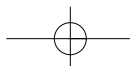
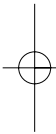
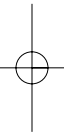
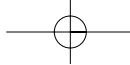


TRANSPORT INFRASTRUCTURE
IN THE BALTIC SEA REGION:
CREATING A COMMON
EUROPEAN ECONOMIC SPACE

*Discussion Paper prepared for
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Transport infrastructure in the Baltic Sea Region: Creating a Common European Economic Space

The Baltic Sea Region has the potential to become one of the most dynamic growth centres in the new Europe: Closeness of markets, high level of education, good infrastructure and strong industrial traditions. Yet, a successful fulfilment of the objective will necessarily depend on the accomplishment of two major issues. The first one has a political character, whereas the second one concerns the transport infrastructure, both having a determining influence on the success of the overall objective.

A first condition will be to further strengthen the on-going political and economical co-operation with Russia, including the Kaliningrad region. A Russian commitment to co-operation in the region will have a beneficial influence on the development of Russia's economy as well.

The second condition is to make an efficient use of the already existing transit transport infrastructure available in the Baltic Sea Rim Area, as defined in the transport infrastructure development programmes, co-financed by the European Union, in the candidate countries.

To achieve this goal, it may seem evident to build on the results already made by the European Union with respect to political influence and achievements in the transport infrastructure sector.

Special attention should be drawn to involve political and economical regional fora, actively operating under the EU-regional initiative, the Northern Dimension, which integrates important aspects related to transport, such as safety and environmental sustainability of transport.

The possible date of accession of Estonia, Latvia, Lithuania and Poland to the European Union from January 1, 2004 may contribute to simplify immigration and customs procedures on the border crossings with the Newly Independent States (NIS), notably to the Kaliningrad region

Maritime and air transport are transport modes, not included in this document. Seaports, fluvial ports and airports can be considered as infrastructure, not necessarily being dependent of public finance.

Which transport corridors are used today?

It was not until the fall of the Berlin Wall in 1989 and the implosion of the Soviet Union in 1991, that a fundamentally new political situation was created in the Baltic Sea Region. In 1991 the three Baltic countries were reestablished after fifty years of Soviet occupation. Poland amongst others left COMECON¹, the Socialist trade organisation, based in Moscow

¹ Council of Mutual Economic Assistance, also abbreviated as CMEA.

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and controlled by the Soviet Union, to launch the country's transition towards market economy. In 1990 after a referendum, DDR became a part of the German Federal Republic. As a left over from the past, the Kaliningrad region remained under Russian authority, due to its special status as a military stronghold.

Today, a Baltic Sea Economic Space may necessarily include, not only the littoral States to the Baltic Sea², but also their hinterland, which means Norway in the west, Belarus, Russia, in the east and the Ukraine and Moldova in the south-east. This concept is based on the fact that the littoral countries to the Baltic Sea have kept their function from the Middle Ages, being transit corridors for the trade with the hinterland, notably Russia and the Ukraine but also with the countries beyond the Black Sea.

The trade patterns in the Baltic Sea Region changed fundamentally at the end of the 1980's as a result of the transition from command to market economy in most of the former Socialist countries. The implosion of their economy lead to a total disruption of traditional trade patterns in COMECON. After the initial severe setback in foreign exchange of commodities of the former Socialist countries, new trade partners soon started to replace the old ones. As a result of this, the Member States of the European Union have today become the most important trade partner with the Central and East European countries.

In the Middle Ages, the *Baltic Sea Economic Space* was a region restricted to monopolised trade between onshore trading posts and cities situated at the littoral of the Baltic Sea and in the catchment area of the rivers running into the Baltic Sea. Due to the relatively insufficient, bad and unsafe road infrastructure in the littoral regions of the Baltic Sea for transport of merchandise over longer distances, maritime transport, and notably short sea shipping, was the preferred means of transport during the XIVth and XVth centuries. An important part of the political and economic growth of the Hanseatic League was consolidated by its monopolised exchange of commodities with the commercial associates in the Baltic Sea area and, upstream the rivers, with the early Muscovy principality.

During the centuries changes in the regional balance of political, economical and military power have certainly influenced on the trade flows and their composition. Since the beginning of industrialisation, the development of land transport infrastructure, road and, as from the end of the XIXth century, railways, maritime transport has lost significant market shares to the benefit of the faster land transport.

With the rise of the Russian Empire and the beginning of industrialisation in the XVIIIth century, and later with the founding of the Soviet Union on the threshold of the XXth century, trade patterns changed accordingly to adjust demand for new commodities.

