

SWOT - Market – Customer Analysis

Task 5 B

The eligible area is shown on the map below.



1. INTRODUCTION

1.1 THE EAST WEST TRANSPORT CORRIDOR II - PROJECT (EWTC II)

The EWTC II project comprises of 31 partners from four European states, working together on the development of a seamless, sustainable and efficient transport corridor in east west direction. The project budget, which is available for the projects lifetime of 36 months amounts to 5.992.400 EUR. The EWTC II project is lead, coordinated and managed by a team of experienced staff from the Swedish Region Blekinge.

Since the approval of the project in June 2009 the partners have started to implement their activities. The Port of Sassnitz' focus in that respect is on marketing and networking activities which aim in particular at the development of railway ferry services in the southern Baltic Sea. Since December 2010 the port also enjoys the assistance of a new established EWTC II Office in Klaipeda, which possesses in depth knowledge about relevant transport markets and corridors. The study was conducted by the local office representative, Mr. Arunas Urbonas and the EWTC II Project Coordinator of Port of Sassnitz, Mr. Patrick Schwabe.



Graphic image of the east west transport Corridor

1.2 PURPOSE OF THE SWOT AND MARKET ANALYSIS

Without a sound understanding of markets and regions, existing transport and logistics chains or players and institutions which create the economic-political overall framework, the development of sustainable growth along the east-west transport corridor would hardly be possible.

Against this background, the purpose of the following SWOT and Market analysis is, to provide insights on regions and hubs which are of utmost relevance for the sustainable and efficient development of the east west transport corridor. Due to the thematic relevance, an additional part about the customers/commodities structure in Kaliningrad Region as well as in Lithuania (Klaipeda) has been added.

The report starts with a market analysis which focuses on the infrastructure and services of the Ports of Klaipeda and Kaliningrad (Baltiysk) as well as on the prevailing customer and commodity structure of these hubs. The third chapter contains the SWOT analysis. In chapter four some conclusions and final remarks are going to be presented.

2. MARKET ANALYSIS - MARITIME TRANSPORT HUBS KLAIPEDA AND KALININGRAD REGION

2.1 PORT INFO – FERRY PORT OF BALTIJSK



Kaliningrad port – bird's perspective

Photo: Mann Lines

The Kaliningrad enclave of Russia is situated on the south-east coast of the Baltic Sea. The area is half the size of Belgium. It is entirely surrounded by EU states, with Poland to the south, Lithuania to the north and east and the Baltic Sea to the west.

Despite the relatively short length in use of the Kaliningrad Railway routes (approx. 963 km) and the limited area of the Kaliningrad Oblast itself (the region's population amounts to about 1 million), the regional transport complex, including the ferry port of Baltijsk, has a very significant importance for the regional economy because it is exactly the transportation business which generates the lion's share of the region's budget revenue.

The Ferry Port of Baltijsk is operated by the Kaliningrad Branch under licence for operation of explosive and fire-hazardous production facilities (No. ВП-01-003786(Ж) dated 25 September 2009 and issued by the Federal Agency for Ecological, Technological and Nuclear Inspection).

In the following, an overview on the port handling services which are offered to the customer and on infrastructural aspects is given:

- mooring and handling of seagoing ferry vessels
- cargo multimodal transshipment
- goods unpacking/unstuffing and repacking
- slinging operations, and
- mandatory tug assistance service.



Baltijsk Intermodal Terminal

Photo: Rosmorport

As regards infrastructure, the following facilities are available to support the handling operations of the Ferry Port of Baltijsk:

- railways with a total length of 7.1 km capable to accommodate over 200 railway cars at a time
- elevated ramp to facilitate operations involving loading of motor cars into railway cars
- vehicle collection yards of 10.5 ths. m² in total (including an access road)
- open storage yards having a total area of 45.68 ths. m² and a covered warehouse providing 0.33 ths. m² of floor area
- customs station to perform detailed inspection of railway cars.

Thus, the Ferry Port is capable to handle up to 5 mln. tonnes or over 123.000 railway cars per year.

