

**REPORT FROM THE BALTIC DEVELOPMENT
FORUM ROUND TABLE**

**“INTELLIGENT TRANSPORT AND
INFRASTRUCTURE IN THE BALTIC SEA REGION -
AN INNOVATIVE KEY TO FUTURE GROWTH AND
PROSPERITY”**

**This document has been prepared by a forum of executives
from transport companies, industry and organisations.**

**The results of the Baltic Development Forum Round Table were presented at the Baltic
Development Forum summit in Stockholm, October 2005**

October, 2005

EXECUTIVE SUMMARY

The Baltic Development Forum Round Table was established at the Baltic Development Forum summit in Copenhagen, 13-15 October 2002, and formed by business executives from a large number of private companies - industries, shippers and operators - and organisations in the Baltic Sea Region. Its mandate was to discuss the private sector priorities for development of the transport sector and infrastructure in the Baltic Sea Region, and during the years 2003-2005 two rounds of altogether seven inspiring and fruitful round table meetings have been held at various locations around the Baltic Sea.

The Round table has focussed on identifying strategic issues of main importance for development of the transport sector and economic growth in the region. The result of the first round was presented at the Baltic Development Forum Summit in Riga in October 2003 with the report "Challenges for the transport infrastructure of the Baltic Sea Region". This document represents the result of the second round and comprises the final report and recommendations from the Round Table. It is presented at the Baltic Development Forum Summit in Stockholm 16-18 October 2005.

*

With its 100 million people, the well educated population, solid business, transport infrastructure and common cultural framework the **Baltic Sea Region is a potent region** with vast possibilities. The region has experienced substantial economic growth over the last decade and the inclusion of new member states has created new playgrounds for inhabitants and industry in both new and old member states.

Today however, the scene is global. To an extent before unseen, trade and travel has become international, and national borders are less significant in terms of free movement of goods and services and the mobility of labour. **Globalisation** of demand, **specialisation** of production, enhanced **competition** and **logistic innovations** continues to challenge companies in all countries. The former more or less steady production for storage and subsequent sale is increasingly being replaced by production for demand, and **efficient, flexible and secure transport chains are now of outmost importance** for the survival of most companies.

In this light the transport infrastructure of the **Baltic Sea Region does not yet live up to the needs** of tomorrow or even today. The transport system consists of a number of acceptable elements, but the mere skeleton for a future satisfactory transport system is not in place. The different parts of the transport system is **inadequately connected** or in some places not connected at all, and a user friendly and efficient supportive structure in terms of standards, administrative procedures, interoperability, etc. is **lacking**.

This **dearth represents a serious threat to the industry and economic development** of the Baltic Sea Region. For the region to prosper and for economic growth not to be hampered, and to avoid the start of a negative spiral towards stagnation and languishing of the region compared to other regions, it is necessary to seriously consider this situation.

Truly, the Baltic Sea Region has achieved much in the last decade. The Eastern and Western shores are re-united, democratic freedoms and market economies are established throughout and regional ties are many - as mentioned in the invitation to the Baltic Development Forum summit 2005. And the region is **presently a leader** in economic growth and innovation. But at the same time the themes of the 2005 summit clearly show the **importance of improvements** in co-ordination and communication at the corporate and public sector scene. Transport and trade between regions and sectors must function very

efficiently today and be flexible enough to tackle future demands and fluctuations. It has to be "**just-in-time**".

Although transport costs may seem expensive they constitute a diminishing part of the total costs of products, mainly because larger shares of production comprise high value goods, where the actual transport price only constitutes a small fraction of the total price. Total transport costs however also include costs of **insecurity, time lags and lack of flexibility and these costs will constitute an increasingly important factor** in competitive interfaces.

These challenges, the vulnerability of the region and possible ways out have been discussed at the **Baltic Development Forum Round Table**, which was established at the Baltic Development Forum Summits in Copenhagen in October 2002 and is giving its final presentation at the Stockholm Summit in October 2005. The Round Table was established as a forum for the private sector - industries, shippers and operators - with the mandate to discuss the **private sector priorities for development of the transport sector and infrastructure** in the Baltic Sea Region. More than 70 business leaders from major companies and organisations stand behind these recommendations emerging from a number of round tables within the region.

Participants agreed early in the process, that the Baltic Development Forum Round Table should not promote individual infrastructure projects or carry out new major research. Instead the Round Table has focused on identifying a number of **strategic issues** of primary importance for endurance of economic prosperity in the Baltic Sea Region and the role of the transport sector development. In the 2003 report, "*Challenges for the transport infrastructure of the Baltic Sea Region*", eight strategic issues of main importance for development of the transport sector and economic growth in the region were identified. In the continued work the Round Table further selected and developed **five analytical themes** which were discussed in-depth in workshops and now constitute the backbone of the recommendations from the Round Table. The themes are:

- Visions for regional transport infrastructure and the role of public private partnerships
- Motorways of the Baltic Sea
- Need, value and importance of promotion of demand driven air transport networks
- Need, value and importance of promotion of the "Baltic Sea Region of Modern Freight Intermodality"
- Development of a fast track harmonisation pilot programme

The Baltic Development Forum Round Table advocates a **decisive and high focus** on the unique opportunity of revitalising and strengthening the position of the Baltic Sea Region through a coherent development of its transport organism.

A main risk for the further economic development in the Baltic Sea Region is the **lack of public resources** for development of transport infrastructure, not because it is not regarded as important, but because of need to allocate public funds between various and most different competing purposes. Therefore, the allocation of funds for transport infrastructure purposes does not depend so much on the economy and welfare benefit of the transport investment itself, but to a large extent on the outcome of the yearly budget considerations and political constraints. Therefore, **Baltic Development Forum Round Table points to the need for developing a vision for public private partnership** with several dimensions, including the network layout, the services using the network and the supporting legal and organisational measures.

