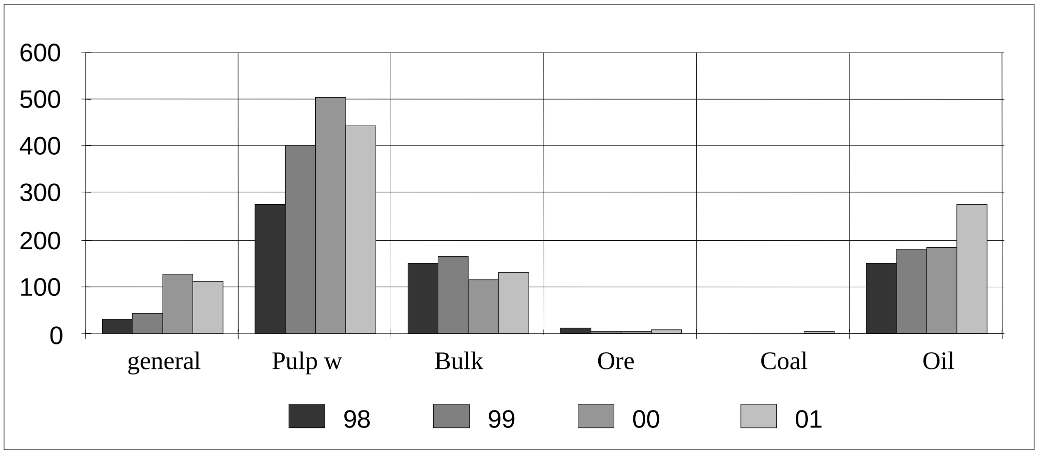

Table 5-9: Swedish imports/category from Lithuania 98-01 (1000 tonnes). Source: A Brodin (2003)

The bulk volumes from Lithuania are often fertilisers, and have more or less stabilised the export volumes of this category. When it comes to oil exports from Lithuania, one can see an increase for each year. In the beginning of the 90's the volumes were much bigger than the years before. In 1994 export to Sweden was about 350,000 tonnes, but this fell considerably because of delayed reconstruction work at the Klaipeda oil terminal. Today the pattern points towards increased volumes being loaded, especially so as all available facilities have been upgraded in later years which will give room for a future increase.[105]

5.3.4 Goods flow between Sweden and Poland

Swedish export to Poland totals approximately SEK 8 billion, the most dominated market among the applying countries. The collecting exports to the Baltic countries was summarised to SEK 6,5 billion during the period where the value of goods exported to Estonia constitutes about SEK 3 billions.

[105] Brodin

Compared to the Baltic countries is Poland the country that Sweden imports most goods from, with a value of almost SEK 7 billion. Poland is one of Sweden's most important trading partners, along the Baltic Sea region and one of the twenty biggest suppliers to Sweden.[106]

The trade between Sweden and Poland has been developed very optimistically. Swedish export to Poland almost doubled in the first years of the 1990s.

Export from Poland to Sweden has increased greatly during the last couple of years. For example, export increased by 40 % in the beginning of 2002. Export to Sweden from Poland increased mostly compared to other Polish export partners. Sweden is among the top ten export markets to Poland. The same statistics for Sweden do not show the same increasing growth, the trend is actually the same, Swedish companies are more important for Polish export companies.[107]

Swedish export to Poland is nearly 2, 5 times bigger than the total export to the second largest trading country in this region, which is Estonia. There is a similar pattern when it comes to import to Sweden.[108]

5.3.5 Simulation of potential flows

It is important to analyse the main existing flows and future transport corridors between Sweden and East European Countries. In 1999, TFK made a study, called *EAST-ROUTE Project*, based on transport capacity and transport quality. The study identifies major Eastern European transport routes which may be of

[106] Press release from SCB
[107] Swedish-Polish Chamber of Commerce
[108] SCB

strategic importance for international goods traffic between Sweden and the Eastern countries.

The study was carried out as a simulation that reviews the capacity, quality and bottlenecks in the existing infrastructure and administrative procedures on the strategic routes. The study East-Route also identifies preliminary scenarios involving international transport demands and identifies a preliminary list of infrastructure projects and administrative improvements which appear to be possible for the Scandinavian and East-European goods transport.[109]

Only the export and import flows between Sweden and the candidate countries in the Baltic Sea region, are taken into account in this part of the study. But it is important to mention that some of the goods flows continue further on into the East, for example to Belarus and to Russia. Only the flows from the candidate countries and Sweden are under consideration.

The freight transport model simulates the distribution of flows on different links. The basic criteria for these simulations are to minimise the total transport cost for all modes on all links. The model distributes freight flows defined on the networks for the different modes in such a way that the total generalised transport cost will be minimised. The strategic transport analysis is based on system optimisation of mode and route choice, including both link- and transfer costs. The results are illustrated in the goods flows charts, where the sea traffic can be visualised.

It is also important to mention that the quality of the network in the east region is very roughly defined. That means that the capacity and the velocity on the links are each on the same level, on all links in the network. The distribution of

[109] TFK report 1999: 3E

the simulated flows on the specific links will, therefore, not be correct in detail. The freight flows in the following figures will just give a rough indication of the potential corridors on a regional level.[110]

In order to forecast the development perspectives of the transport market to the year 2010, a forecasting method was used, which is based on estimated commodity group elasticity's between trade and GDP for all included countries.

The conclusion of the simulation is that the different corridors are indicated mainly through three Swedish coastal regions Stockholm, Blekinge and Skåne. One can also see that Latvia has high traffic both for export and import flows in the region.

The light grey line in Figure 5-1 illustrates the Russian goods flows that are transported through Finland in order to reach the Swedish market. These flows are supposed to satisfy the demands in the northern parts of Sweden, through the destinations of Umeå and Sundsvall, and then further into the country.

[110] TFK, report 1999: 3E

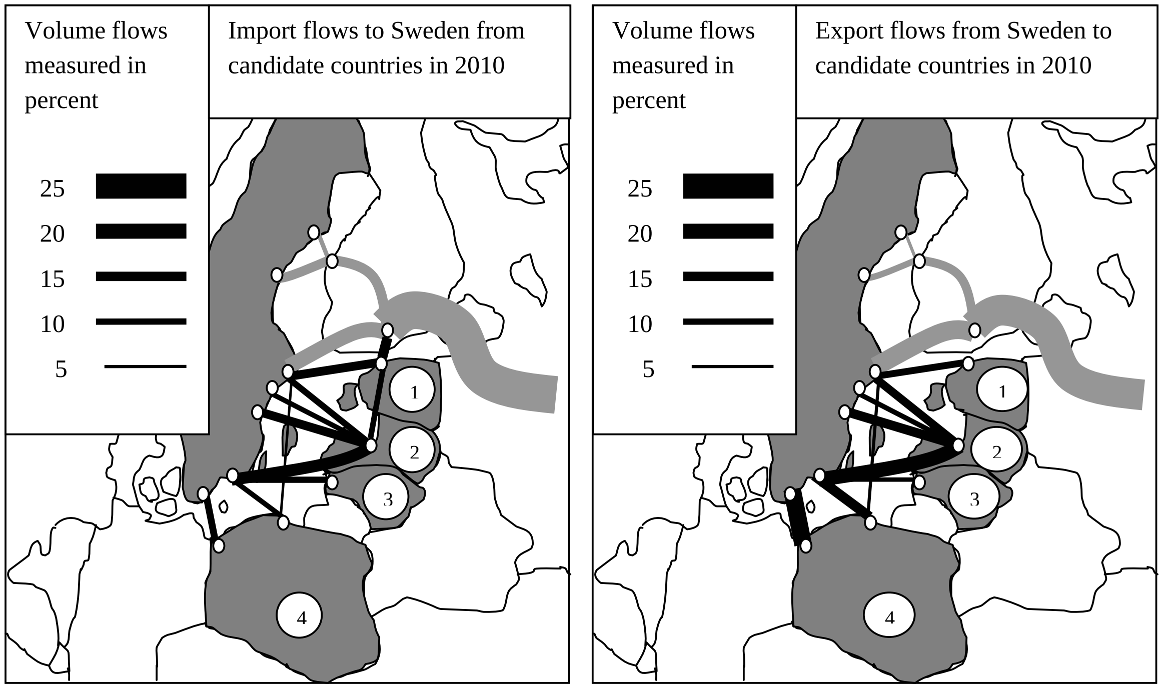

Figure 5-1: Flows between Sweden and candidate countries. Source: TFK (1999)

1. Estonia

Estonian exports to Sweden through the Port of Tallinn. In the Figure 5-1 the volume of goods is illustrated. The biggest category of goods imported from Estonia to Sweden is pulp woods, followed by oil, also general cargo is showing an increase. Technical equipment of the Terminal meets the highest standards and is maintained in proper condition.[111] The port has deep-water berths able to receive vessels of up to 150,000 dwt with a depth of 17, 4 meter. The berths are provided with highly efficient handling equipment. As one of Eastern Europe's newest modern terminals, DBT (dry bulk terminal) is well equipped to arrange through-transportation of your products using all existing modes: by road, rail and sea.[112] The Terminal railways are integrated into the net of the Estonian railroads leading to the Russian railroads.

[111] MGT Muuga Grain Terminal
[112] Dome Technology

2. Latvia

The volumes imported from Latvia to Sweden are the largest from the Baltic countries, with the pulpwood volumes that clearly dominate Swedish imports. General cargo turnover has been increasing over the last few years and are expected to increase even more in the future. The shortest route from the East to the West is through Ventspils, and this fact is one of the most attractive features for traders moving their goods from the East to the West and vice versa.[113] The port authority regards further development of the port as its major strategic goal, building on ancient traditions and taking Ventspils into the 21st century. Ventspils Freeport harbour will enable than to accommodate dry cargo carriers with carrying capacity of 75,000 tonnes. This makes Ventspils Freeport an unrivalled leader in the Baltic region, able to handle larger vessels at lower costs.[114]

3. Lithuania

In Lithuania the port of Klaipeda has been designated the EU's regional priority port - the only port in the region to receive funding from the EBRD and the European Investment Bank to finance major expansion projects.[115] The port has steadily increased cargo handling over the past three years and handles 20% of the cargo passing through all the Eastern Baltic ports. After current upgrading of modern container handling facilities in the year 2000, the will be able to handle 40 million tonnes annually.

[113] Randburg
[114] Ibid.
[115] Lithuanian Development Agency

4. Poland

Poland's central location in Europe means that transport, especially land transport, plays an important role in the economy since Poland is crossed by a number of mayor routes from Western Europe to the East, linking EU transport networks with Russia, Belarus and Ukraine. In addition, transport links along the North-South axis, linking Polish Baltic seaports with the countries of southern Europe and the Balkans, play an increasingly essential part. In order to meet customer needs and utilise the above mentioned location, Poland has developed modern transport infrastructure that is mostly based on Polish means of transportation.