The Ferry Port of Baltijsk features quayage of 236.18 m length, with a water depth alongside the berth of up to 10.5 m allowing the mooring of ferry ships with an overall length of up to 190 m and deepest draught up to 9.5 m.

At the present, the Ferry Port of Baltijsk is able to handle goods of the following kinds:

- RO-RO cargo including railway and motor cars,
- bulk cargo (direct handling), and
- general cargo shipped in freight containers, big bags or railway cars.

In addition to cargo handling operations, the Ferry Port possesses facilities which are necessary to serve seagoing ferry ships and ocean passenger liners through the use of the sea passenger terminal which is a part of the cargo/passenger car ferry centre.

The passenger terminal building features a waiting room and special rooms and equipment necessary to perform border and customs inspection. The terminal is capable to serve up to **17 ths.** passengers per year.

As regards future investments, various projects are planned in order to improve the competitiveness and accessibility of Kaliningrad Region as a whole (some of them are envisaged in connection with the application for the football world championship). In that respect

- the launch of the rapid passenger traffic between Kaliningrad and Moscow
- the electrification of the head passage of the Kaliningrad railroad on the section between Kaliningrad and Nesterov
- the construction of the bypass of the terminal Kaliningrad - Sortirovochny (Marshalling) in the directions of Baltiysk and Mamonovo, including the construction of the deepwater harbour on the Balga peninsula

have to be mentioned.

Furthermore, discussions about the military and/or civil use of relevant port areas are expected to continue and to have an major impact on the ports future development.

Sources: Personal talks to Baltijslaja Stividornaja company; www.eng.rosmorport.ru

2.2 PORT INFO - PORT OF KLAIPEDA

The Port of Klaipeda is the northernmost ice-free port of the Baltic Sea which offers a wide range of port related services like handling of goods, storaging and stevedoring. Furthermore, it provides a sophisticated port infrastructure, which makes the hub a universal, multipurpose deepwater port, with a maximum handling capacity of 40 million tons/year.

One of the major shipping companies operating in the Baltic Sea, DFDS Seaways, offers regular services from Klaipeda to the ports of Aarhus, Copenhagen, Fredericia, Karlshamn, Sassnitz and Kiel and vice versa.

According to DFDS Seaways the following services and equipment are available for transshipments from Klaipeda:

Terminal services

- Terminal crane with lifting capacity up to 30 tons
- Heavy weight cargoes up to 100 tons handled by ordered cranes

Terminal access

- Easy connection to rail and highways

Security

- Cameras installed at storage areas
- Guards 24hours
- Meet ISPS requirements

Storage

- Open air storage 240,000 sqm for trailers, containers and cars
- 1 warehouse with 4,000 sqm for general cargo
- 1 designated for paper with separate rail-junction

Special competences

- Terminal operations certificated by Loyd's Register Quality Assurance (LRQA Lietuva), ISO 9001, ISO 14001, HSAS 18001



Line network Port of Klaipeda, source: www.portofklaipeda.lt

Local stevedoring companies offer every kind of equipment needed for handling services and transportation of commodities, covering all segments of goods (liquid goods, general cargo, bulk cargo).

Furthermore, the Port of Klaipeda is developing and extending the hub for future businesses: A new Passenger and Cargo Terminal in the central part of the port is under construction. The project includes the new construction of berth's and ramps as well as an improvement of the accessibility of the port (in particular of the road infrastructure). Finally the suprastructure (passenger service and office building, check points, covered gallery (for passengers to go on ships), parking site for automobiles, cargo storage areas and general cargo warehouses) is going to be upgraded respectively new constructed. The goal of these measures is, to be able to take up to three ferries at one time, making the handling of 6-9 ferries per day possible.