The development of the TEN-Transport networks is delayed, due to lack of funds and a more national than international focus in investment priorities, and the European Commission is presently considering different types of **instruments to facilitate infrastructure financing** in terms of new types of organisations, standardised technical solutions and road user charges. This work should be studied closely, but **the Baltic Development Forum Round Table stresses** that for the Baltic Sea Region this should **not** mean that the situation is **set on hold** until a common solution is found. Various models for private participation in financing of infrastructure already exist and can be applied to investments in the

roads, railways and other transport infrastructure. The concept of **user charges** is much more widely accepted than before, and it is the **assessment of the Round Table** that a substantial amount of **private capital will make itself available**, if such schemes are promoted and set into a framework of **public devotion for specific infrastructure projects**.

While **consumer demand is rapidly changing** towards more fast and flexible patterns, the need rises for equivalent changes in freight transport. Companies need to transport goods within vast and varied geographical areas, and a **unit or container based transport** system has **clear competitive advantages** above unilateral transport systems. For historical reasons the different parts of the transport system of the Baltic Sea area has not been developed in the most optimal way according to today's situation, because it reflects geographical borders and trading patterns of former times, which are now undergoing dramatic changes. This creates a **unique opportunity** to develop from a more basic starting point a **multimodal transport system**, utilising the **synergy** from combining road, rail, air and sea transport and including freight transport as well as passenger transport. Modern container transport requires effective terminal structures, including the physical structures as well as sophisticated information and control systems for handling. Thus, in order to **avoid the region falling behind in economic as well as social and cultural terms**, the transport sector in the Baltic Sea Region has to be rapidly altered and developed, and in this respect the intraregional connections are equally important as the interregional transport corridors connecting the Baltic Sea Region with North- and Central-Europe and Russia.

The concept of **Motorways of the Sea** is relatively new and is being promoted by the European Commission. The Baltic Sea Region is an **evident candidate** for this with its well developed business centres surrounding the Baltic Sea. Although the importance of a well developed road- and rail network could not be understated, **the Baltic Development Forum Round Table is of the firm opinion**, that Motorways of the Sea constitutes an essential key to the development of the future transport system of the region. The **limited funds** set aside for this kind of trans-European network makes it **imperative to take the lead** in promoting this modern and multimodal transport concept for the Baltic Sea Region. The **public private partnership model** is an obvious financing concept for progress in this scheme. The administrative barriers must be reduced and standardisation improved of e.g. vessels, loading units, logistical processes and tax frameworks. The market has to be liberated and integrated into the EU common market. A project should be established soon to gain momentum.

Passenger transport by air is another important aspect of the development of the region. Without a modern and demand driven air transport network business activities can not be carried out in competitive manner compared to other regions, which may then take the lead. Rapid development of **high frequency, cheap and flexible** air transport is crucial for the intra- and interregional mobility and economic development, including the tourist industry and some types of high value and time sensitive goods. The alternative to air transport is not transport by other modes, but that such transport demands will not be met at all, with **detrimental effects on the development of the region**. The obstacles mainly consist of **barriers to the free market and a lack of co-ordination** and integration with the Russian air transport market. **The Baltic Development Forum Round Table Forum appeals** for political attention to the need for an air transport network which is abreast of international developments in this area.

The **lack of a fast track harmonisation** of legal and administrative conditions for transport is an **important obstacle** for development of efficient transport systems in the region. Many **international conventions**, especially in the maritime area, are **only ratified by a fraction** of the countries in the Baltic Sea Region. This has significant consequences for both transport operators and shippers. Thus, **the Baltic Development Forum Round Table emphasises** that a fast track harmonisation programme a basic strategic **need**. Such a programme should include **identification of the most important private documents** which need harmonisation and a **training programme**.

WORKSHOPS

Presentation of results of the Baltic Development Forum Round Table workshops

Value - Need - Visions - Importance - Development - Promotion

Analytical Themes Discussed in Workshops:

1. Public Private Partnerships
2. Motorways of the Baltic Sea
3. Demand Driven Air Transport
Networks
4. Baltic Sea Region of Modern
Freight Intermodality
5. Fast Track Harmonisation Pilot
Programme

1. VISIONS FOR REGIONAL TRANSPORT INFRASTRUCTURE AND THE ROLE OF PUBLIC PRIVATE PARTNERSHIP

Transport Trends and Investments

The Baltic Sea Region (BSR) has the potential to develop into one of the most dynamic regions in Europe. An efficient transport system using a modern and integrating infrastructure with the necessary capacity is a key issue for achieving this goal. Forecasts indicate a growing world trade as a consequence of global production patterns and a strong increase of consumption in the Far East. These trends enhanced by the EU enlargement also affect the Baltic Sea Region. Low salaries and a well trained work force make the countries on the eastern shores of the Baltic Sea very competitive. In addition they provide a natural gateway to the growing economies to the east.

Low transport costs and good logistics services are and will remain important competitive advantages. Economies of scale must be exploited to be able to offer better service at a lower price for a wider geographical area. Big and well utilized vessels and port terminals as well as heavy and long trains on tracks allowing high axle loads are important for transport efficiency, as are standardised load units for fast handling. Positioning of empty load units puts additional demands on the transport system.

The Baltic Development Forum Round Table is concerned that the growing transport demand in combination with the concentration trends increase the competition for available capacity of the infrastructure and the environment. The increase in costs increases the competitiveness of alternative transport corridors which again triggers additional demand for investments in the related infrastructure. The Round Table has serious apprehension as to whether public funding will be able to fulfil the financing needs necessary for the further development of the transport structure.