The transport corridors in use today are to a large extent the same as in the Soviet era. The European Commission has long recognised the need for improving the transport infrastructure between the Union and Central Europe after five decades of neglect.

The first structured dialogue between the Transport Council of the EU and the Transport Ministers of the applicant countries took place in Brussels in September 1995. The ministers recommended a transport infrastructure needs assessment in the candidate countries to prepare the extension of the Trans-European Transport Network into the enlarged Union.

² Denmark, Sweden, Finland, Russia, including Kaliningrad region, Estonia, Latvia, Lithuania, Poland and Germany

In 1996 the European Commission set up a process, which was implemented through the EU-financed TINA³-programme adopted by the EU Member States and the applicant countries together with Russia, Belarus, the Ukraine and Moldova.

The objective of the TINA-programme was to evaluate the costs of upgrading the transport infrastructure in the applicant countries to EU-standards. The finance is based on Title XII « Trans-European networks », article 129b, 2, and article 129c, 3, of the Treaty of Maastricht (1992), which reads : « The Community may decide to cooperate with third countries to promote projects of mutual interest and to ensure the interoperability of networks ». After accession transport interoperability between the networks of the Member States and of the applicant countries will contribute to create a coherent common market.

Description of Transport Corridors in the Baltic Sea Region

The transport corridors in the Baltic Sea Region cover both road and rail alignments, which are complementary one to another.

In the Baltic Sea Region, **corridor I** is a North-South connection, linking Helsinki (FIN) with Warsaw (PL) via Tallinn (EST), Riga (LV) and Kaunas (LT). This corridor, named **via Baltica** plays a secondary role in the West-East bound transit transport.

A branch of **corridor I** from the Russian enclave, the Kaliningrad region, is named **via Hanseatica**. It runs from Kaliningrad via Sovetsk (former name : Tilsit) (RUS) on the Neman River, via Siaulai (LT) to Riga (LV). From Riga (LV) the alignment passes via Pskov (RUS) to St. Petersburg (RUS).

As a West-East link, this branch has a potential, being an alternative to the seasonal frozen port of St. Petersburg, to the Russian domestic market north and north-west of St. Petersburg.

Corridor IX middle section has **two branches** from Kaunas (LT) to the littoral of the Baltic Sea. One runs from Kaunas to Klaipeda (former name : Memel) (LT) and the second one from Kaunas to Kaliningrad (RUS). This connection is an important West-East transport link.

Corridor IX has a **northern section** from Helsinki (FIN), via St. Petersburg to Moscow (RUS), thus linking Helsinki and St. Petersburg with the Russian domestic road and rail network, including the Siberian trunk line, see below.

However, by far the most important West-East transit transport corridor is **Corridor II**, running from Berlin (D), via Warsaw (PL), Minsk (BY), Moscow (RUS) to Nizhny Novgorod (RUS) on the River Volga.

³ TINA is short for « Transport Infrastructure Needs Assessment ». The TINA programme, having been implemented during the period from 1996 to 1999, is based on the outcome of the First Pan-European Transport Conference in 1991 in Prague, the follow-up of the Second Pan-European Transport Conference in 1994 in Crete and of the Third Pan-European Transport Conference in 1997 in Helsinki. Until the end of 1999, the only significant grant financing from the EU was the PHARE-programme, which has contributed between 200 and 300 Mio per year in the thirteen PHARE countries.

Difficulties faced respectively by road and rail transport in transit from the Baltic seaports to the hinterland

Road transport is used by transport operators mainly for quick delivery of goods of high value, usually transported in containers.

Border crossing problems are a delaying factor. Waiting time at the borders vary considerably from border crossing to border crossing. However, it seems to be proven that local drivers from the NIS spend less time in the queues, possibly due to the fact that the local drivers know the immigration and customs officers.

It is significant that many Belorussian and Russian registered trucks are drawing trailers with European registration plates. The procedure of using local drivers may also produce less examples of stolen trucks in the NIS.

Due to the change of rail gauge, as Russia uses broad gauge, compared to European standard gauge, **rail transport** should be divided into two categories of transport:

- *Passenger transport*
- *Freight transport*

Gauge change needs installation of technical devices on the rolling stock, such as: *change of bogies or extendable bogie axle sets*.

Change of bogies is mainly used for passenger wagons which are lifted on a marshalling yard to enable the change between broad gauge bogies and European standard bogies. It is a little time consuming, four wagons (two sets each) take two hours, just the time to have finished the immigration and customs check of passengers.

Extendable bogie axle sets are not used for passenger wagons. The system is based on a technical device which can by manipulation extend or retract the axle length according to the track gauge. It is relatively costly to provide freight wagons with this device (€ 22.000 extra per wagon).