In 2010 31,28 mln. t of cargo have been handled in Klaipeda. The share of each commodity is as follows (in percent):

- Oil products 28%
- Fertilizers 27,7%
- Ro-ro cargo 13,8%
- Containers 11,3%

- Agriculture products 4,9%
- Building materials 5,1%
- Timber 2,1%
- Ferro alloys 1,1%
- Frozen goods 1,1%
- Sugar 1,4%
- Steel scrap 1,2%
- Other 2,5%

Source: www.portofklaipeda.lt

2.3 CUSTOMER ANALYSIS – GOODS AND COMMODITIES

In the past years the business environment in Kaliningrad Region and in Lithuania has substantially improved. The EU membership in 2004 was kind of a catalyser for Lithuania in this regard.

Nonetheless, Lithuania still faces the effects of the economic crisis in 2009 as well as some uncertainties about it's future role as a transit country for east – west transports. Even though the business potential is high, the pressure from competing (Russian) ports increases and makes it more difficult to boost up the recovery after the economic crisis. Kaliningrad Region is, due to it's geographical position, of high strategic relevance for the government of the Russian Federation. This also applies for the creation of an attractive business environment for the region. 2189 foreign capital companies, local branches or representative offices from 70 countries show, that substantial progress has been made in order to develop Kaliningrad Region into a good place for investors. Big transport and logistics companies such as DSV and Rhenus Logistics have established branch offices and builded up warehouses for the distribution of goods.

The location of the free economic zone in *Kaliningrad Region* has got a good starting position for the development as a logistics and distribution center.

In the region, key industries are already concentrated, e.g.:

- automotive companies
- producers of home appliances (tv sets, refrigerators)
- fish (VICI)
- soy (soy factory)
- fertilizers (Arvi fertis).

Many of these producers sale goods to Europe and third countries. Furthermore, the assembling of parts for TV sets and cars which are mostly delivered by sea in containers or designed for further distribution via warehouses, are additional important business segments in Kaliningrad Region. The Port of Baltijsk has handled the biggest part of it and reached about 300.000 TEU in 2010. In 2011 it's going to expand up to 400.000 TEU.

As regards *export transit cargo from Russia* goods like

- sawn timber
- plywood in packages
- wood brickets (source region: Syktyvkar, Perm, Krasnodar regions)
- steel products
- slabs sheets
- billards (source region: Tcherepovec, Dnepropetrovsk)
- paper reels (source region: Koryazhma, Bratsk and Ust-Ilimsk)

arrive in the Port of Kaliningrad via rail.

As import commodities to Russia via *Sassnitz – Klaipeda/Baltijsk*

- steel constructions
- equipment
- building and agriculture machinery (harvesters, tractors)

- locomotives and compound parts for RZD
- fire proof materials
- construction materials (e.g. floor tiles, MDF plates)
- and paper on pall

have to be mentioned.

Russia's vast natural resources also have an impact when it comes to the *potential cargo volumes being exported from Russia* via the railway ferries on the *Baltiysk/Klaipeda - Sassnitz* route to the markets in central Europe. Some of the most important cargo potentials on this relation are:

- grain in hopper wagons (source regions: Ukraine and Usbekistan)
- food oil in tank containers or in wagon systems (source region: Ukraine)
- coal in open top wagons for TEC stations in Germany (source regions: Kemerovo, Kuzbas region)
- gas and other chemicals in cistern wagons (possible source region: east Russia).

As one potential cargo being *exported from Germany* to the Russian market the construction material *felspar* has to be mentioned.

With respect to these cargo potentials it has to be underlined, that more detailed predictions in terms of volumes and quantities are difficult to make, due to uncertain framework conditions in the future. E.g. factors such as

- increasing/decreasing truck rates
- waiting times on borders (road)
- the development of container freight rates
- the development of bunker prices
- restrictions of truck driving times
- road charges (e.g. Poland)