In the BSR there are the additional effects of the emerging “Wider Europe” together with the impact of the EU enlargement. A growing trade with Russia and its neighbours is depending strongly on maritime transport in the Baltic Sea. A number of ports are under development in the Russian part of the Finnish Gulf and the export of oil and oil products is rapidly growing. However, Russian import of industry products and consumer goods is also increasing, altogether impacting on the traffic pattern in the BSR.

European Strategies

The liberalisation of the European transport market has had its main impact on the roads, increasing competition and reducing prices. The development on the rail market has been slower but the potential for competition for international freight is now increasing. However, there is still a long way to go to meet the objective of decoupling of economic and transport development formulated in the White Paper “Time to Decide”¹.

The development of the TEN-T networks (Trans-European Network for Transport.) is delayed, due to lack of funds and more national than European investment priorities. More substantial EU-support is now being proposed as a means to speed up the development. The recent revision also included Motorways of the Sea and stresses the concept of transport corridors linking land and maritime infrastructure. Ports were included in a revision 2001, which classified TEN-T ports in three categories:

¹ White Paper ‘European transport policy for 2010: time to decide’, 12/09/2001, available at www.europa.eu.int/comm/energy_transport/en/lb_en.html

- International seaports (handling more than 1,5 mill. ton goods or 10.000-200.000 pass. annually)
- Community seaports (handling 0,5-1,5 mill. ton or 100.000-200.000 pass. annually)
- Regional ports (smaller ports providing important service to islands or peripheral regions).

The Commission is considering different types of instruments to facilitate infrastructure financing. New types of enterprises together with standardised technical solutions and a general introduction of road user charges for heavy vehicles till 2010 are explored. The latter serves as a topical example of the role of Public Private Partnerships and the considerations associated with it and is described below.

*Public Private Partnerships - financing by road user charges*²

In Germany as in many other European member states it is becoming apparent that the transport infrastructure has to be financed through user charging instead of via the state budget in order to provide the necessary funds and stable long term planning conditions. The goals can be summarized as follows:

- Provision of a stable income for financing the development and the maintenance of the infrastructure
- Incentives for cost/efficient allocation of the investments
- Incentives for more efficient use of the available infrastructure
- More efficient management of construction and operation.

A public private partnership will reduce the pressure on the public budget, create efficient self-financing organisations and provide better use of available capacity and market driven adaptation to a developing demand.

The change from tax financing to user charging require a clear differentiation between public and private responsibilities. The public responsibilities are long term, network planning; guarantees for provision of the network; interoperability of interfaces; technical standardisation and management of externalities, whereas - provided adequately formulated contracts - the participants from the private sector are made responsible for detailed planning and design; construction; operation and management and financing.

The contract has to regulate a number of aspects e.g. price caps, service levels, quality levels, third party access under special conditions, distribution of operational surplus, market risks, construction risks, operational risks, financial risks, political risks and force majeure.

Private operators can only be made responsible for such risks which they are able to influence and which are part of their management responsibility. This makes the cost for carrying the risk more transparent than in the case with public funding, where the tax payer carries the risk.

There are different models for private participation in financing of transport infrastructure. The “Concession models” are basically ways of prefinancing the public investments, while the “Operator models” not only involves private funding but also includes management of the object. Types of models and their characteristics are shown in the table below.

² The presentation in this chapter is based on “Privatfinanzierung der Verkehrsinfrastruktur”. Internationales Verkehrswesen, Nr 7+8 Juli/Aug. 2005 p 303-310.

Type	Characteristics
BOT - model (Build Operate Transfer)	The operator carries the risk that the revenues do not develop according to the forecasts. Shadow pricing, i.e. the state agrees to pay a fee which is set to cover the costs might relieve the operator from the risk of too little traffic or a too competitive market.
DFBO – model (Design Build Finance Operate)	Several of the BOT projects have been too narrowly defined. Through an early cooperation with the private sector it is possible to adapt the project design to ensure a revenue optimum, which normally includes a wider definition of the project scope.
Network concessions	Motorway networks in e.g. Spain, France, and Portugal are developed and operated under state concessions by (mostly public) organisations. The extent of the network for each concession can vary from specific motorways to a complete network. The concessionaires develop, finance and operate their network and the revenues are collected as user charges.
Prefinancing model	A private consortium obtains a concession to finance and build/operate the project during a specific period and the state pays a fixed annual fee for a complete refinancing of the investments and the running costs. This model has been used in Germany, but is not really a solution for private financing as it does not relieve the state investment budget. It only distributes the investment costs over several budget years.

If there is a too serious risk that the revenues will not cover the costs there might be a need for a public intervention or commitment. Especially the first years of operation might be difficult with high capital costs and traffic demand only slowly developing. The long term capital commitment might also discourage many investors. Typical options for the public support are:

- Start-up financial support through public financing of a part of the investment
- Interest guarantee for external financing
- Revenue guarantee for own capital
- Extension of the concession beyond the specific project

Road pricing is an example of public private partnership which The Baltic Development Forum Round Table strongly advises to be further investigated, as a means to secure funds for transport infrastructure development in the Baltic Sea Region. Moreover, road pricing is from an economic point of view an optimal way of internalising external costs and in line with the general transport policy of the EU, also to be implemented in the new member states.

Drivers and Obstacles for the Transport Infrastructure in the BSR

In light of the observed trends in logistics the Baltic Development Forum Round Table would like to draw attention to the fact that transport is a necessary precondition for a competitive BSR. It provides internal cohesion, development of a dynamic BSR market and access to the growing world markets. A well developed infrastructure provides flexibility to cope with different development scenarios and contributes to a robust economy able to promote European progress.