5.3.6 Future goods flows in the Baltic Sea region

Since the Baltic countries became independent from Russia, numerous things have changed. They have their own government and their own currency, which has resulted in an increase in the standard of living within the countries. This has also led to a higher consumption of products, especially products from abroad. This has made seaborne transportation more important.[116]

To conclude this part about Swedish foreign trade in different categories, it could be said that some of these could be distinguished as categories with potential in the future while for others, the future look bleak. General cargo will probably continue upwards in volume at a steady pace, especially where stable ferry connections can be found. This flow of general cargo is an example of the changing transport geography. In this case, however, it is more a result of increasing industrial production in the Baltic countries than increase in transit trade.[117]

[116] Nilsson *et al.* (2003)
[117] Brodin

Oil, especially from Lithuania, has increased during the last few years although the domination in volume by Latvia has been challenged by Estonia during the last three years. Swedish exports of oil have fallen during the second half of the 90's, and appear to have a bleak future.

Swedish import of Pulp wood has established itself as the outstandingly most important category in volume. The import flow remains strongly dependent on demand among Swedish pulp wood importers, whose demand is derived from their customers. The conversion in the Swedish paper and pulp industry to sourcing on the other side of the Baltic Sea is increasingly being followed by the sawmills, something that will help to maintain the import levels in the foreseeable future.

The potential for different bulk products can be positive in the case where a large importer can be found and when prices can be kept competitive, which looks to be the case for the increasing import of for example fertilisers.[118]

For the remaining two categories, coal and ore, the future looks both insecure and bleak. For ore, the future import depends on the future of the few remaining Swedish steel smelters, and especially for those using scrap. Both for the running of scrap smelters, as for heating plant using coal, Swedish environmental awareness makes future imports uncertain and dependent on outside regulations, taxes and alternative energy sources.

Undertaken forecasts show the growing importance of the ferry connections between Sweden and Eastern Europe. There are significant growth rates for trucks and trailers between these locations.[119] The forecast for Swedish exports

[118] Brodin

[119] Cardebring

to Eastern Europe, in this case Poland and the Baltic States, shows a steady increase.

The Baltic countries will import approximately 3,500,000 tonnes from the northern countries, including Sweden who dominates the export field.[120] The diagram also illustrates an increase of imports to Poland, where the volume will reach almost 4,500,000 tonnes in 2010.

When it comes to the Swedish exports to the candidate countries, the Baltic States will increase their imports. With regards to the question of the Polish future imports, the amount of goods will be more or less the same as today's level, though a small increase is notable. [121]

[120] Cardebring
[121] Ibid.

5.4 The main characteristic flows of interest

In the Baltic region there are two main flows that are of great importance today and will be in the future as well. The first one is the big flow of pulp wood and oil from Russia through the Baltic countries to the EU countries. The other important flow is the freight flow connected to Poland which is a market that has grown to be an increasing and important market.

5.4.1 The Russian goods flow.

The influence of the EU in the Baltic countries will open up the market in the east, and the Baltic countries will be the gateway to the important export and import country Russia. [122] The Baltic countries will be a key area because of the close location to the east. The proportion of Russian foreign trade is expected to rise. [123] The Baltic Sea is the fastest route to many parts of the Russia, and is, therefore, of great importance.

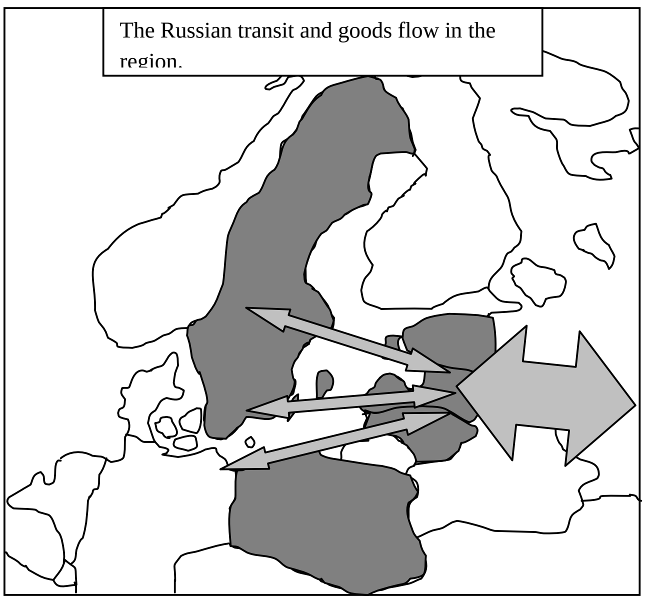

Figure 5-2: The Russian goods flow. Source: Own compilation (2003)

The increased goods flow from these countries will mainly be oil, wood and bulk, mostly because of the gateway to Russia and the countries geographical position. The transit to Russia will increase; since it is a huge market that probably will become even bigger in the future. [124] Because of the smaller market in the Baltic countries, the increase will be smaller than in Russia.

[122] Atonen (2003)
[123] Port of Tallinn
[124] Ibid.

Transit trade to and from Russia is a big and important concern for the Baltic countries. The export will also consist of more consumer goods that will be transported by safer and bigger vessels.[125]

Because of the emphasis on the transport sector connections to Russia, a transport corridor on the Baltic Sea can be developed.[126]

An increase in Russian trade with the rest of the EU and also outside EU could contribute to the fact that the goods flows will go through the Baltic States. The Baltic States' ports can also work as consolidation ports for other countries around the Baltic Sea, including Sweden.[127]

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[125] Wiman (2003)
[126] Atonen (2003)
[127] Lilja (2003)

5.4.2 The Polish goods flow

With the expansion of the EU follows more intensive goods flows between east and west due to increased access and mobility for the new countries on the European market. The EU has already brought up the question of how to avoid congestion on the European road network due to the goods flows between east and west.[128] EU is staking great resources on short sea shipping within Europe. It is one of the current "words in fashion" within the EU. There are projects that will develop the infrastructure in the EU with the aim of shifting the current imbalances between the different transport modes.[129]

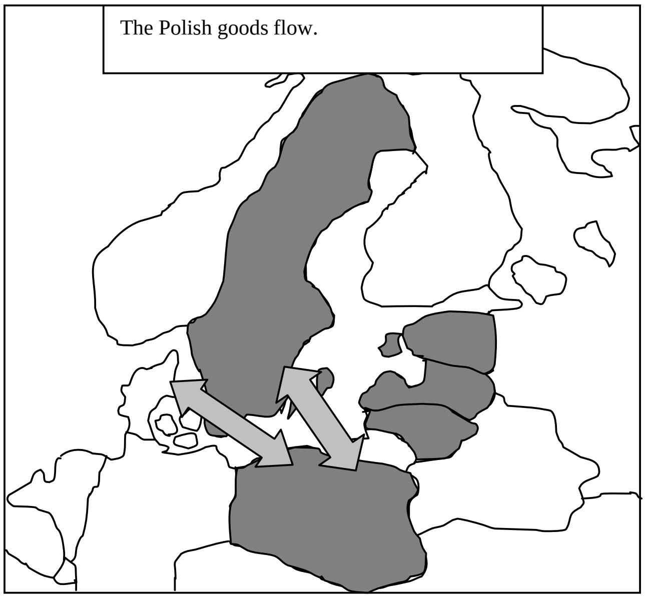

Figure 5-3: The Polish goods flow. Source: Own compilation (2003)

The package of measures that follows include that goods to and from the countries around the Baltic Sea, will be transported by sea. Sweden is well prepared for a scenario like this, where big vessels will be an essential part in the future goods flows.[130] Poland is a country that shows a positive tendency, and has improved its economic situation. Both the import and export flows are expected to increase. Poland is a considerably big market and has as many as 39 million inhabitants. Transportation is the engine of a working market.

[128] Terling (2003)
[129] Frisk (2003)
[130] Terling (2003)

The transportation of goods will increase, mostly at the sea. To transport goods through Germany is expensive. With a better and closer relationship between, for example, Sweden and Poland, there will be less expense per unit by sea.[131] With the help of EU, the countries around the Baltic Sea can build and help each other with a better infrastructure. With a harmonisation of the rules and standard infrastructure, such as better road and rail networks, the goods flows will have a bright future. Also the environmental rules have to be stricter and will improve, especially if everyone works together and cooperates.

5.5 The competitive situation

There have been several improvements that have been carried out in the Swedish shipping register, which have been of high importance from a competitive point of view, which has influenced the choice of register.

A national register can be associated with tradition and quality, which have been developed over time and gives ships and vessels in the register a competitive advantage. Today, most of the international registers also have a good reputation. Changes have also been made in the area of costs for labour, union conditions, agreements and other regulations that influence the status of cost. These two areas of improvements together with the ship owners own traditions, policies experiences and knowledge, will probably strengthen the ability to compete in the long run for the Swedish shipping industry.

The decrease in the number of ships in the Swedish registers started with the bigger ships and vessels where the drawbacks of costs were most significant. When the ship owners gained more experience, the process of flagging out proceeded. In spite of the significant drawbacks of costs, the smaller ships and vessels have stayed in the Swedish register. Because of Swedish participation

[131] Stenmarck (2003)

in the EU and the harmonisation of the financial aids within EU, the advantages that a Swedish register has represented for the Swedish shipping industry are disappearing gradually. This makes the drawbacks of costs more and more significant when it comes to the choice of flag.

For the Swedish ship owners, as for other ship owners within the EU, the most important reasons to pay attention to an international register are the education and the recruitment in the shipping industry, from a competitive point of view. Preparedness is another important issue for Swedish ship owners. The Swedish ship owners can via registration in another member state of the EU, and in the open international market, recruit personnel in the forthcoming years. But this might lead to fewer employed Swedes in the business, and the possibilities to provide the domestic interests with competence related to the industry that might be a threat to the long time competitiveness for the Swedish shipping industry. The guidelines of the EU concerning financial support are supposed to work contrary to these objectives.

Generally, all the changes when it comes to the change of register are a result of discussions and deliberations with the ship owner, where the drawbacks and advantages concerning the membership in a Swedish register have been weighted with the drawbacks and advantages of registeing the ship under another flag.[132]

5.5.1 Development of the competitive position

Globalisation and the deregulation of the international markets and increased international trade create short-term problems for countries whose status of cost exceed the level that their productivity can encourage. The increased level of internationalisation influences the shipping industry greatly.

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[132] The Swedish Maritime Association *a*

Because international registers that contain local agreements dominate shipping today, the industry and its labour market have become internationalised. This has resulted in a shipping industry that is operated without national taxes and social costs. The shipping industry within western countries is still comprised of a number of national regulations that affect capital and labour costs. Even though there are marginal effects of the regulations and subsidies in relation to the total turnover, they can be decisive for the competitive situation and profitability for the individual ship owner.