3. SWOT ANALYSIS (MARITIME TRANSPORT HUBS KLAIPEDA AND KALININGRAD REGION)

3.1 STRENGTHS

1. Flexible services for the clients: Possibility to offer rail wagon and ro-ro cargo shipment from/to Sassnitz via Klaipeda/Baltijsk, including reloading from EU gauge to the rail network of 1520 mm gauge, with enough facilities/capacity for the development of a green corridor
2. Cost and time savings when using ferry services due to: Increasing fuel costs, shortage in transit or third countries permissions, restriction of driving times, weekend and seasonal restrictions
3. Frequent sailings (and thereby reduction of waiting/travel time) with ferries “Ambal”, “Apollonia”, “Vilnius” and “Kaunas” using DB or RZD sea freight rates
4. Possibilities to remove most dangerous trucks from road on ships with IMDG, oversize and overweight cargoes; new vehicles and machinery without additional road permissions, which also allows to prevent traffic jams and to improve safety on the roads
5. High quality services: Possibility to receive assistance from experienced companies e.g. with respect to transport permissions, handling services, wagon material, loading/unloading and lashing etc.
6. The working group for the shuttle train “Merkurij” on the route Kaliningrad - Klaipeda - Moscow will be established in 2011. Operating shuttle train “Viking” Klaipeda – Vilnius – Minsk – Kiev - Odessa (Iljichiovsk) and regular annual meetings of the “Council of the Ministries of Transport of Lithuania, Belarus and Ukraine” to consider development issues

7. Sufficient port infrastructure and modern logistics/warehousing centers and handling equipment, give the possibility to use intermodal transport solutions, and to allow transshipment of different kinds of commodities (general, liquid, bulk, containers, etc.)
8. Cargo shipment by rail is becoming more preferable by cargo owners, due to long queues up to 10 km of trucks on Poland/Belorussia, Poland/Ukrainian and Lithuania/Belorussia borders; result: Increase of delivery time by 3-5 days
9. During winter season, cargo deliveries delay up to 4 weeks via frozen ports of Helsinki, St. Petersburg, Ust-Luga, Tallinn, Riga, which gives huge advantage to promote a reliable and green east – west transport corridor

3.2 WEAKNESSES

1. After 1st of July 2010, when the Custom Union started to apply new custom regulations, a lot of double checking and tax applications occurred; still many bureaucratic obstacles
2. Restricted area for development, especially in Baltijsk (Navy land, military zone), resulting in lack of railway tracks for shunting, trajection and reloading; shortage in warehousing capacity in Klaipeda (long peninsula occupied by container terminal)
3. Customs in Baltijsk and border crossing procedures for trucks on RUS/LIT and LIT/BY border, result in increased waiting times and subsequently higher transport costs
4. Baltijsk - Kaliningrad one lane road, restricts all kind of traffic due to narrows and several rail crossings. Moreover the space for rail wagon movement is restricted

due to a lot of oil cistern wagons and rail platforms with containers which are moving into the same direction; generally not enough manoeuvre space in Baltijsk railway station

5. Lack of specialized wagons in the public park, e.g. reefer wagons, rail platforms, double door 150 cbm covered wagons in the rail network of 1520 mm gauge; no provision of wagons in time and force to cooperate with private or rented wagon owners, what increases shipment costs
6. Each transit country decides on it's own, when and how much the rail tariff rates will be changed; non-harmonized rail tariff issues cause difficulties in their application between the Rail administrations of each state
7. Container operators have lack of practice to transship containers by rail (mostly using own road chassis); only a few forwarders have an own rail platform park and are specialized on container shipment. Aiming for 108 x 20' cont. a week to launch complete shuttle train Klaipeda/Kaliningrad - Moscow
8. Application of SMGS rules in Port of Sassnitz still under negotiation
9. The lack of a prior exchange of information in the rail network of the states and the incompatibility of different IT systems complicate interaction

3.3 OPPORTUNITIES

1. Ministries of Transport, Railways and Ports administrations of each state support the creation of cargo flows on the EWTC (good communication international and local); this expresses the business to business attitude between the involved parties (ports, ship owners, railways administrations, road associations and rail/road forwarders)