Further, co-operation is necessary to provide a consensus on investment priorities from an overall BSR point of view and competition is required to ensure the development of a competitive BSR economy. The Baltic Development Forum Round Table underlines that there is a need for a political commitment at national and regional level to a transport strategy for the BSR supporting joint economic objectives as well as environmental limitations.

Obstacles for this are that BSR is not very densely populated and that the big countries i.e. Germany and Poland do not recognize the Baltic Sea Region as a priority investment area. Further, Russia has its own agenda. There is no clear picture of the industry's view of the how to set the investment priorities and no assessment of its potential impact on the regional development in relation to what is already in the official plans, and no clear indication of how and when the national long term plans for infrastructure investments will contribute to the joint BSR development.

The Baltic Development Forum Round Table points to the need for:

- Development of a vision for the transport infrastructure with several dimensions including the network lay-out, the services using the network and the supporting legal and organisational measures
- Assessment of its impact on sustainability, economy and cohesion
- Assessment of the potential for PPP-solutions (economic, legal, and political) and its possible impact on the timing of the development of an efficient BSR transport infrastructure.

2. MOTORWAYS OF THE BALTIC SEA

New Developments in European Sea Transportation

The strong competitiveness of road transport with regard to freight transport as well as passenger transport has led to heavy congestion in many of the main European transport corridors, with associated problems in terms of delays, instability, smog and noise. Besides augmenting the road infrastructure it has therefore for some time been a vital element of the European transport policy to develop and support alternatives to road transport. "Motorways of the Sea" is such a new transport concept. It aims at introducing new intermodal maritime-based logistics chains in Europe which will bring about a structural change in the transport system within the years to come. These chains are expected to be more sustainable and commercially more efficient than road-only transport. Motorways of the Sea will thus improve access to markets throughout Europe and bring relief to the overstretched European road system. For this purpose, fuller use will to be made not only of maritime transport resources, but also of the potentials in rail and inland waterway, as part of an integrated transport chain.

The Baltic Development Forum Round Table is deeply concerned about the risk of the Baltic Sea Region being detached from this development. The geography of the Baltic Sea Region, with the vast sea area and surrounding countries, makes sea transport an inevitable and essential component of the transport system. With Motorways of the Sea developing rapidly in other parts of Europe, keeping abreast of organisational and technical measures and initiatives in this field has in the view of the Round Table become a prerequisite for securing the competitive conditions of the region.

The Baltic Development Forum Round Table sees several fields and ways of potential developments of Motorways of the Baltic Sea. A main thesis is that overseas carriers may come into the Baltic Sea and connect selected Baltic Sea ports directly with overseas destinations. Furthermore, also the intra-European container transport will win market shares in the Baltic Sea transportation with the effect that a combination of container and RoRo transportation will be used. The combination of RoRo and LoLo handling in the ports, the ConRo concept can be a possibility to standardize vessels, berths, loading units and logistical processes, which is today an obstacle especially in the RoRo transportation. Against this background the opinions about a new European transport system (European Intermodal Loading Unit) are very controversial.

A main question for the Baltic Sea transportation system will be which corridors to and from CIS countries (Commonwealth of Independent States) will prevail in future, and what the input of Russia will be for a fair competition regarding the transit from/to the CIS. The east enlargement of the European Union has changed the transport corridors in the Baltic Sea Region, and in the future a wider enlargement of the Union respectively deeper co-operations with Eastern Europe or economical pacts are thinkable. The effects thereof on the Baltic Sea Region have to be considered in future plans for Motorways of the Baltic Sea.

Another main question is how subsidies from the European Union are distributed and which projects will be subsidised.

Large potential for Motorways of the Sea - but lack of common vision

The provision of an integrated transport sector development in the Baltic Sea Region is absolutely necessary for securing economic growth (significant in the Baltic Sea Region) and at the same time for improving essential societal values such as security, quality, education, culture and environment. Another argument for the need for this development is that the transport in the Baltic Sea Region generates an increase of common wealth in the region. With its big existing hinterland (Eastern Baltic Sea) the Baltic Sea has the function of a gateway to Russia and Asia.

Against this background the existing infrastructure has to be renewed, because it is presently in a bad condition. There must be seamless transportation between countries (e.g. customs clearance), in order to exploit the unique opportunity presented by the Baltic Sea, but the logistics costs have to be reduced in order to strengthen the competitiveness of the region.

One of the biggest obstacles for harvesting the economic and environmental benefits of a competitive modal split within the Baltic Sea Region is the lack of standardisation, and this goes especially for RoRo transportation in the Baltic Sea. This is partly based on the missing of a common view of the involved companies and authorities. Other reasons are that the governments do not have a master plan for the Baltic Sea transportation, and that there is too much bureaucracy. The legal and tax framework is very different within the area and has to be simplified, so that the area can come to common terms and conditions. However, today transportation has a too low priority in politics.

Another obstacle is the limited intermodality of the transport system and a lack of integrated infrastructure. Also, that the owners and operators of the infrastructure are mostly different presents a problem for uncomplicated operations. A better co-operation could be a way to solve some of the mentioned problems, but today there is more often than not a "closed shop" competition.

The Baltic Development Forum Round Table accentuates the important role of the public authorities to provide the basis for the development of an efficient transport network. Overall as a main target a common view of all involved parties is required to solve the problems. This implies better co-operation between public and private sector, a master plan for decision-making and the harmonisation of documentation. An outcome should be an economic perspective for infrastructure investments, especially towards intermodality - this is an urgent need. Furthermore other problems, like nautically safe motorways, harmonisation of pilotage and ice-breaking as well as common resources for ice-breaking could then be solved easier.