The development described above has for the western countries, which operate with a national register containing national conditions for the labour market, led to heavily decreased fleets. The process started with the greater ships and vessels, and continued with the smaller ships that operate in international regional traffic. The situation of cost in these countries, which most shipping companies and ship owners are familiar with, will create some disadvantages for the Swedish companies in the industry, since Sweden is a more expensive country. It can also be seen as opportunities for the Swedish ship owners since the membership in the EU will make it more attractive to make investments in the candidate countries, mostly in ships and vessels.[133]

The consequences of the expansion of the EU will probably be bigger for these countries, than it will be for the Swedish ship owners. As members, they have to follow the regulations in the EU, intended for both for shipping and competition/governmental financial support. This means, for example, that they are not allowed to use the Tax Free situation for traffic to and from their harbours.[134]

[133] Nilsson *et al.* (2003)
[134] Terling (2003)

6 Analysis

In this section the reader will be introduced to the theory of the SWOT analysis, which highlights internal strengths and weaknesses. It also focuses on the external opportunities and threats within a company, business or industry. The outcome of the analysis can be used for future decision making and the design of strategic objectives. An analysis based on the SWOT model has been carried out to illustrate the Swedish Ship owners' situation on the Baltic Sea.

6.1 SWOT theory

SWOT analysis can be simply understood as the examination of an organisation's strengths and weaknesses, and its environment, opportunities, and threats. It is a general tool that is designed to be used in the preliminary stages of decision-making and as a precursor to strategic planning in various kinds of applications.[135]

The analysis can be seen as an audit, both for internal and external issues and it contains an asset of data of differing importance and reliability. SWOT analysis distils this data to show the critical items for the internal and external audit. The number of items is small for forceful communications, and they show where an industry should focus its attention.[136]

SWOT analysis can be an excellent, a fast tool for exploring the possibilities for initiating new programs in a company or within an industry. SWOT analysis looks at future possibilities for the company through a systematic approach of introspection into both positive and negative concerns. Probably the strongest message from SWOT analysis is that, whatever course of action is

135 Bartol *et al*.
136 Kotler *et al*.

decided, decision making should contain each of the following elements: building on Strengths, minimising Weaknesses, seizing Opportunities, and counteracting Threats.

6.1.1 Opportunities and Threats

The ship owners need to identify the main threats and opportunities that the shipping companies face. The purpose of the analysis is to help the management to anticipate important developments that can have an impact on the shipping industry. Not all threats call for the same attention or concern – the management should assess the likelihood of each threat and the potential damage each could cause. The management should then focus on the most probable and harmful threats and prepare plans in advance to meet them.

Opportunities occur when an environmental trend plays to the shipping companies' strength. The management should then assess each opportunity according to its potential attractiveness and the companies' probability of success. Companies rarely find ideal opportunities that exactly fit their objectives and resources. The development of opportunities involves risks. When evaluating opportunities, the management must decide whether the expected returns justify these risks. A trend or development can be a threat or an opportunity depending on a company's strengths.[137]

6.1.2 Strengths and Weaknesses

The strengths and weaknesses in the SWOT analysis do not list all features of a company but only those relating to critical success factors. The strengths and weaknesses are relative, not absolute. It is nice to be good at something, but it can be a weakness if the competition is stronger.[138] Knowledge of a competitor's strengths and weaknesses provides insight that is a key to ship

137 Kotler *et al*.
138 Ibid.

owners' ability to pursue various strategies. It also offers important input into the process of identifying and selecting strategies and alternatives. One approach is to attempt to exploit a competitor's weakness in an area where the ship owner has an existing or developing strength. The desired pattern is to develop a strategy that will fit the ship owner's strengths against the competitor's weakness. Conversely, knowledge of their strength is important so it can be bypassed or neutralised.[139]

139 Aaker

6.2 Analysis of the goods flow, regulations and economy

In this section the reader will be introduced to the key factors, according to the authors, that can affect the existing routes and links in the region. It will be done using a SWOT analysis that will focus on the Swedish ship owners' competitiveness when it comes to goods flow, regulations and economy.

The reason that the goods flow, regulations and economy have been identified and described as the three most significant factors, according to the authors, is because that they covers the seaborne transportation and the future development of the market in the region, and they are all dependent on each other.

Without the goods flows, there wouldn't have been any need for seaborne transportation within the region. But, since there is, it needs regulations and guidelines in order to work properly. The candidate countries are forced to adapt to the regulations and guidelines of the EU when entering the union. Therefore, it would be interesting to investigate how well Sweden has adapted to them, and also to see what the candidate countries have to go through. The economy is an issue of great importance, since it affects the shipping industry as a whole, and without the economy, there wouldn't be any goods flows, and vice versa.

6.2.1 Goods flows

With the expansion of the EU, follows more intensive goods flows between east and west due to an increased access in mobility for the new countries on the European market. This will probably lead to a more open market.

Strength	Weakness	Opportunity	Threat
Swedish ship owners already have existing links Well prepared with expertise and competence. Good standard in Swedish fleet: importance of quality factors on the transportation.	The candidate countries have cheaper transportations To be able to reach the overall goals of the Union of the Baltic Cities - the communications network must be improved essentially Border crossing difficulties.	Access to a bigger market and closer to the Russian market. Developing new routes, links, transport corridors An international network. Door to door service. The goods flows are expected to increase cause of higher consumption. Cooperation. More transports will use the sea transport mode. The goods flows will require bigger and safer vessels.	Candidate countries have cheaper transportations Increased competition Candidate countries can take over links and routes from the Swedish ship owners. Cabotage Strong economic growth in the region. Foreign investments Increased knowledge.

Table 6-1: SWOT analysis for goods flows. Source: Own compilation (2003)

6.2.1.1 Strengths

A strength for the Swedish ship owners is that they already have established links to and from the EU member states. That will give them an advantage in the future market.

Swedish ship owners are well prepared for a future scenario where doubled hulled, safe transportation will be an essential part in the future goods flows. Swedish ship owners have a high standard in their fleets, where information systems are common. In the future there will be a higher focus on the quality factors on the transportation. This is strength for the Swedish ship owners who already focus on quality transports.

6.2.1.2 Weaknesses

The candidate countries have cheaper transportations compared to the Swedish ship owners, and that can affect the Swedish ship owners negatively.

Another weakness for the Swedish ship owners is the ability to reach the final destinations in the Baltic States. The communications network must be improved essentially to reach and cooperate with the hinterland.

The future transportations will probably include sea based or sea centred transport modes in combination with other modes, to reach the important Russian market. This can be a critical factor in terms of the border crossing difficulties that exist today.

6.2.1.3 Opportunities

When the candidate countries enter the EU, it will offer the Swedish ship owners' lots of opportunities. They will have access to a bigger home market and especially better access to the big Russian market and the related goods flows. The way through the Baltic countries is the closest access to many parts of Russia. This will allow for possibilities for the development of new routes and links and future transport corridors. An opportunity is to enter the candidate countries market in order to reach the big Russian market and develop cooperation with the hinterland. Cooperation and improvement of the modern information system will be key factors to be competitive in the future.

An international network should be established in the Baltic region with high access for business and trade giving opportunities for Swedish ship owners to affect the outcome. Once again cooperation will play an important role and door to door service can be developed.

With the expansion of the EU follows more intensive goods flows between east and west due to an increased access in mobility for the new countries in the European market. To avoid congestion on the European road network due to the goods flows between east and west, more transports will use the sea transport mode.

The goods flows are expected to increase in volume. The improved economic situation in the candidate countries will lead to a strong growth in consumption, mainly clothes, cars, furniture and electronics. The goods flows will require bigger and safer vessels which are a major opportunity for the Swedish ship owners, since they already have big vessels. Optimal solutions will include sea based or sea centred transport modes in combination with other modes.

6.2.1.4 Threats

One future threat for the Swedish ship owners with the EU enlargement is the cheap prices on transport services that the candidate countries can offer.

The entrance also gives the candidate countries the opportunity to more easily enter the Swedish market and the Swedish ship owners’ interests. The candidate countries will have increased opportunity to be competitive within the EU, which will lead to increased competition on the market.

The EU enlargement gives the Swedish ship owners access to a greater home market, but that is also the situation for the ship owners in the candidate countries. They will be able to conduct business with the same conditions as Swedish ship owners on the Swedish market. One threat is cabotage from eastern countries, and also that they can take over links and routes in the Swedish waters from the Swedish ship owners.

Strong economic growth in the region is both good and bad in terms of increased consumption and more goods flows but it is also a threat for the Swedish ship owners. With increased welfare and a positive market environment for the candidate countries' ship owners, they will increase their competitiveness and invest in new projects and can develop new routes and links that will affect Swedish ship owners negatively. International financing organisations like the European Bank for Reconstruction and Development, World Bank have opened their eyes to the new candidate countries. Investments by foreign companies can be to expected, i.e. industry, infrastructure and new constructions.

Another threat for the Swedish ship owners is a cooperative situation by the Baltic countries, where they exchange information in order to increase their knowledge about their greater home market.

6.2.2 Regulations and guidelines

The regulations and guidelines are factors of high significance when it comes to the ability to compete for the Swedish ship owners. Sweden has adjusted most of its regulations in order to get the advantages that the EU regulations are meant to result in.

Strengths	Weaknesses	Opportunities	Threats
No single hulled tankers will tie up to ports within the EU or EES that are carrying oil. TEP agreement and the Shipper Support. Strong force within the EU together with Poland and the Baltic countries.	Sweden has a tendency to make some of its own rules. The loss of an accepted common policy and guidelines.	Swedish ship owners could take the opportunity to promote themselves as fully adequate substitutes to other transport modes. Sweden has a great platform to become an active part in the Baltic Sea regional cooperation and organisations. Swedish ship owners have to make the most of the situation	Poland will get more votes than Sweden and the Baltic States together. Uncertain future competitive situation. The possibilities to provide the domestic interests.

Table 6-2: SWOT analysis for regulations and guidelines. Source: Own compilation (2003)

6.2.2.1 Strengths

The technical regulations, concerning getting rid of the single hulled oil tankers benefits the Swedish fleet, since most of it is double hulled and allowed to sail through iced waters. There will be no single hulled tankers will tie up to a port within the EU or EES that will be carrying oil from now on. This is a great competitive advantage for the Swedish ship owners since oil is one of the major products shipped in the region.

The agreement between the Swedish Ship owners association and the shipping unions concerning TEP has made it easier for Swedish ship owners to employ staff. The Shipper support gives the employees safety and security when it comes to salaries and employment. These two measures could be a great advantage for the Swedish ship owners and their ability to compete, and also to attract new employees.