2. The east west transport route connects important markets with each other; great demand in RUS/CIS for project cargo, machines, industrial facilities etc.; huge potential for imports of goods to Europe e.g. chemical goods, grain etc.
3. The ship owners are going to increase the fleet on the Sassnitz - Baltijsk route – resumption of the ferry traffic on the route in June 2011 with “MV Applonia” (passenger capacity: 120)
4. JSC "Russian Railways" negotiations with the shuttle train “Mercurij” from Klaipeda / Kaliningrad to Moscow started successfully. The main issue remains the provision of the necessary amount of containers to form a full shuttle train with 108x20’ or 56x40’ containers, because only then RZD will provide rebates and favorable tariffs
5. Political agreements to facilitate the development of shuttle trains; e.g. JSC “Lithuanian railways” has organized an intermodal freight conference on 31st of March 2011, where invited carriers and freight forwarders from Belarus, Ukraine, Turkey and Syria have discussed the development of the shuttle train “Viking”
6. Start of shipment of containers from Sassnitz via Klaipeda to the Central Asia countries and cargo of NATO to Afghanistan, will create reliable rail routes on which freight traffic will increase gradually

3.4 THREATS

1. Political quarrels between governments of Russia, Belorussia and Lithuania on the issue of the construction of nuclear power plants in Sovetsk region, Russia, 5 km from Rus/Lit boarder and Astrava, Molodechnaja region in Belorussia 50 km from Vilnius

2. Shipment rates for small cargo volumes can not be subsidized for a too long period by ports, ship owners, railways
3. Custom union rules, abundance customs and border crossing procedures could have a negative influence on the forwarders decision to use the EWTC
4. Too strict regulations imposed by IMO (CO 2 emissions, sulphur emissions) might result in higher bunkercosts for the seaborne traffic in the Baltic Sea and the North Sea
5. Increase of bunker costs might impose higher costs to the forwarders and force them to use road transport as an alternative (unintended shift from sea/rail to road!)

4. CONCLUSIONS

In the following, some relevant findings of the conducted analysis are summed up:

- The new ferry service Sassnitz - Baltijsk poses serious competition on the land transportation routes (and border crossings) and will most probably contribute to a modal shift from road to sea and rail within the east – west transport corridor
- Kaliningrad Region is generally characterized by high market potentials on the one hand but by a (partly) less developed port infrastructure on the other
- A sound legal and political framework (including subsidies, border controls, customs, driving times, road charges etc.) is crucial for cargo transportation by ship and rail

- Furthermore, in order to support the regional transport complex and railways of Lithuania and Belarus, it is essential to develop a collective sustainable and fair tariff policy in respect of transportation of goods to and from the Kaliningrad Oblast by Russia, Lithuania and Belarus
- Further improvements of the infrastructure in the maritime hubs Kaliningrad and Klaipeda have to be considered (road/rail infrastructure, area management etc.)
- Sulphur emission control regime (according to IMO Resolution 2015) will have a substantial impact on the development of bunker and transport costs and consequently on the development of sea borne transports in the Baltic Sea as a whole

The most of these keypoints undoubtedly will have a positive impact on the Baltic Sea Region's economic situation and improve the living conditions of it's local residents. On the other hand the legal and infrastructural framework still needs to be improved. Provided an attractive framework, the stakeholders of the east – west transport corridor are prepared to even more facilitate sea and rail borne transports and to contribute to an efficient and sustainable flow of goods within the corridor.