In most cases of freight transport, gauge change therefore implies unloading and reloading of goods. Rail transport of goods across borders with gauge change is used mainly for bulk, such as corn, cement and crude oil.⁴ The procedure needs a big number of workers to unload and reload the wagons. Introducing new technology may lead to reducing the number of rail workers at the border crossings. As the jobless rate is a very sensitive social problem, Belarus does not, for the time being, seem interested in introducing new technology at Brest on Corridor II.

The imbalance of the composition of the trade flows between West and East and its consequences

Since the introduction of market economy in Russia, the trade flows between Russia and its European neighbours have changed significantly. Due to the composition of the trade flow, there is an imbalance in the exchange. Russia imports precious manufactured goods, fresh

⁴ Crude oil, as well as natural gas, is also shipped in pipelines.

vegetables and industrial products, whereas it mainly exports raw materials, such as crude oil and natural gas to Europe. It has become a problem to use containers in the export to the NIS. Containers may disappear in the hinterland. Furthermore there is an imbalance of value of exported goods to the benefit of Western exporters.

Development of Public-Private Partnership schemes

European *road hauliers* set up joint venture companies with partners in the NIS and switch to local truck drivers. This has several advantages:

On one side the road hauliers pay lower salaries, lower social labor costs, on the other side local truck drivers know how to avoid excessive waiting times and to escape bribing customs officers at the borders between the candidate countries and the NIS.

In the *rail sector* a PPP-scheme to promote passenger and goods traffic by rail has failed so far. The idea was to establish two independent rail share holding companies, one for passenger traffic, a second one for freight transport. Both companies should be owned in common with a share of 25% by each of the four railway companies on Corridor II (DB, PKP, BCh and RZhD). To provide the companies' access to the railway infrastructure, two infrastructure managers should be responsible for the attribution of train paths. The Community legislation should prevail. One manager should co-ordinate the German and the Polish networks, the second one should co-ordinate the Belarussian and the Russian networks.

Political and technical constraints

Belarus is a stumbling stone. Since 1997 the country has been blacklisted by the EU Member States, due to the negligence of Belarussian authorities' respect of Human Rights. The political isolation has led to a level of co-operation, which has been restricted to a level of administrative co-operation only.

The Russian broad rail gauge requires, either marshalling yard facilities at the border to Poland to unload and reload freight wagons, or special extendable axle devices on passenger and freight wagons adjustable to the change of gauge.

The Kaliningrad region might be an alternative route, as goods cleared in Kaliningrad can transit through Lithuania and Belarus to Russia, as the two latter countries have agreed on a customs union.

Suggestions to solutions

Further development of the already good relations established between the Russian government and the EU should be promoted. Russia is for instance the only country for the time being to impose order in Belarus.

Russia claims in return visa facilities to its citizens in Kaliningrad region, which after accession of Poland and Lithuania and the introduction of the Schengen agreement in these countries, will become a Russian exclave in the EU. It is in Europe's interest to solve the transit

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problem for Russian citizens with due respect to the safety measures contained in the Schengen agreement.

The latest positive development concerning the integration of Russia in the American and European warfare against terrorism after September 11, may lead to a closer co-operation to combat terrorism, illegal drugs import and illegal transport of refugees and women for prostitution.

If Belarus continues to be a stumbling stone on the main corridor for West-East transport, alternative routes could be considered via Poland, using the border crossing Przemysl/Mostiska (UA) and the Ukrainian Black Sea ports. This could make sense notably for freight to and from the Black Sea, using the port of Odessa, thus servicing the three Caucasian republics.

Already in 1993 the Union saw the need for an alternative route for the landlocked Central Asian republics to enable them to export to the outside world avoiding transit in Russia. To assist Central Asia in doing so, the Union created the TRACECA-programme⁵, which now includes ten countries⁶.

It should be born in mind that crude oil and natural gas from Azerbaijan and Central Asia beyond the Caspian Sea have a strategic importance for the provision of energy to the European Union. After September 11 the United States have been able to improve its relations with Georgia amongst others to ensure the construction of an oil pipeline from Baku (AZ) via Georgia to the Turkish Mediterranean port of Adana.

The discussions about transport infrastructure continue at the 4th Annual Baltic Development Forum Summit in Copenhagen, 13-15 October 2002.

⁵ Short for Transport Corridor Europe Central Asia.

⁶ Kazakhstan, Uzbekistan, Tajikistan, Kirgystan, Turkmenistan, Azerbaijan, Armenia, Georgia, the Ukraine and Moldova. Romania, Bulgaria and Turkey, all three candidate countries to the Union, are applying for membership.