Because of the expansion of the EU, Sweden can, together with the Baltic States and Poland, become a stronger force when it comes to decision making within the union. The number of votes that the countries in the Baltic Sea region have can give a blocking minority that can stop suggestions. Since the countries might have the same interests in some areas, for example, the application to get the Baltic Sea classed as a Particularly Sensitive Sea Area (PSSA), they might be a force that can influence the decision making process within the EU.

6.2.2.2 Weaknesses

Sweden has adjusted most of their regulations and guidelines to be suitable with the ones in the EU. Since Sweden has a tendency to make some of its own rules that stretch beyond the conventions accepted by the EU, it creates drawbacks when it comes to the competitive situation for Sweden and its ship owners.

Another weakness has been the loss of an accepted common policy and guidelines that concern all involved countries. Because of this loss, numerous countries have written their own regulations and guidelines in order to promote their own merchant fleets. This has resulted in an irregular competitive situation among the ship owners in Europe. Today, the EU is striving to introduce the same competing conditions for all ship owners within the union, in order to create a fair competitive situation. If there had been common policies and guidelines, the current situation with its problems would never have appeared.

6.2.2.3 Opportunities

The common European transport policy became a success for the open markets, but it hasn't managed to shift the balances between the different transport modes. Since there are measures to make this change in a near future, Swedish ship owners could take the opportunity to promote themselves, before these changes are made, as fully adequate substitutes to the other transport modes within the region.

Sweden's membership in the EU has provided Sweden with a platform for strengthening cooperation for development in our hinterland, in which the Baltic Sea plays a major role. Therefore, Sweden has a great opportunity to become an active part in the future cooperation plans and programs that are growing in the region, which probably will increase in importance when it comes to trade with, and thereby shipping to, the Baltic Sea states.

When the harmonisation concerning regulations and guidelines is carried out, the countries will compete on the same level. Since the Swedish ship owners already have established routes and links with the countries in question, they have to make the most of the situation, before the harmonisation is pulled through.

6.2.2.4 Threats

The fact that Poland will get more votes than Sweden and the Baltic States together and thereby, a greater opportunity to influence the voting sessions in the EU, could be a future threat for the interests of the Swedish ship owners. This will make Poland, together with Germany, two very strong forces around the Baltic Sea, when it comes to striving for their individual interests.

Even though the shipping market has been an open market for a long time, the home market for the Swedish ship owners will grow because of the expansion of the EU, and so will the number of the competitors. After the Baltic States and Poland have become members, all the countries will compete under the same regulations and guidelines. This will probably lead to an uncertain future that includes harder competition for all involved ship owners in the Baltic Sea region, and this is a threat that the Swedish ship owners have to be well prepared for, in order to stay competitive in their new, greater home market.

The Swedish ship owners can recruit personnel from the open, international market in the forthcoming years. This might lead to fewer employed Swedes in the business, and the possibility to provide the domestic interests with competence related to the industry, which might be a threat to the long time competitiveness for the Swedish shipping industry.

6.2.3 Economy

Money and time is everything. Without money one can't own or buy anything, and if you don't have time you can't transport or provide the costumer with the product or service they demand.

Strength	Weakness	Opportunities	Threats
Already having a strong economy. Existing rules which are the same as EU; employments taxes and payments. Newer ships and better safety	High taxes and high costs; difficult to compete with. Not as much subvention and financial support. Tonnage based taxation	TEP agreement; keep the tax money and no social costs Well developed Information System; EDI Lower costs per unit with bigger fleets and bigger ships Cooperation	New investors and companies on the market Low taxes and low social security Subventions

Table 6-3: SWOT analysis from an economic perspective. Source: Own compilation (2003)

6.2.3.1 Strengths

Sweden has had a strong economy for a long time. Even if it is small country with few inhabitants, it is an example for many countries. Sweden has good welfare and high social security.

There are several factors that make Swedish ships at sea more cost effective for goods transportation than others. The most important factor is the great loading capacity that vessels and other ships have. Sweden has also followed the rules of EU, as for example, the security onboard, and environmentally friendly ships. But also the free fairways, together with the mobile operating costs, that most of the times are comparatively low, that makes the seaborne transportation available at a lower cost per tonne kilometre than other transport modes. With bigger vessels and RoRo ships, the prices per unit decreases, which make the company and its transportation more competitive.

Companies have in the latest years been investing in the newest and most modern type of ships. They are usually equipped with modern equipment, good safety systems and high capacity in dwt. This makes it easier for Swedish ship owners to adjust to future changes, when changes are necessary to pull through according to the EU.

6.2.3.2 Weakness

Sweden has a weakness in higher taxes and higher costs, which makes competitively vulnerable, since the Baltic countries have lower taxes and costs than Sweden. The consequences of that are this Sweden flag out their fleets and have crew from other countries. The rates and prices will rise in the Baltic countries and Poland, but probably not to the level of Swedish prices.

Because of the high standard and strong economy that Sweden has, EU does not give much support in the way of subvention. As a result of that, Sweden can only build and construct new ports and ships when money exists. The subventions and financial support have helped the Baltic States and Poland with a lot of money to ports and ships. And by that they have new modern equipment and harbours which make them tough to compete with.

The fact that Sweden is the only country within the EU and the EES that hasn't introduced the tonnage based taxation will probably become a real disadvantage for the Swedish ship owners in the future, if it is not be introduced. The experiences of other member states of the EU show that it is the introduction of a tonnage based taxation system that has made the national merchant fleets grow, which probably would be the case in Sweden as well.

6.2.3.3 Opportunities

With the TEP agreement, the employers have the possibility to keep the tax money, and they don't have to pay any of the social costs. The agreement should guarantee the employed sailors security when it comes to salaries and employment. This could increase the ability to compete for the Swedish merchant fleet in the long run. In the former system the ship owner paid income taxes and social security contributions for the seafarers employed on their vessels to the state and then had to apply for reimbursement of the taxes and a part of the social security contribution.

Information systems, such as integrated computer systems are still under development. EDI that is an automatic system that is expensive to implement, but very efficient and effective for the companies to integrate. The more companies implementing the system, the more effective it gets. EDI works without human intervention and full control of ports and ships, and the systems work from computer to computer, from company to company automatically.

The government steering of the administration is performed by predetermined goals for every sector of activity and financial goals concerning solvency, pricing and rate of return for the administration as a whole. Traditionally the local port authority covers its costs by fees based on the ship and the goods according to a stipulated tariff. The individual stevedoring company covers its costs by commercial agreements.

Cooperation between Sweden, Poland and the Baltic States in matters of having cheaper and faster deliveries is a good opportunity for everyone. BPO is a good example of an organisation that gathers different representatives from the shipping industry within the Baltic Sea region, to work and develop the region together.

6.2.3.4 Threats

With the help of EU, the Baltic countries and Poland will have big economic support, for example, the EU has a responsibility to help and support countries which are important for the European market, an example is the trading and shipping in the Baltic region. The Baltic countries have received subventions and financial support from EU and are to rebuild ports and the infrastructure to make everything flow as smooth as possible. The financial support is not supposed to develop at the expense of the economy of other member states, neither in such a way that they imbalance the competitive situation between the member states obstructing common interests. This is a great opportunity for the Baltic region and the countries around to develop faster than without a helping hand, but a threat for Sweden is that it won’t get as much financial support as it needs and wants.

Generally, the Baltic States and Poland have lower taxes and social costs. That’s one reason why most of the companies in the country are owned by foreign interests, and why foreign companies flag out ships with regulations and rules. Norway has a long old tradition in the shipping branch and owns some of the most important and biggest companies among the Baltic countries. This is a big threat for Swedish ship owners, foreign investors.

Swedish ship owners take advantages of the regulations in the Baltic countries. The reason for this is that most of the ship owners want to flag out their fleet, because the Baltic countries have lower taxes and the costs for employers and the charge at ports are much lower.

6.3 Compilation of the SWOT analysis

Finally, a compilation of the SWOT-analysis, carried out in chapter 6.2.1 to 6.2.3, shows the most important factors within each category, according to the authors.

Strength	**Weakness**	**Opportunities**	**Threats**
Strong economy No single hulls tankers that will tie up to ports in the EU or EES that are carrying oil High standard in the Swedish fleet	High taxes and costs Sweden has a tendency to make some of its own rules The candidate countries have cheaper transportations	The development of systems, fleets and ports Fully adequate substitutes to other transport modes Greater access to a greater market	The possibility to provide domestic interests New investors and companies in the candidate countries Cabotage

Table 6-4: Compilation of the SWOT analysis. Source: Own compilation (2003)

When it comes to the compiled strengths, one could basically say that because of the strong and stable economy Sweden has, it can focus on adjusting its fleet according to the current standards in the EU. One of the most recent changes concerns the tankers that transport oil and similar products. From now on, only double hulled tankers are allowed to tie up to the ports in the EU and EES countries.

The economic situation in Sweden, with high taxes, salaries and social fees, creates significant drawbacks for the Swedish ship owners when competing with the ship owners from the candidate countries, since they are some levels below the Swedish economic situation. This makes transportation in the candidate countries cheaper than it is in Sweden, which makes the competitive situation problematical for the Swedish ship owners, where they have to cut back on their expenses or promote other strengths in order to attract customers. This, together with the fact that Sweden has a tendency to formulate its own regulations for its shipping industry could result in Sweden failing to keep up with their competitors in the Baltic Sea region.

The strong development of information systems, fleets and ports in Sweden could, in the future, result in competitive advantages for the Swedish ship owners. Because of this development in the Swedish shipping industry, the ship owners could promote themselves as fully adequate substitutes to other transport modes. With financial governmental support and more efficient use of the existing fleet, Swedish ship owners will take part of the goods flows that most probably will increase, when it gets greater access to the expanded home market.

The possibility to provide domestic interests might be threatened, since the current regulations make it easier to employ foreign workers on a yearly basis. This may lead to fewer employed Swedes in the business, and the long term competitiveness may be in danger of extinction for the Swedish shipping industry. Some of the workers may return to their home countries with knowledge about the Swedish shipping industry, and provide foreign ship owners with valuable information needed to start cabotage traffic in Sweden. Together with the entrance into the EU, the interest in investing in the candidate countries will increase, and economic growth will benefit the development in the shipping industries in the candidate countries in the long run.

7 Conclusion

In this chapter the authors present the conclusions from this report based on the theoretical framework and the SWOT analysis. First the conclusions reflecting the three sub problems are being presented, which will then be the base for the final conclusion for the comprehensive problem.

7.1 Sub problem one

How will the expansion of the EU impact the prerequisites for the Swedish ship owners and how should they act to stay competitive?