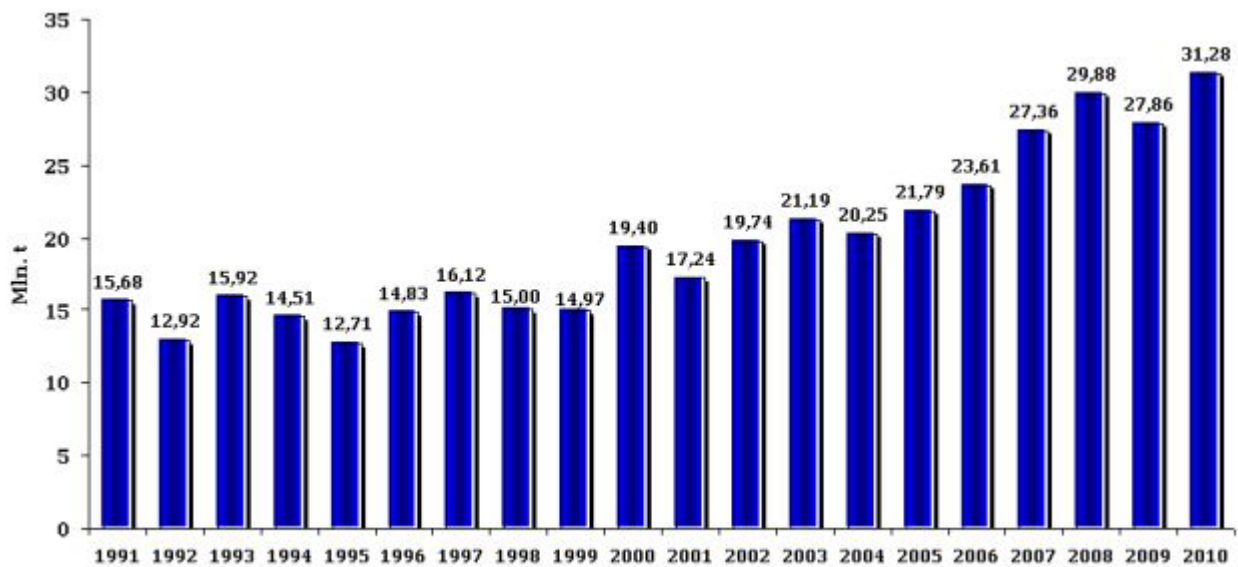
MV "Vilnius" berthing in Baltijsk

Photo: Rosmorport

5. ANNEXES

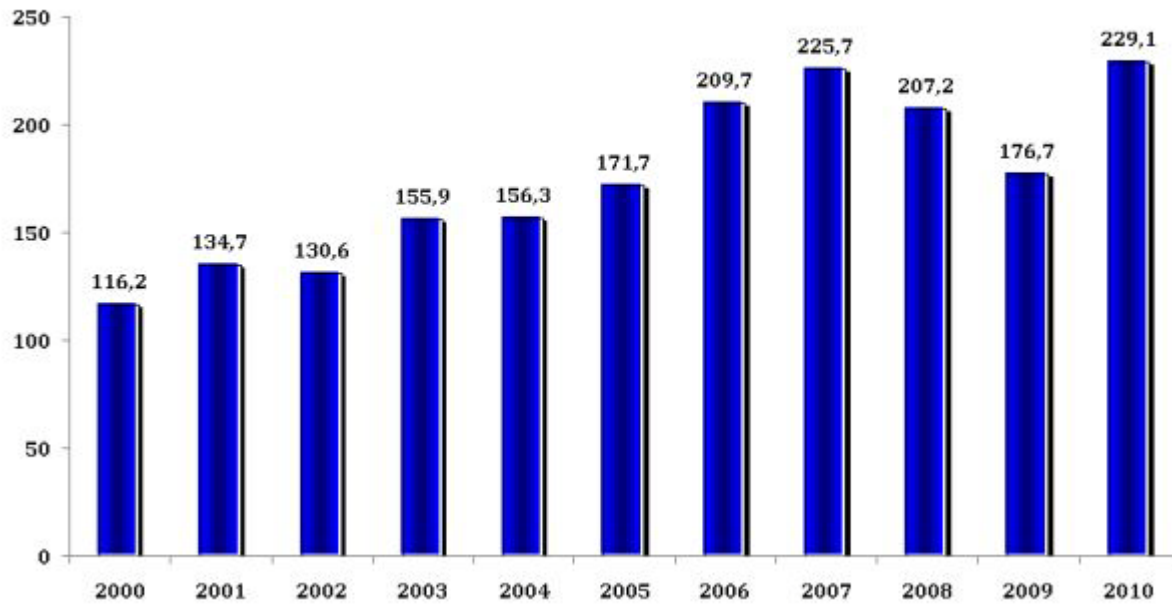
5.1 HANDLING VOLUMES PORT OF KLAIPEDA

Handled cargoes by years (mln. t)