The Baltic Development Forum Round Table wishes to highlight four main targets for the development of the transport network within the Baltic Sea Region related to the Motorways of the Sea:

- Reducing of administrative barriers regarding transit traffic via the Baltic States
- Open market access (today not given, due to regulations)
- Standardisation of vessels, berths, loading units and logistical processes
- Reducing of distortion of competition → equal level playing field

In this context, the Baltic Development Forum Round Table advocates that the following necessary steps are taken within the next few years, in order to establish a competitive and sustainable integration of Motorways of the Sea in the overall transport system for the Baltic Sea Region:

- Find good examples, decide to do something now
- Establish a common vision within the next 3 months
- Come up with a plan (e.g. list of priorities) within the next 12 months
- Start a project soon to gain momentum.

3. NEED, VALUE AND IMPORTANCE OF PROMOTION OF DEMAND DRIVEN AIR TRANSPORT NETWORKS

The Value of Passenger Mobility - a crucial factor

A high degree of mobility is increasingly becoming an important factor not only in modern life style, but indeed also in business activities. Passenger traffic is developing fast, and the trends in demand for flexible and fast transport are reflected in the increasing demand for especially road and air transport. In the EU air traffic was doubled measured in passenger kilometre during the 1990's, and the International Civil Aviation Organization, ICAO, predicts a growth of 5 % per year in the total international air transport volumes towards year 2020.

The Baltic Sea Region is an economic area of about 100 million people in 10 countries. It is connected in business networks prevailing within the region, and it encompasses a rapid development and integration of Russia. With the extension of the European Union by 10 new member countries, some of which have direct access to the Baltic Sea, the prospects of the Baltic Sea Region have changed. The northern part of Europe now has a broader and more consolidated representation in the European forums and a stronger platform for developing and exploiting the obvious potential for economic development in the region. With the integration of the new member states by January 2004, the strategic position and importance of the Baltic Sea will change fundamentally.

The Baltic Development Forum Round Table would like to shed light on the importance of cheap, fast and flexible transport for mobility and regional economic development. In the Baltic Sea Region, with its demography, industrial structure and geography, an efficient network of airlines must be regarded as crucial for the intra- and interregional mobility and economic development.

Liberalisation of the airline industry in general is on its way and from May 2004 all the Baltic Sea states - except Russia - is part of a liberalised air regime, which includes e.g. free market access. Rapid development of high frequency and relatively low cost airline systems is fundamental in order to exploit the potential for intraregional economic development and cohesion.

However, national ownership, control clauses and state ownership of airlines presently stands in the way for a sound development of air transport in the Baltic Sea Region and thus impediment the economic development of the region.

New Horizons - vision and strategy needed

It is therefore essential for the future economic development of the Baltic Sea Region that the air transport network is functioning in a manner which is abreast of the international developments in this area. An effective, flexible and reliable air passenger transport is a prerequisite for business development and also important for tourist industry and transport of some types of high-value and time sensitive goods. These transport demands cannot be fulfilled by other transport modes such as sea transport and rail transport, but has to be developed as the unique mode of transport it is. The alternative is that these transport demands broadly will not be met, with detrimental effects on the development of the region.

In this situation the region needs a regional consolidation in order to support a regional network or hub structure. Integration of the air transport network in the Baltic Sea Region is essential for developing the necessary market demand as a basis for a regional hub structure. An effective regional hub structure will benefit the regional actors in the field, who would otherwise have to seek less optimal solutions using hubs in other regions, and sustain the economic development of the region.

The barriers of this consolidation mainly concern market access outside the EU, national ownership, control clauses and state ownership of airlines. Emphasis must be put on developing conditions for an efficient network of intra- and interregional air lines in the Baltic Sea Region. In this respect, Russia should be included in the free market access areas, and air carriers and airports should be privatised in the region or should be developed as more transparent public-private partnerships. In connection with the liberalisation of commercial and legal framework for air transport within the EU, special emphasis should be put on the integration of the European and Russian airline networks, taking into account the current differences.

The Baltic Development Forum Round Table urges the necessity of the development of an efficient air transport system. Lack of initiatives in this area can seriously damage the economic development of passenger transport in the Baltic Sea Region and the economic development of the region. It must be recognised that sea transport and other transport alternatives can not match the speed and frequency which can be provided by air transport. A vision and strategy for the air transport sector in the Baltic Sea Region is urgently needed, because the development of the airline corridors and international hubs is instrumental to intraregional movements.

The Baltic Development Forum Round Table states that:

- Rapid development of high frequency, cheap and flexible air transport is crucial for the intra- and interregional mobility and economic development
- Obstacles in terms of barriers to the free market and a lack of co-ordination and integration with the Russian air transport market have to be removed rapidly
- Political attention should be directed at the need for a modern air transport network, abreast of international developments.

4. NEED, VALUE AND IMPORTANCE OF PROMOTION OF THE "BALTIC SEA REGION OF MODERN FREIGHT INTERMODALITY"

The Competitive Situation - needs and risks

In the coming years, the development in the Baltic Sea Region will be shaped by the recent enlargement of the EU. From being an exterior border, the Baltic Sea has now become an internal EU Sea and presents a barrier for the further development of the internal market in the EU. Last year's enlargement of the EU will present new opportunities for economic development, but at the same time increase the competition on the markets and on funds for infrastructure development and economic development. In order to avoid for Baltic Sea Region to fall behind in economic development, there is an urgent need to modernise existing transport schemes in the region into a modern, intermodal, sustainable and coherent transport system in effective support of the private sectors need for diversified transport services. These topics have been the focal point for the discussions within the Round Table.