The entrance of the Baltic countries and Poland will almost certainly affect the prerequisites for the Swedish ship owners and the Swedish shipping industry, because new players in the enlarged home market means increased competition. Swedish ship owners have the upper hand since the candidate countries have to adjust their regulations and guidelines in order to suit the ones required by the EU, and that is a time consuming, disorderly process. Since Sweden has adjusted most of its regulations and guidelines, according to the constraints of the EU, it is a few steps ahead of the candidate countries in this matter and should, therefore, take advantage of the possibility to make the most of the situation. In order to make the Swedish ship owners even more competitive, the Swedish government has to start an audit of some of the Swedish shipping regulations, since some of them create real disadvantages for the Swedish ship owners.

The fact that no single hulled tankers carrying oil are allowed to tie up to ports within the EU or EES from now on, will most likely benefit the Swedish ship owners. Since they already are well prepared for this regulation with a modern fleet of oil tankers and with more tonnage ordered, the Swedish ship owners will probably gain an advantage from that and they will in all probability defend their lead in the years to come.

The consequences will probably be bigger for the ship owners in the candidate countries than it will be for the Swedish ship owners, even though the candidate countries have been given financial support from different international bodies. How they administrate these allowances might be of great concern for the Swedish ship owners, and also for the future competitive situation in the Baltic Sea. The candidate countries will most likely invest in new modern equipment and facilities in their ports and in their fleets. Even though a partly new fleet is extremely costly, they will come closer to the standard of the merchant fleets in the EU and EES with help the different financial supports.

Poland will become a very strong force within the region with regards to the voting sessions within the EU, with their 27 mandates, compared to Sweden’s 10 mandates. This will, in all probability, affect the competitive situation, with Poland striving for its interests. If all countries in the region cooperate, they will together become a strong force that can achieve a blocking minority. Since cooperation within the region is somewhat of a popular idea today, all countries in the region may develop today’s cooperation further in the future in order to strengthen and increase the regions importance as a business and trade area.

In order to stay competitive, the Swedish ship owners ought to keep improving and developing their fleets, according to approved regulations and guidelines in the EU to a wider extent, mostly when it comes to environmental and safety issues. It is not only up to the ship owners to stay competitive, they have to have strong support from the Swedish regulations, agreements, taxes and other interests. The Swedish government has to show their support to a greater extent for the Swedish short sea shipping industry when it comes to financial support, and look toward the EU since it is staking great resources on short sea shipping within Europe, where short sea shipping is one of the current "words in fashion".

The Swedish ship owners are generally well prepared for most kinds of competition, as long as it takes place under the same conditions. Those who are well prepared will probably have numerous advantages in the expansion, but those who are not will fall back, and they will have a long way to retrieve their position. One could generally say that it depends on how the Swedish ship owners adapt to the changes that the expansion will bring.

7.2 Sub problem two

Will the expansion lead to an increased competition for the Swedish ship owners? What are the threats and opportunities for the Swedish shipping companies with greater access to the Baltic region?

The expansion will probably lead to increased competition, but not as much as expected. This is based on the development and on a slowly growing trend in the market in the Baltic countries. Since Russia was pushed away, the Baltic country and Poland have been able to rebuild and stabilise, which gives the picture that the changes will be marginal the years to come.

For Swedish ship owners there will be increased competition situation because of the expansion of EU. More countries will be working and acting under the same regulations which will also lead to a bigger market and more competitors. The home market will get larger when the borders move out and new investors enter the market. There are basically the same rules and regulation for all countries that join the EU.

Conclusion

The majority of companies and ship owners that invest in the Baltic countries and Poland are primarily there because of the low prices and the close proximately to Russia. Because of that, most of the shipping companies in these countries have foreign owners and investors. The biggest companies in Estonia, Latvia and Lithuania are owned by Norwegian interests. From this point of view, Swedish ship owners compete with international companies and will continues to do so.

When it comes to the links and routes, experts and also the authors of the master thesis, believe that there will be small changes and that there will be small scale competitiveness on the Baltic Sea. Firstly, there are many links that already cross the seaway between the Baltic countries and Poland, which will still be used but more frequently and with a better flexibility. With better utility of the ships, the ship owners can transport higher quantities and offer lower prices.

A big threat that Swedish ship owners have to deal with is cabotage. Cabotage between actors usually leads to total control of links and routes, and by that ship owners can steer ports and freight. To avoid the risk of cabotage, a harmonisation of the sea transportation should occur, which means that cabotage is a threat, and if it exists, countries and companies should cooperate in opposing it.

Swedish technology and knowledge have a high standard and a well known reputation abroad when it comes to safety and environment. Swedish ship owners, have many employers from the Baltic States and Poland, generally because that the conditions of working are better and the payments more privileged. The Baltic States and Poland have not such good working conditions as those in Sweden. But with the upcoming entrance into EU and independence from Russia 1991, the countries have stabilised their welfare. This has lead, or will lead to, improved working conditions and more working opportunities.

The access to a greater home market will increase the export and import flows. Instead of transporting the goods by land, which is expensive and time consuming, the freight can be delivered directly at a lower price per unit of a product by boat. The economic situation makes productions cheaper and more efficient.

Sweden has a well developed fleet, where technology and knowledge go hand in hand with developing modern ships were high safety and environmental standards are required. The ships are also bigger and faster, which makes the freight transportation compatible with other transport modes. With increased ability and better use of ships, the cost per unit will decrease. The competition factor is of great importance for the Swedish ship owners, when acting on the Baltic Sea

The door-to-door solution is an upcoming concept, were products are delivered from their manufacturer all the way to the consignee. To take full responsibility of the products could be a future trend, but still needs to be developed.

7.3 Sub problem three

How will the routes and the patterns change for the freight traffic in the Baltic region, due to the expansion of the European Union?

It is certain that the amount of freight traffic will increase in this region in the future. When the Baltic countries and Poland enter the EU in 2004, it will lead to a more open market and contribute to more intensive goods flows between east and west, due to increased access in mobility for the new countries on the European market. This may lead to more congestion on the EU roads, which are a dynamic network that connect Europe. The EU is staking great resources on short sea shipping within Europe; it is one of the current "words in fashion" within EU. There are projects being conducted by the EU to develop the infrastructure in the EU with the aim of shifting the current imbalance between the different transport modes. To avoid congestion on the European road network due to the goods flows between east and west more transport will be done using the sea transport mode.

Another thing that will increase the freight traffic flows in this region is the EU policy that will lead to an overall standardisation of welfare in all the EU countries. This will definitely affect the Baltic countries and Poland and will contribute to a better economic situation in the countries, which will lead to increased consumption in this region and, finally, will to increased freight flows to and from this region.

Strong economic growth in the region is both positive and negative in terms of increased consumption and more goods flows, but also a threat for the Swedish ship owners. With increased welfare and a positive market environment for the ship owners in the candidate countries, they will increase their competitiveness and invest in new projects and develop new routes and links that will affect Swedish ship owners negatively.

Forecasts show that the amount of freight will increase annually, more than the annual amount of new ships. This means that the ship owners will have a higher load factor on their vessels in the near future.

The EU entrance will also affect the routes and patterns for the freight traffic in the region in a more direct way as well. This is not only in terms of new nations having higher access to EU market, but also in terms of Sweden and other EU member states gaining easier access to the big Russian market and the related freight flows. A big and important industrial country such as Russia always attracts attention to its surroundings, and in this case the Baltic countries will be in focus. The Baltic countries are the closest access to many parts of Russia. The Baltic countries are the gateway between Russia and Europe and will become an important area for transit trade between east and west. There will be opportunities to create new links and routes concerning this transport hub.

Increased competition on the Baltic Sea market is to be expected. One conclusion is that there are important factors involved with the competitive situation. The ship owners from the candidate countries can offer cheaper prices than the Swedish ship owners, which would be a threat to the competition situation and also freight traffic patterns in the future where even cabotage from the candidate countries is a possibility. For a scenario like this the Swedish ship owners have strength, and that is that they already have established links to and from the EU member states. This will give them an advantage in the future market.

Conclusion

The goods that currently dominate and are expected to dominate the future trade between Sweden and the candidate countries differ in terms of imports and exports. A Swedish export category that will probably have a bright future is the general cargo category that will continue upwards in volume, especially where stable ferry connections can be found. An export category from the candidate countries that has showed an increase is the Pulp wood, which has become the outstandingly most important category in terms of volume.

Oil exports from the Baltic countries have shown a steady increase during the last few years, and the future looks good for this category. The Russian oil will also play a vital role in the future transit trade in the Baltic region.

Analyses and forecasts show the growing importance of the ferry connections between Sweden and Eastern Europe. There are significant growth rates for trucks and trailers between these locations. The forecast for Swedish exports to Eastern Europe, in this case Poland and the Baltic States, shows a steady increase. But there are still border crossing difficulties and in order to reach the overall goals of the Union of the Baltic Cities - the communications network must be improved essentially. In this case cooperation will play an important role to reach out to the hinterland in Poland and the big Russian market. Maybe one could say that the future sea transports will start on land to cooperate with other transport modes to create a supply chain. Optimal solutions would include sea based or sea centred transport modes in combination with other modes.

Just because the goods flows are expected to increase does not mean that new routes and links will emerge. There may also be more frequent traffic on the already existing links and routes that are in service today. This can be the solution for the large Polish goods flow, which is expected to increase in the future. But one goods flow that might be relocated is the big Russian transit flow over Finland. With better infrastructure in the candidate countries, this flow could be relocated through the Baltic countries. A conclusion is that there are three different transport corridors, and they are indicated mainly through three Swedish coastal regions Stockholm, Blekinge and Skåne.

7.4 Comprehensive problem

Consequences for the Swedish shipping industry, related to the expansion of the European Union in the Baltic region.

The consequences for the Swedish ship owners might not be as big as expected since the shipping industry has been an open market for a long time. Ships with Polish and Baltic flags have for a long time sailed the Swedish waters, and thereby competed with the Swedish ship owners on the Baltic Sea, since there hasn't been any exact definition of domestic or home markets. The actors will be the same as they have been throughout the years. The main difference will be, that all ship owners in the Baltic Sea region will compete under the same regulations. As members, the Baltic countries and Poland have to adjust to and follow the regulations in the EU, intended for both shipping and competition/governmental financial support, a process that Sweden and its ship owners has gone through already.

The consequences will probably be bigger for the shipping industry and the ship owners in the Baltic countries and Poland, than it will be for the Swedish ship owners, in the short term. But when looking at the situation from a long term perspective, the expansion of the EU will contribute to increased welfare and competitiveness in the candidate countries. This will most certainly result in more foreign investment that will not only influence the domestic industries in these countries, but also the shipping industry and its players. The overall standard in the candidate countries merchant fleet will be improved essentially. This may result in consequences for the Swedish ship owners, since the economic situation in the candidate countries is very different compared to the situation in Sweden, which could be seen as a potential future threat. As a result of the guidelines of the EU, the differences in salaries will most probably change gradually and even out within the union for similar positions.