Source: www.portofklaipeda.lt

Ro-ro cargoes, carried units (thousand of units)



Source: www.portofklaipeda.lt

5.2 TARIFF STRUCTURE OF THE FERRY PORT BALTIJSK (EXTRACT)

GOODS STEVEDORING RATES IF HANDLING OPERATIONS ARE PERFORMED BY CUSTOMER'S OWN EFFORTS

RUB per tonne, VAT excluded

Goods	Warehouse-to-Vehicle (roll trailer, truck trailer) or vice versa	Ship-to-Warehouse or vice versa Ship-to-Vehicle or vice versa	Freight Container/Railroad Car-to-Warehouse or vice versa	Vehicle-to-Vehicle Freight Container/Railroad Car-to-Freight Container/Railroad Car or vice versa Freight Container/Railroad Car-to-Vehicle or vice versa
Shipment weight 11 kg to 1 tonne inclusive	-	-	-	-
Package weight 50 kg or less	615	633	921	997
Package weight over 50 kg	345	395	517	591
Shipment weight 1.001 to 3 tonnes inclusive	-	-	-	-
Package weight 50 kg or less	435	449	653	707
Package weight over 50 kg	241	277	363	415
Shipment weight 3.001 to 10 tonnes inclusive	-	-	-	-
Package weight 50 kg or less	235	241	351	381
Package weight 50 kg to 3 tonnes	144	166	217	249
Package weight over 3000 kg	66	150	98	174
Shipment weight over 10.001 tonnes				
Package weight 50 kg or less	178	184	269	291
Package weight over 50 kg	96	110	144	166

5.3 CARGO HANDLING IN THE FERRY PORT OF BALTIJSK (VOLUMES AND COMMODITIES)

	Year 2008	Year 2009	Increase
TOTAL, ths. tonnes	504.6	1083	214.6 %
RO-RO vehicles*	4868	4383	90 %
New motor cars	998		0 %
Railroad cars	6607	15103	228.6 %
Vessel arrivals	130	173	133.1 %
Passengers incl. truck/car drivers	1715	5386	314.1 %
Export cargo, ths. tonnes	12.3	4.6	37.4 %
RO-RO vehicles*	236	126	53.4 %
Railroad cars	364	125	34.3 %
Passengers incl. truck/car drivers	280	218	77.9 %
Import cargo, ths. tonnes	57	22.5	39.4 %
RO-RO vehicles*	1094	463	42.3 %
New motor cars	998	0	0 %
Railroad cars	377	203	53.9 %
Cargo carried by tramp vessels other than ferry ships	10829	0	0 %
Passengers incl. truck/car drivers	383	245	64 %
Cargo carried by coastal vessels, ths. tonnes	435.3	1055.9	242.5 %
RO-RO vehicles*	2900	3794	130.8 %
Railroad cars	5866	14775	251.9 %
Passengers incl. truck/car drivers	1052	4923	468 %

Baltiysk – Ust Luga route			
Cargo unloaded, ths. tonnes	355.4	635.4	178.6%
RO-RO vehicles*	1835	1474	80.3%
Railroad cars	4447	8441	189.8%
Passengers incl. truck/car drivers.	554	587	106%
Cargo loaded, ths. tonnes	79.4	417.5	525.8%
RO-RO vehicles*	1703	1260	74%
Railroad cars	1419	6334	446.4%
Passengers incl. truck/car drivers	498	591	118.7%

Baltiysk – Saint Petersburg route

Cargo loaded, ths. tonnes	-	1.5	
RO-RO vehicles*	-	496	
Passengers incl. truck/car drivers	-	1771	
Cargo unloaded, ths. tonnes	-	1.6	
RO-RO vehicles*	-	564	
Passengers incl. truck/car drivers	-	1974	

Source: Conference material

* RO-RO cargo quantities indicated here do not include motor and railroad cars

5.4 CONTACT DETAILS

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