The Baltic Development Forum Round Table points to the need of the transport system to be regarded as a coherent system where the different transport modes each have their unique role to play. For historical reasons the different parts of the transport system of the Baltic Sea area has not been developed in the most optimal way according to today's situation, because it reflects geographical borders and trading patterns of earlier times, which are now undergoing dramatic changes. In order to avoid the lagging behind of the region in economic as well as social and cultural terms, the transport sector in the Baltic Sea Region have to be rapidly altered and developed, and in this respect the intraregional connections are equally important as the interregional transport corridors connecting the Baltic Sea Region with North- and Mid-Europe and Russia.

The international trends in freight transport reflect the increasingly sophisticated demand from the markets. The economic structures are increasingly shaped by globalisation, increased competition, specialisation and division of work. According to the OECD, trade between companies comprise 60-70 % of world trade and internal company transport comprise 33 % of world trade, figures that indicate the importance of transport and of the quality of transport services not only as a link between the industry and the consumer, but also as an extremely important factor in the production of goods itself and thereby for the competitiveness of the individual companies. Final products increasingly consist of parts produced in various parts and regions of the world - the multi-transport product.

At the same time transport costs' share of total production costs are generally diminishing, due among other things to the increasing share of high-value products. Although therefore, there can be keen competition between transport suppliers at individual markets, in general there is a willingness to pay the necessary price for quality transport services. An important competitive factor for the future economic development and competitiveness of the Baltic Sea Region is thus the quality of the transport services and the transport opportunities presented by the infrastructure development.

Another feature of modern production and transport demand is that products are increasingly being produced according to order. Whereas before, products were to a large extent produced and transported to storage, from where it was later send to distribution, storages are now reduced and production carried out according to specific orders or rapidly changing market needs (from "demand push" to "demand pull"). This has lead to a rising focus on the whole transport chain from the first production to the final consumption, because it is vital for the survival of companies that the whole production and transport system works together in an efficient and coherent way.

The further economic development of the Baltic Sea Region is therefore dependent on the availability of an efficient, fast, flexible and secure transport system based on the combined concepts of just-in-time and low-price transport services to be available for the different and alternating market needs. Unit transport

concepts based on container transport are essential is this picture, as well as the associated information systems to secure transparency and facilitate operations of the market.

The freedom for the companies to organise sales and transport patterns is essential in order for them to create the necessary flexibility to stay in business. Equal opportunities and fair competition are as always basic conditions not to be undermined.

The transport infrastructure of the Baltic Sea Region today only barely live up to the needs of the market and will certainly not be able to in the future, if important steps are not taken now to improve and modernise the transport system. There is a severe risk that the economic development of the region will be lagging behind other parts of Europe and the world, if steps are not taken to improve the transport infrastructure and intermodal transport systems.

Opportunities - but urgent action required

On the other hand, the Baltic Sea Region has a physical structure, a size and an industrial structure and volume of transit transport flows that makes the region - in the new perspective - an ideal candidate for regional development of what could be called "modern intermodality". This concept implies an efficient and modern interaction between the various transport modes, including road, rail, sea and air transport. The prospects of increasing volumes and a presently underdeveloped transport infrastructure provide the Baltic Region with a unique opportunity to develop from a more basic starting point a multimodal transport system, utilising the opportunities offered by the presence of the Baltic Sea and making the combined use of all modes possible.

The connection of the Baltic Sea Region to the central parts of Europe is predominantly based on land transport - rail and roads. It is important to secure a balanced development of the different modes. Separate high-speed railways for passenger traffic, modern technology and high-quality express freight traffic could be solutions to a number of problems relating to the railways today.

Although focus is also needed on alternatives to road transport, to avoid congestion and utilize the potentials of other transport modes, it should be recognised that road transport is fundamental for the economic development of the region. It is also important to remember that the volumes and distribution of transport demand will depend on the overall supply situation including available infrastructure, transport costs, travel times, flexibility, quality, legal framework, etc.

The concept of intermodality implies that transport of goods must be based on transport units, which can be easily transferred between modes. Modern container transport requires effective terminal structures, including the physical structures as well as sophisticated information and control systems for handling. A total network of container terminals and intermodal added value services is needed. Therefore, in order to develop an intermodal transport structure of the Baltic Sea Region, all interaction between modes should be considered, including terminal structures and information systems. Likewise is intermodality vital for passenger transport where transport can be made more efficient by optimising the interaction between transport modes. Furthermore intermodal hubs should harvest the synergies of being hubs for both goods and passengers.

The development of a Baltic Sea Region hub structure, including the optional number and position of regional hubs for intermodal transport, will require vision and commitment from the governments, the private sector and a number of national enterprises. The hub structure should optimise both the intra- and interregional connections to the Baltic Sea Region with the rest of Europe and must be intermodal. Short term or specific interests should not stand in the way for the medium and long term interests of the whole region, since all countries or regions will benefit equally by establishing the most effective structure.

The Baltic Development Forum Round Table stresses the need for the EU and national governments to develop a vision and strategy for intermodality in the region and thus within a short time to provide a

vision or master plan for "The Baltic Sea Region - the region of modern intermodality". It should focus on the interaction between transport modes. It is important to invite the private sector to participate in an untraditional partnership for this development. Early implementation will be of vital importance to avoid the start of a negative spiral of effects and instead support the commercial and economic benefits for the integration of the region in the world economy.

The Baltic Development Forum Round Table strongly recommends:

- To utilize the unique opportunity to develop a multimodal transport system
- To establish effective terminal structures, including the physical structures as well as sophisticated information and control systems for handling.