The goods flows in the Baltic Sea region will increase in the future, and there are two main flows in the region, the Polish and the Russian goods flow. The Baltic countries location close to Russia will draw investors from all over the EU to establish businesses in this region. Oil and pulp wood are the two most important categories of goods imported from the Baltic countries that are related to the Russian transit flow, and the general cargo is the dominant category in the Polish flow, in terms of export to Sweden.

The amount of goods is expected to increase in the future to a greater extent than the number of new ships and vessels. The consequences of this will be that the load factor on the ships will increase, and thereby the frequency of trips will increase. Because of that, the price per unit will decrease, and in order to stay profitable, the Swedish ship owners ought to aim for economy of scale. The increased number of trips require faster port calls together with smooth loading/unloading processes with harbours that are able to stay open twenty-four hours per day all year long. Technology and information systems will play a vital role in the future competitive situation in the Baltic Sea region.

One of the most significant factors when it comes to maintaining the ability to compete for the Swedish ship owners is to update competence and knowledge, and to strive for continuous, strategic improvements in all important areas.

7.5 Assessment table; Factors affecting the competitive situation

In order to give the reader a clear and understandable picture of the conclusion, some critical factors have been identified that are based on the authors' opinions and interpretation of the conclusion. These factors are founded on EU entrance and how it will affect the competitive situation and the goods flows in the Baltic Sea Region. The table is focused on the impact from the Swedish ship owners' perspective. The table is also divided into short (0-5 years) and long term (6 years and forward) perspectives for the Swedish ship owners.

Factors affecting the competitive situation	**Short term Perspective**	**Long term Perspective**
Subventions, financial aid support programs for the candidate countries.	↑	↗
Increased welfare in the candidate countries.	↗	↗
Closeness to Russian market will increase goods flows.	↗	↑
EU promoting modal shift to sea transportation.	↗	↑
Foreign investments in candidate countries.	↑	↗
Increased competition on the Baltic Sea market.	→	↗
Implementation of technology and information systems in the candidate countries' fleets.	↗	↗
Competition under the same regulations	↗	→
Candidate countries cheap prices on transportation and services	→	→
EU and governmental influences	↗	↗
EU entrance in general	↗	→

Grade of impact

High impact ↑
Impact ↗
Low impact →

Probability Scale

High
Medium
Low

Table 7-1: Assessment table. Source: Own compilation (2003)

8 Suggestions for further research

This chapter will present concepts for further research that the authors believe would be interesting to pursue, not only from an academic perspective but also for the interests of the Swedish Ship owners' Association and their members future competitiveness.

In order to get an improved understanding of the competitive situation in the Baltic Sea region, one could investigate the statues of cost for operating a ship or a vessel under the different flags that this master thesis considers. By looking into local wages, port call fees, operating costs such as fuel, social expenses, and deeper into the taxes, one could probably get to the bottom of the economic factors. The authors have identified the economic factor as one of three significant issues when it comes to the Swedish ship owners' ability to compete in the future.

One could also try to identify the optimal routes/links for a goods flow between Sweden and the Baltic countries and Poland by investigating the port facilities in the region, and also investigating the infrastructure surrounding the ports in order to find out whether it would be possible to reach the attractive markets in the hinterland in an acceptable time frame. There are some heavy investments required in infrastructure in the Baltic countries and Poland, in order to transport the goods away from the harbours to the end customers.

Another suggestion for further research is to investigate the trade relations between the candidate countries and the rest of the EU in terms of seaborne import and export. This could be done by identifying the potential threats or opportunities for the Swedish ship owners on the EU market. What are the relations between the candidate countries and the rest of the EU? Are there any big goods flows that could be of interest to take over for the Swedish ship owners?

9 Acronyms and abbreviations used in the thesis

The list includes abbreviations used in the master thesis and could be of great help.

BPO	Baltic Port Organisation - co-operative between major Baltic ports
CBC	Cross Border Cooperation
CBSS	Council of the Baltic Sea States
Dwt	Dead weight ton
EBRD	European Bank for Reconstruction and Development
ECMT	European Conference of Ministers of Transport
EDI	Electronic Data Interchange
EEA	European Economic Area. EU countries Norway and Iceland
EPP	European People Party
ESDP	European Spatial Development Perspective
EU	European Union
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IMO	International Maritime Organisation (UN)
IT	Information Technology
LoLo	Lift on Lift off; often used for container loading/unloading
RoRo	Roll on Roll off
SAI	Institute of Shipping Analysis (Sjöfartens Analys Institut)
SIKA	Swedish Institute for Transport and Communications Analysis
SSA	Swedish Ship owners' Association (Svenska Redare Föreningen)
TEN	Trans European Networks (Transport networks within EU)
TEP	Temporary Employed Personal (Swedish: TAP)
TEU	Twenty foot equivalent unit, standardised load unit
TFK	Transport Research Institute

Acronyms and abbreviations used in the thesis

UBC	Union of the Baltic Cities (network of some 100 member cities)

Baltic Countries	Estonia, Latvia and Lithuania
Baltic Sea Region	Estonia, Latvia, Lithuania, Finland, Germany, Sweden, Denmark, Poland and Russia.
Cabotage	Transport in coastal waters between ports within a foreign country
Candidate Countries	Estonia, Latvia, Lithuania and Poland
Door-to-door	Transport from origin to the end customer
Pilotage	Guidance for ships and vessels into and out of ports

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11 Appendix 1 – Interview with Jacob Terling

Questions answered by mail by Jacob Terling, EU coordinator, Swedish Ship owners' Association, Brussels, 2000-10-24

Will there be any changes concerning the regulations and guidelines for the shipping industry, when the Baltic countries and Poland enter the EU?

> *We have not seen any drastic changes yet, since they formally will become members on the 1st of May 2004. All countries involved in the expansion process, including Poland and the Baltic States, have participated in the negotiations in the European parliament since May 2003. They have the right to comment and/or support standpoints, but they do not have the right to vote. This shows that they have started to influence the process of forming new rules. Shippers and ship owners in these countries has not formatted yet, but they will participate in the work of the European Community Ship owners' Association in a near future.*

What do You think the consequences will be for the Swedish ship owners when Poland and the Baltic States enter the EU?

> *There won't be any significant difference when it comes to the competitive situation. The shipping industry has been an open market for a long time, and ships with Polish or Baltic flags have for a long time sailed the Swedish waters, and thereby competed with the Swedish ship owners in the Baltic Sea. In that respect, it has been an open market for a long time.*

The consequences will probably be bigger for these countries, than it will be for the Swedish ship owners. As members, they have to follow the regulations in the EU, intended for both for shipping and competition/governmental financial support. This means, for example, that they are not allowed to use the Tax Free situation for traffic to and from their harbours.

Their membership will probably result in some support for Sweden, when it comes to political issues. The Baltic States, and to some extent Poland, have the same opinion as the Nordic countries in many important questions concerning the shipping industry (e.g. the application to get the Baltic Sea classed as a Particularly Sensitive Sea Area (PSSA)). Because of the expansion of the EU, Sweden can together with the Baltic States and Poland, become a stronger force when it comes to decision making within the union.

Will there be any changes concerning regulations and guidelines for the shipping industry, when the Baltic countries and Poland enter the union?

No. All countries involved in the expansion must implement the existing regulations of EU (acquis communitaire). They also have to apply to the directives and regulations concerning shipping. They can ask for exception or transition periods, but as far as I know, they have not done that. The main objective is to make the shipping industry compete on the same level as far as possible, this should be applied both within EU as well as internationally. Consequently, all member states in the EU will compete under the same regulations.

Appendix 1 – Interview with Jacob Terling

What possibilities will Sweden have to influence the EU, with its regulations and guidelines? How will Sweden act to maintain their standards?

> *Sweden is already influencing the designing of IMO's and EU's regulations and guidelines since they are a member and allowed to vote. Sweden has, together with like minded countries, great opportunities for success with such a system.*
>
> *I don't think that Sweden needs to act differently than it is today.*

Do the Swedish regulations and guidelines agree with the ones in EU? Do You think that that Poland and the Baltic States will adapt to the existing regulations?

> *Yes. The Swedish regulations agree with the regulations in EU. Sweden has a tendency to make some own rules that stretches beyond the conventions accepted by the EU, which creates drawbacks when it comes to the competitive situation for Sweden and its ship owners.*
>
> *I hope that they will adapt the new regulations. Otherwise, they will, after the entrance, fall under the regulations of EU, and can be put in the EU court by the Commission, accused of breaking the regulations of EU. The shipping industry has received a lot of attention lately, mostly about safety at sea. I believe that "the eyes" will be directed towards all shipping nations within the EU, when it comes to the implementation and observance of the regulations of the EU.*

Do you think that the Swedish ship owners will gain any advantages from the expansion?

Because of the expansion, "new" goods flows will appear in an east-west direction since Poland and the Baltic States will get access to the free movement on the inner market. The EU has already investigated what can be done to avoid major congestion problems on the roads in Europe, if all goods were to be shipped by road in east-west-east direction. Proposals in the so called TEN-T project suggest that the goods from the countries in the Baltic Sea region should be transported by sea. Sweden is well prepared for such a scenario.

How should the Swedish ship owners act to maintain/improve their situation, according to you? Will there be any advantages when new competitors enter the market?

Swedish ship owners are well prepared for all kinds of competition, as long as it takes place under the same conditions. There are high standards in the Swedish fleet, and the ship owners will gain advantages from that, most certainly now when the rules regarding the ban of single hulled vessels take effect.

Swedish ship owners have already ordered new vessels that will be introduced on the market (not just on the Baltic Sea) within five years.

Since it has been an open market for a long time, the expansion will not affect the competitive situation. I also believe that cabotage has been allowed earlier, and therefore that situation will not change either. What will affect the situation is the TEN-T project. There will be more competition when it comes to projects in the area of "Motorways of the Sea". On the other hand, there will be more players to develop syndicates with.

Do You think that Poland will get any advantages over the Baltic States, because of their strong economic growth?

> *From a comprehensive point of view, strong economic growth is always an advantage. If it results in increased import/export, it can contribute to increased transportations by sea. Poland could then have an advantage since they have a shipbuilding industry that can build ships and vessels and their ship owners might have an inclination to make investments.*
>
> *It is important to remember that they don’t have any obvious advantage because they can’t receive any protection, e.g. since certain goods is reserved to Polish flag, or similarly. Once again, the shipping market has been an open market for a long time.*

12 Appendix 2 – Interview with Christopher Frisk

Telephone interview with Christopher Frisk, handling officer in transport questions, Moderata Samlingspartiet, European parliament, 2003-10-28, 16:40 – 17:10

What do you think about the consequences for Swedish shipping industry when the Baltic countries and Poland enter the EU?

> *There will be more transport on the Baltic Sea, mostly transit traffic that passes through the Baltic States and further on to Russia. The number of ship owners in Skåne will probably increase, due to their strategic position. Tthey might also get the most out of the expansion of the EU.*
>
> *There are some heavy investments required in infrastructure in the Baltic countries and Poland, in order to transport the goods away from the harbours to the end customers.*

Will there be any changes concerning regulations and guidelines for the shipping industry, when the Baltic countries and Poland enter the EU?

> *Yes, of course. The Baltic countries and Poland still have a lot to do. There is a process of streamlining in Poland, and also in the more progressive Baltic States where the changes happen faster. All four countries are way beyond western standards when it comes to environmental issues, but there is a great will to change the situation concerning the environment. They do get some great support from the EU in the form of financial support.*

Appendix 2 – Interview with Christopher Frisk

What possibilities will Sweden have to influence the EU, with its regulations and guidelines? How will Sweden act to maintain their high standards?

> *The current Nice-treaty makes the countries around the Baltic Sea a strong force, if they act and think as a region, when it comes to decision making in the EU.*
>
> *The standard in Sweden is high already, which is a competitive advantage that benefits the Swedish shipping industry. The most important problem nowadays is to increase the standard in the Baltic countries and Poland.*

What benefits will the Swedish ship owners get out of the expansion of the EU?

> *It depends how they adapt to the changes. Those who are well prepared will probably get numerous of advantages out of the expansion, but those who are not will fall back and they will have a long way back. I think that the expansion will be good in the long run since it will result in an increase in transports eastwards.*

How should the Swedish ship owners act, to maintain/improve their situation, according to you? Will there be any advantages when new competitors enter the market?

> *If you are efficient and have a good concept, you will succeed. Since there are low prices already, there will be more freight in the region, which is a dynamic region that connects Europe. The EU is staking great resources on short sea shipping within Europe. It is one of the current "words in fashion" within EU. The Marco Polo project is a project that*

will develop the infrastructure in the EU with the aim of changing the current imbalances between the different transport modes.

Have you noticed any changes because of the entrance of the Baltic countries and Poland?

There have been several changes, mostly emotional. People are taking about the Baltic Sea as a region, a great lake within the union. The countries around the Baltic Sea feel more united than ever. People have numerous ideas concerning the future and the networks and how they are, or will be developed.

13 Appendix 3 - Interview with SAI

10.00-12.30, 2003-10-23

Institute of Shipping Analysis (SAI), SAI is a non-profit and independent economic membership association for the maritime industry, based in Scandinavia. The purpose of the organisation is to serve as a high quality information and expertise centre for its members and the maritime industry with strong emphasis on research and innovation. SAI organises regular seminars and meetings, takes part in maritime research and development projects, and issues publications and reports. The organisation has over 190 members at present, representing shipping companies, ports, ship owners and trade union organisations, shipbuilding/engineering, finance and insurance companies, research and education institutions, and authorities. SAI has their head office in Göteborg, Sweden.

Lennart Nilsson, Barbro Wilén and Andreas Krantz from SAI in Göteborg where interviewed and informed about the subject that this master thesis is about. As experts on sea transportation on the northern part of Europe and the Baltic Sea, their answers and information were of great value to this master thesis.

What about the safety at sea today, what is most important, the environment, double-hulled vessels? What/who decides the regulations and guidelines?

> *There are some different organisations that decide and regulate the regulations and guidelines that concern sea transportation. The international conventions are the most important cornerstones that help in forming regulations and guidelines worldwide. The EU has of course a big*

part in the formation of the regulations and guidelines for the European waters where member states of the EU are involved. But there are also many countries that make their own rules that benefit their own shipping industry. Many big companies which know that they are important for a country, like the oil industry usually make there own restrictions.

Do You think that new freight connections in forms of routes and links will be established, because of the expansion of the home market?

> *The links and routes that already exist will probably stay and become even stronger, in the market. Many ship owners will expand as the frequencies of transportation will grow and better utility of the ships and vessels will be more important.*

How do you think the most significantly changes will appear concerning the goods of flow?

> *Today there are some Russian ships of various standards that cross the Baltic Sea and a great deal of their freight is oil. To continue the export, Russia has to change and invest in new ships, when transporting on the Baltic Sea.*

> *The goods flow from the Baltic countries and Poland will grow during the coming years. Half and complete products were the semi finished products can be completed in the Baltic market and fit the need of a customer. An increase in raw material flows will be seen*

> *Since the Baltic countries became independent from Russia, numerous things have changed. They have their own government and their own*

currency, which has resulted in an increase in the standard of living within these countries. This has also led to a higher consumption of products, especially the ones from abroad, fruit, vegetables and cars. This has made the seaborne transportation more important.

What does the competitive situation between Sweden and the candidate countries look today? How do You think the Baltic States and Poland will act in the matter of possibilities and threats that this entrance will pose?

The Baltic countries make up a small market, because of the low density of inhabitants in the countries. These countries are mainly compared with Russia, where the number of inhabitants is bigger and the market is therefore massive. Between Sweden and the Baltic countries there is some exchanging of knowledge and competence, which mostly comes from Sweden. Cooperation between the countries makes it possible for them to help each other with development in different areas.

Many companies see a good opportunity to invest in the Baltic countries and Poland in the years to come. Lower costs and better conditions make it much more attractive and also the closeness to the Russian market is attractive. Since the Baltic countries are relatively small countries, it won't be long until they have adjusted to the new changes that will appear.

What factors do you think will be disadvantages for the Swedish ship owners? How will this change the existing situation of competing?

The economic situation in these countries, which most shipping companies and ship owners are familiar with, will create some *disadvantages for the Swedish companies in the industry, since Sweden is a more expensive country. It can also be seen as an opportunity for Swedish ship owners since the membership in the EU will make it more attractive to make investments in the countries, in factories, ships and vessels.*

How do You think Swedish ship owners should act or compete, to maintain/improve their situation? Will there be any advantages when new competitors enter the market?

Swedish ship owners should act offensively and try to make use of the possibilities that exist. Some will win and some will lose.

14 Appendix 4 - Interview with Kurt Lilja

Questions answered by mail by project leader/marketing analyst, Kurt Lilja, marketing and sales department in the Port of Stockholm

What do You believe will be the most significant changes in term of goods flows?

> *Sweden is an important trading country for the candidate countries and an annually GDP growth of 6-7 percent, shows that the trade will continue. At the moment we are in an intensive development stage concerning the Baltic trade, with an increased volume at almost 40 percent this year. It is the general cargo category that will grow the most. The bulk category will also increase, but to the same extent. This means that there is an increase to be expected in the ferry traffic to/from the ports in Stockholm area.*

How do You believe the candidate countries will act according to opportunities and threats?

> *The Baltic countries are small countries with good port capacity. To utilize these ports effectively, the transit trade from the eastern countries has to be increased. Russia has a political policy to develop their own ports in close connection to St Petersburg, to decrease the dependency on the Baltic ports. The Baltic States should work with the obstacles that exist today with free transit trade to not only Russia, but also to Belarus and Ukraine. The infrastructure in the form of roads and railways has the capacity for handling big goods flows, but the problems today is the border crossing difficulties.*

Do You believe that there will appear new fixed links and routes caused by the EU expansion?

Increased Russian trade with the rest of the EU and also outside the EU may contribute to the goods flows going through the Baltic States. The Baltic States' ports can also work as consolidation ports for other countries around the Baltic Sea, including Sweden.

What is the standard like today, when it comes to port facilities, fleets and regulations in Sweden vs. the Baltic countries and Poland?

There has been a rapid recovery within the port and shipping sectors in the Baltic countries after the resolution of the Soviet Union. We have also seen a similar development in Poland. When it comes to the regulations, they are in most respects comparable to the Swedish ones, and also to the regulations in the EU. International conventions, the ones issued by the IMO, control the shipping industry. All countries around the Baltic Sea have joined the Helsinki convention, which is of high importance when it comes to the environment.

Some of the Soviet Unions most important harbours were situated in the Baltic countries where the standard varied in the beginning, but it has been improved during the last decade.

The City port in Tallinn has been transformed to a modern ferry- and cruise port, while the outer port, Muuga, has been developed in order to cope with bulk goods and containers.

In Muuga, a completely new terminal for oil has also been built. Riga has developed to be one of the Soviets most important container ports in the Baltic Sea, and it is still in the process of developing.

In Ventspils, Latvia, the handling of oil products is still a major activity. They have also built a modern container and ferry terminal. Another example is Liepaja in Latvia that has developed from a military port to a trade port. Klaipeda is the only port in Lithuania that is of importance. There has been a significant increase in standard, through supporting measures, when it comes to the handling of general cargo and ferry traffic in the port.

There have also been significant improvements in the ports in Poland, which nowadays are level with the standard of many ports in Western Europe. To conclude, one can say that the handling capacity in the regional ports is good, and that they are prepared to be part of future goods flow solutions.

The standard of the ships in the merchant fleets in the Baltic countries were in bad shape in the beginning of the 1990s, even though there were some high standard ships. Most of the ship ownership in the Baltic countries has been privatised during the last decade, and the fleets have been improved/modernised hand in hand with privatisation.

Ships and vessels have been bought from abroad, and they are usually of a higher standard than the older ships in the fleets. There have also been investments in completely new ships, the Estonian ship owner Tallink will, in the beginning of 2004, receive their second large ferry from a Finish shipyard. It will be one of the biggest, and also the most modern ships *sailing the Baltic Sea. There is a long tradition of shipping in these countries and they have great access to qualified and experienced people working in the industry. This contributes to making the shipping industries of these countries competitive.*

What is most prioritised when it comes to safety at sea today? Double hulled vessels, environmental measures?

Research is continuing concerning safety at sea and the environmental impact on several levels and stages. The requirement concerning double hulled vessels is just one of many examples of precautions that will contribute to a decrease the environmental impact of the ships. All ships will, gradually, be equipped before 2008 with so called "transponders" that will send information giving the identity of the ship, its course, speed, to other ships and control stations within the area. The information will help to increase the level of security when navigating a ship, but it can also be used, for example, to track oil discharge from tankers.

It is most likely that the Baltic Sea will achieve status as a "Special Sea", which will lead to increased demands on ships sailing the Baltic Sea. Another measure that has been discussed concerns the separation of seaborne traffic, so that the heavy ships and vessels won't meet in the navigable channels.

What/who is formulating the demands? Is it the market or the regulations and guidelines?