5. DEVELOPMENT OF A FAST TRACK HARMONISATION PILOT PROGRAMME

The Need for Harmonization in the Baltic Sea Region

In relation with transportation of goods, other services are often and increasingly more associated with transportation, such as transport management, freight forwarding, brokering, terminal operating, warehousing, and/or other logistic services. Supply Chain Management and total logistic outsourcing is becoming more and more frequent. There is no mandatory public regulation in this respect (although some countries like Germany and Russia have national legislation) and none of the BSR countries have ratified the United Nations' convention on liability of operators of transport terminals in international trade. Thus, the legal framework used is predominantly privately agreed documents and in most countries stakeholders have agreed general terms on conditions for such services, e.g. Freight Forwarding General Conditions in respectively and among others the Nordic countries, Latvia, Estonia, Russia, and Poland. These general conditions are not uniform across the BSR, and especially in respect of limitation for liability and prescription in respect of time bar for any claims there are considerable differences which may result in unpredictability for users of transportation services in the BSR.

The Baltic Development Forum Round Table have emphasised the need for harmonization of legal and administrative conditions under which transportation is being performed in the Baltic Sea Region (BSR) in order to support the economic development in the region.

The expectation is that the easier it is to trade and transport goods in and within the BSR the greater such trade and transport will become. This is due to fundamental issues such as predictability, efficiency both in respect of time and resources as well as cost savings.

The countries in the BSR have to a wide extent ratified the same international conventions relating to transportation which means that the basic framework for administration and enforcement of the regulation is more or less identical. However, in some cases there is not a uniform ratification of such conventions which creates problems for trade and transport across the region.

In the Round Table process it became apparent that there is a need for further development of access to information about the legal framework in so far that important features such as legislation and standard documents are not readily available. This means that stakeholders whether transport shippers or buyers, banks and finance institutions, insurance companies, as well as carriers and other parties in the transportation sector do not have the easy means to identify the basic legal framework. This results in lack of predictability and increase costs for manpower and other resources as well as extra costs, e.g. for insurance that may not be necessary.

A Heterogenic situation

There are some important differences regarding the BSR-countries' ratification of international conventions, especially within the maritime area. The maritime international conventions have developed throughout the twentieth century and unfortunately there are multiple conventions which have had the effect that the BSR countries are in different positions and in more dimensions.

For example the three Baltic countries, Estonia, Latvia, and Lithuania have not ratified any of the conventions while the Haag rules have been ratified by Germany only, and the Haag-Visby rules have been ratified by Denmark, Norway, Poland, Russia, and Sweden. There are many other conventions that have been ratified by a – varying - number of BSR countries which makes it difficult readily to understand and verify the legal basis for a specific sea transport.

The development of short sea transportation in the BSR which is regarded as environmentally friendly is hampered by the above important differences. The status for the most important conventions related to other modes is:

The CMR convention (international road transport) has been ratified by all 10 countries in the BSR region.

There are certain differences for international rail transport; especially that Russia has not ratified the CIM and Cotif conventions

In respect of air transportation for goods there are several conventions, and again in more cases only some or in other cases not all BSR countries have ratified these conventions. However, the differences between the BSR countries are less than compared with the sea transportation regulation.

Since none of the BSR countries have ratified the United Nations' convention on international multimodal transport of goods of 24 May 1980, and since national legislation is applicable as is the case in respect of transportation related issues that have not been dealt with by conventions regulating the above sea, road, rail, and air transportation, there is a wide area that is not uniform with transportation in the BSR.

National regulation outside the transportation area does have an important effect on transportation matters. National regulation about title to the goods, lien and security is differing materially throughout the BSR. This creates very uncertain legal position for owners, carriers and creditors because there is no uniformity throughout the BSR.

The administration of international conventions and national legislation for international transports is very different across the BSR, not to mention national transports where there is often mandatory national legislation. Even in cases where the same conventions e.g. the CMR Convention have been adopted throughout the BSR the interpretation has been widely different regarding some Articles of the convention.

Strategic needs

The Baltic Development Forum Round Table regards the heterogenous situation in the countries in the BSR as an important obstacle for increased integration, and there is a strategic need to reduce these barriers. The Round Table recommends:

- To investigate whether private transport documents could be harmonized with increased efficiency and less costs as results
- To intensify training and interpretation of relevant transportation legislation and agreed documents in order to obtain a more uniform construction within the BSR area
- Establish a website with all relevant rules and regulation for the BSR. This has been done in some local regions within the BSR, such as the Oresund Region. In the short term it will ease the stakeholders' access to relevant information regarding transportation matters in the BSR.

LIST OF EXECUTIVE PARTICIPANTS IN THE BALTIC DEVELOPMENT FORUM ROUND TABLE 2002 - 2005

Industry:

Alexei Boubnov, Managing Director, Pulkovo Airlines, Russia
Alf Olofsson, Manager Regulatory Affairs, Port of Göteborg, Sweden
Anders Torbøl, Partner and Director, MAQS Law Firm, Denmark
Asgeir Torfason, Market Officer Nordics, Prologis, Sweden
Bo Haugaard, Ass. Director Strategy & Acquisitions, Copenhagen Airports International, Denmark
Christel Wiman, Managing Director, Ports of Stockholm and Baltic Ports Organization, Sweden
Erik Østergaard, Director, Scandlines, Germany
Frode Sørensen, Director, Danfoss, Denmark
Gunnar Sibbmark, Managing Director, European Corridor, Sweden
Gunnar Östin, Director, Scandlines, Sweden
Hans-Ulrich Wolff, Country Director, Uniconsult, Germany
Heikki Nissinen, Managing Director, Port of Helsinki, Finland
Håkan Rydbo, Vice Managing Director, European Corridor, Sweden
Ingvar Nilsson, Vice President, Schenker, Sweden
Jan Björkman, Business Developer Baltics, IKEA, Sweden
Jesper Maajen, General Manager, Maersk Latvija SIA, Latvia
Jäckel Burkhard, Terminal Director, Lübecker Hafen-Gesellschaft mbH, Germany
Jörn-Peter Kassow, Director, Eurogate, Germany
Kerstin Lindberg Göransson, Managing Director, Stockholm-Arlanda Airport, Sweden
Kim Richter Petersen, Head of Nordic Structured Finance, HSH Nordbank, Germany
Kjell-Åke Hvittfeldt, Vice President, Volvo Logistics Corporation, Sweden
Kurt Lilja, Head of Section, Stockholm and Baltic Ports Organization, Sweden
Krzysztof Gromadowski, Director, Port of Gdynia, Poland
Lars Andersen, Director, SAS Group, Denmark
Lars Karlsson, Managing Director, Copenhagen Malmö Port, Sweden
Maria Wall Petrini, Strategic Business Development Manager, Arlanda Airport, Sweden
Marko Rääkkönen, Manager Logistics Europe, BASF Oy, Finland
Morten Bruehl, Line & Operations Manager, Maersk Nordic & Baltic, Sweden
Palle Dybdal Rasmussen, Chairman of the Board, Eurodek, Denmark
Peter Lundhus, Managing Director, Sund & Bælt Holding, Denmark
Peter Mohan Christensen, Vice President, Novo Nordisk, Denmark
Petteri Kostermäa, Vice President, Finnair OY, Finland
Riho Rasmann, Chairman of the Board, Port of Tallinn, Estonia
Siegmar Weegen, Managing Director, GAC GmbH (Hamburg Airport Group), Germany
Stephan Böttger, Head of Riga Representative Office, HSH Nordbank, Latvia
Stig P. Christensen, Vice President, COWI, Denmark
Susanne Ingo, Architect MSA, Inregia, Sweden
Thomas Rössberger, Managing Director, T.A.L.K. Holding, Sweden
Tomas Dyrbye, Managing Director, Maersk Nordic & Baltic, Sweden
Ulf Stenberg, CEO, Team Lines, Sweden
Valdis Trezins, General Manager, Latvian Ass. Of International Road Carriers, Latvia

Organisations:

Bengt Gustafsson, Project Coordinator, Baltic Gateway, Sweden
Hans Jeppson, Vice President, Stockholm Chamber of Commerce, Sweden
Jan Kuligowski, Head of Secretariat, VASAB 2010, Poland
Jens Hennild, Director of Transport, Confederation of Danish Industry, Denmark
John Hultén, Deputy Project Co-ordinator, Baltic Gateway, Sweden
Kenneth Ramberg, Senior Adviser Transport Policy, Confederation of Swedish Enterprise, Sweden
Ole Frijs-Madsen, Director, Baltic Development Forum, Denmark
Raimo Mansukoski, Director, Confederation of Finnish Industry and Employers, Finland
Reinhard Wolf, Department Manager, Chamber of Commerce Hamburg, Germany
Uffe Palludan, Director of Research, Institute for Future Studies, Denmark
Wolf-Rüdiger Janzen, Secretary General, Kiel Chamber of Commerce and Industry, Germany

Authorities and International Organisations:

Andulis Zidkova, Director, Ministry of Transport and Communication, Latvia
Andres Tint, Deputy Secretary General, Ministry of Economic Affairs, Estonia
Ann-Louise Aktiv Vimont, Senior Loan Officer, European Investment Bank, Luxembourg
Bo Lindroos, Head of Department, Nordic Council of Ministers, Denmark
Bo Löwendahl, Senior Advisor, NUTEK, Sweden
Michael Treder, Department Manager, Freie- und Hansestadt Hamburg, Germany
Peder Baltzer Nielsen, Head of Division, Ministry of Environment, Denmark
Per-Olof Gustafsson, Deputy Managing Director, the City of Stockholm Economic Development Agency, Sweden
Vladas Sturys, Director of Strategy, Klaipeda State Seaport Authority, Lithuania

Academia:

Jens Froese, Professor, ISSUS, Germany
Sten Wandel, Professor, Lund University, Sweden

Workshop leaders:

Visions for Regional Transport Infrastructure and the Role of Public Private Partnership:
Lars Källström, Managing Director, BMT Transport Solutions GmbH, Germany

Motorways of the Baltic Sea:

Dr. Jens-Albert Oppel, CEO, ISL Baltic consult, Germany

Need, Value and Importance of Promotion of Demand Driven Air Transport Networks:

Karsten Sten Pedersen, Chief Project Manager, COWI, Denmark

Need, Value and Importance of Promotion of the “Baltic Sea Region of Modern Freight Intermodality”:

Karsten Sten Pedersen, Chief Project Manager, COWI, Denmark

Development of a Fast Track Harmonisation Pilot Programme:

Philip Graff, Attorney at Law, MAQS Law Firm, Denmark

Project Supervision:

Karsten Sten Pedersen, Chief Project Manager, COWI, Denmark
Jørgen P.T. Christensen, Senior Business & Management Advisor, Denmark
Malene Barenholdt Bruun, Project Manager, Baltic Development Forum, Denmark
Marcus Andersson, Project Manager, Baltic Development Forum, Denmark
Tom Allersted, Senior Advisor, Baltic Development Forum, Denmark (until June 2005)