The work of the IMO in formulating and introducing new regulations within the shipping industry is seen as a time demanding job. There is often many *years from suggestion to implementation of new regulations. It is basically the regulations that are formulating the demands, but it is mostly the market that pushes the developments forward, faster than the regulations and demands, such as the number of ship owners that are taking on safety and environmental issues. Safe and well functioning ships are of great importance when it comes to attracting customers. Many harbours have developed long term strategies that involve more extensive security- and environmental adjustments than what the regulations demands. This is to ensure that the daily activities are run with minimal risks for serious accidents.*

What does today's goods flows look like, between the candidate countries and Sweden?

The goods flows in the region can be divided into two different categories, general cargo and bulk. When it comes to the general cargo, it is mostly goods that are transported by long-distance lorries and trailer, and also containers. The ferry traffic is the dominant mode when it comes to the transportation of general cargo and there are studies that show that ferry links plays a decisive role for the development of the trade exchange.

There is a south and a north thoroughfare for the ferry traffic. Swedish ports that are affected by the south thoroughfare are Ystad, Karlskrona and Karlshamn, that serve the traffic to Poland, Lithuania and Latvia. Stockholm, Nynäshamn and Kapellskär serve the north thoroughfare, which involves Poland, Latvia and Estonia. The total amount of transported goods by these ferries amounted to almost three million tonnes during 2001, and the balance between import-export is quite even.

The flows of bulk goods not show the same patterns of unity as the general cargo. The biggest import category is forest products, followed by oil and coal. The total import amounts to almost 12 million tonnes annually, while export amounts to some two million tonnes annually and consists mostly of various, products such as agricultural products and artificial fertilisers. A few companies spread all over the country, are the recipients of the general cargo, which means that the transports are spread throughout Sweden.

What threats/possibilities do You think the Swedish shipping industry can expect in the coming year? What threats/possibilities will affect the Swedish ship owners'? Will this affect their ability to compete?

The shipping industry will become more international, in the sense that the flag a ship carries won't be depending on who owns the ship or what nationality the employees are. The EU is striving to strengthen the national flags by harmonising the conditions in the member states, and they will at the same time make sure that the international registers will not be attractive. When the conditions have been harmonised for the ship owners, it will probably take a few more years to harmonise the payment and other employment conditions in all member states. There is at the moment no ships with Swedish flag sailing between Sweden and the candidate countries and this will probably not change in the years to come. Even though the ship owners are not operating under Swedish flags, it won't prevent the Swedish ship owners from operating competitive ferry links.

Are there any Swedish interests in the Baltic Sea countries? If there are any, which are they?

If one look at current situation when it comes to ferry traffic, the only Swedish interest is in Stena Line, whose ferries serves the link Karlskrona – Gdynia under the Polish flag. The Swedish investments in The Baltic countries and Poland are generally extensive which results in a strong position for Sweden in the trade and industry of these countries. From a long term perspective, one can say that this will also be positive for the Swedish ship owners.

How should the Swedish shippers act, to maintain/improve their situation, according to you? Will there be any advantages when new competitors enter the market?

The current situation concerning the ferry traffic has developed throughout the years and the ship owners have established their links and connections without any competition worth mentioning. The reason for this is that the supply of goods has been somewhat limited. It is obvious that the interest has increased, for ship owners that have not been operating to Baltic or Polish ports, in establishing on the substantially expanding market. One competitive strength for the upcoming actors is that they have well established contacts with some of the great transport companies and they thereby can reach synergy effects with their other routes.

Do You think that the Swedish shippers will gain any advantages from the expansion?

The expansion of the EU will probably lead to a positive development of the economy in the candidate countries, which will lead to an expanding market to act in. This is positive for all ship owners, not only the Swedish ones. In the long term, the competition between ship owners in different countries will take place under the same conditions, mainly when it comes to salaries and employment benefits.

What factors do You think will be disadvantages for the Swedish ship owners? How will it affect the current competitive situation?

There are no obvious disadvantages that come with the expansion of the EU, when looking at it from a shipping perspective. The competition between the different countries ship owners will take place under more similar conditions.

What benefits will the Swedish shippers get out of the expansion of the EU?

When looking at it from a larger perspective, Sweden and the rest of Europe will mostly gain out of the expansion. The candidate countries will be more in line with the current member states within several areas e.g. the harmonisation of environmental regulations for the shipping industry.

15 Appendix 5 - BPO Seminar, 16 – 17 October

Block I: EU Enlargement in the Baltic

Firstly there was an opening speech from those who arranged the seminar, Riho Rasmann, from the Port of Tallinn and Christel Wiman, BPO.

From the first block Toivo Jurgenson, could not appear to present his part.

First out was Meelis Atonen, Minister of Economic Affairs and Communication, Estonia who spoke mainly about the enlargement of EU and the new market for Estonia. By the opening of the market harmonisation will be the most important question to deal with. New regulations and inter modality will also be important corner stones that will be discussed. There will be more cooperation with the Baltic countries and also with Russia, which is still very important for Estonia.

Per Stenmarck, Head of the Swedish EPP-ED Delegation said that the transportation of goods will increase, mostly at the sea. Transport the goods through Germany is expensive and with a better and closer relationship between, for example Sweden and the Baltic states, there will be less expensive per unit by the sea. With the help from EU, the countries around the Baltic Sea can build and help each other with a better infrastructure. And as Meelis harmonies the rules and try to make increase the standard in their infrastructure: Example trains. Also the environmental rules have to be stricter and can become more efficient, especially if everyone work together and co-operate. Transportation is the engine of a working market.

The next two speakers represented companies which transport much goods and passengers on the Baltic Sea. Ulf Petersson, Director DHL Express AB, and Toumas Nylund, Senior Vice President, Corporate Communications, Silja Oyj Abp. DHL dealing with cargo and Silja with passengers. For the DHL the development and transportation within the country will increase up to 8-10 % until 2005 per year, but will increase a bit less after 2005 with a yearly rate of 5-8 %, This is from statistics that Ulf have dealt with and will stabilise by the year 2005. For silja there will be bigger competition from other countries. The routes Fin-Est and Est-Swe will increase mostly think Toumas.

After the coffee brake, there was time for Patrick Verhoeven, ESPO, and Secretary General, who said that there will be a challenge for the Baltic ports when entering the EU next year on the first of May. Patrick talked about the EU ports today and the current trends. He says that port policies in EU are more to work on and are as it is today not mature. Especially when new actors enters the market, EU has to make sure that the standard suits all member countries. When all members has the same rules, it is easier for companies to establish something in there home country and in other countries.

The last part of the day except for the dinner, later on, was the discussion part were a question time was held and the speakers during the day answered questions:

What cargo to be expected? There will mainly be oil and bulk, mostly because the gateway to Russia and the countries position. The transit to

Russian will increase, since the Russian market is huge and will become even bigger in the future. Because of the smaller market of the Baltic countries, the increase will be smaller than in Russia. The export will also be more consumer goods which will be transported by safer and bigger vessels.

The last years there have been an high increase for the port of Carlshamn, which have had an increase of 25 – 50 % a year, were forest and furniture are mainly transported. The port of Carlshamn transport most of their goods to Poland.

Finally the conclusion is that time and money are the main problem and without these parts, it is difficult to act and change.

Block II: Baltic Sea environment

The Baltic Sea is a special sea that needs protection in order to stay fresh. Mr. Stig Mattson of Birka Cruises gave us a presentation of their passenger vessel NB 442, which will be one of the most environmentally friendly ships in the world, when it will be delivered in the autumn of 2004.

Jan Berglöv presented the environmental work of Wallenius Marine and explained the difficulties concerning all the environmental regulations that they have to follow, when sailing all over the world. Wallenius is the first shipper to be ISO 14 000 certified. They are also struggling to reduce their sulphur discharges by 1,5% during 2003.

A new diesel technology for low emissions from two stroke engines was presented by Kjeld Aabo, who claimed that Sweden is a leader when it comes to development in shipping. The development of new measuring equipment for emission control will continue in the coming years. There will also be a greater challenge to ship owners since vessels are required to have, or be prepared for, emission control equipment.

Dr Eugeniusz Andrulewicz presented some recommendations for decision makers when it comes to what more can be done for the Baltic Sea environment, since it is a particularly sensitive sea area. Some highlighted areas where measures can be taken are the areas of eutrophication, transport, fisheries, chemical pollution and Baltic ports.

Block III: Security – How will ports be able to handle the requirements

Mr. Eran Yogev from the security Academy of Scandinavia discussed about the ISPS-codes. International shipping has been identified as vulnerable to global terrorism. Security management practices are considered essential if exposure to loss due to terrorism, piracy and other criminal activity is to be reduced. The ISPS means the International Ship and Port Security. The aim is to make the ports safer by use of fences, alarm and structure. It can be a costly procedure to implement the ISPS codes into a certain port organisation.

Anna Grunewald from the Port of Gothenburg discussed about their implementation of the ISPS codes. Their implementation started up in spring 2002, and they worked with an external Port Security Officer who helped them identifying risks, threats and weaknesses in their port area. Together with other external and internal parties involved, for example risk management department responsible, risk responsibility committee, port security and fire fighters, they came up whit a Security Assessment Report in October 2003. From here a Future Security Plan has to be made. The conclusions from the Port of Gothenburg are that the threat was low, but the vulnerability was high and had to be improved. All containers have to be controlled from damage and vehicle photographed. Cargo without confirmed loading date shall be denied.

Gert Nörgaard from the Copenhagen Malmö Port (CMP) discussed about their implementation of the ISPS code. Since their port is located close to apartments made it hard to secure the area and fences was needed. Emergency plans, education/training, guarding the water area, fencing the terminal, passenger/luggage security check, water inspection made their implementation costly.

Erik Poulsen from Scandlines A/S mentioned that Sweden only have one authority involved when implementing the ISPS codes, which they believe is an advantage. In other countries like example Denmark, it can be a mess when a number of different authorities are involved.

Berit Hägerstrand discussed about the bright future of the ports in the Baltic Sea. Development of E-commerce is of high importance, it is the future. Future trends are that container cargo moves will increase 10-15% annually, but the vessels will only increase 9% annually. This will lead to a higher load factor. The Baltic region has a strong forest segment and increase in customer segment/customer goods. The ports in the Baltic will handle 4 millions TEU's this year.

Future trends:
Baltic Sea – the inland sea of EU
North West Russia – great potential in the future, forest products.
May/will lead to New Russian ports.
Increased number of vessels.
Bigger vessels
Expected increase in all transport segments.

Higher demand on efficiency, flexibility, may lead to competition between ports. IT technology and efficient equipment will be the key to success and make service possible at 24 hours notice. Short sea shipping needs good/smooth handling, and good infrastructure is very important and also organisational development. In the future the value added services and variety of logistic solutions will be important as well.

In a long term perspective there may be two central hubs in the Baltic region due to their location between East and West. They might be located somewhere in the southern Baltic, for example Poland and Latvia.