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Position Paper on Transport and Logistics issues

1. Executive Summary

FICIL appreciates various Transport Ministry initiatives aimed at development of transport strategy. In particular, FICIL finds positive continuous development of air transportation, including network density and frequency of connections.

At the same time, certain areas require further effort to ensure better performance of the whole sector, an FICIL would like to highlight the following 4 initiatives:

1. Transparency of transit. FICIL's view is that coordination of transit matters is not transparent enough, which decreases competitiveness of the transit sector. FICIL recommends that a non-commercial entity to be assigned the coordinator role for transit industry and industry players should have open access to all new projects and opportunities;

2. Transparency of railway tariffs. FICIL's view is that transparency of railway tariffs is not sufficient, which decreases competitiveness of the transit sector. FICIL recommends that tariffs and related rules are openly discussed with market participants and published on timely basis;

3. Large infrastructure projects. FICIL's view is that Latvia requires qualified foreign workforce for implementation of large scale infrastructure projects such as Rail Baltica. FICIL recommends that all tenders for large scale infrastructure projects are published also in English language. In addition, FICIL recommends revision of the rules of acceptance of foreign engineer qualifications.

4. Development of integrated e-customs system. FICIL's view is that integration of e-customs is cornerstone for effective operation of transport and logistics industry. FICIL recommends that the e-customs system should be fully integrated between port authorities, railways and market players not later than within a year.

The areas raised above support the points in the Transportation Development Guidelines 2014-2020 (TAP).

2. Recommendations

1. Transparency of Transit

This recommendation is linked to Ministry of Transport priority Nr5 for the year 2017 and additional task Nr1.8 and 1.8.1 to be included in Transport Development Guidelines (TAP): Increasing transit and logistics sector competitiveness, and facilitate new market penetration and high value added cargo attraction to Latvian transit corridor.

FICIL supports the idea of assigning a coordinating body for all transit related questions.

However, FICIL recommends that a non-commercial entity or a department in the Ministry of Transport is assigned the coordinator role in order to ensure overall development of transport and logistics corridor in Latvia. The current nomination of LDZ Logistics SIA as the central entity for transit related questions in the country is not welcome as LDZ Logistics SIA is a commercial entity with the key aim to generate profits for its shareholders. FICIL members observe that as a commercial entity LDZ Logistics SIA primary uses their coordinator role to generate profit for itself, and does not always share information with other market participants, who could potentially be interested to participate in new transit initiatives.

An example of LDZ Logistics SIA abuse of position is the first Chinese train, where market players had no information or possibility to participate in cargo forwarding between China and Latvia. The current development plans around other Asian directions are also not available for market participants, as LDZ Logistics SIA keeps such opportunities and serves these on their own.

FICIL members in particular would like to see access on open terms to the Asian train directions, as well as other directions including Belarus. FICIL would like to initiate an open discussion and experience sharing with respect to cargo transportation in all long-distance directions.

The same recommendation of transparent communication is relevant when Port Authorities are approached by new clients. All involved stakeholders including stevedores, freight forwarders and terminal operators should be given a possibility to participate in an open and fair tender and offer their services.

Success of this action can be measured by the volume of additional freight attracted to existing directions and freight volumes to new directions.

2. Transparency of railway tariffs

This issue is linked to Ministry of Transport priority Nr5 for the year 2017 and is recommended to be added as an additional task in Railway section of Transport Development Guidelines 2014-2020.

FICIL recommends the Ministry of Transport to (a) engage in open discussion with market participants with respect to planned changes in railway tariffs and (b) timely publish the final tariffs and ranges for tariffs application. FICIL recommends to publish a full list of tariffs and applicable discounts depending on cargo type, expected volume, distance, etc. which would be freely available to all market participants.

In addition, the Ministry of Transport should consider providing discounts on infrastructure tariffs for guaranteed level of cargo and for companies who make significant direct investments in the economy. Without that guaranteed tonnage, the country would have to increase the tariffs further making the industry completely uncompetitive.

Apart from infrastructure tariffs, FICIL recommends to ensure public access to transportation tariffs and discount rules, which are known to differ significantly among market participants depending on their relationship with railway cargo companies.

Success of this action can be measured by the changes in volume of freight compared with prior year and attracted freight volumes to total freight volumes.

3. Involvement of international experts in large scale infrastructure projects

This issue is linked to Ministry of Transport priority Nr3 for the year 2017 and task Nr1.2 (Railways) in Transport Development Guidelines 2014-2020.

The EU financing for large scale projects such as Rail Baltica has been approved the last year. Large scale projects of this size never took place in Latvia, and some of procurement do not meet the EU standards. Some of the tenders require submission only in Latvian language, which prevents qualified foreign companies from timely and proper submission of their proposals. This overall decreases the quality of submitted proposals, as experience of large infrastructure projects is mostly located abroad.

For efficient flow of large infrastructure projects Latvia needs to revise public procurement law in infrastructure field. FICIL recommends to make amendments to public procurement guidelines for infrastructure projects to allow foreign professionals and specialists apply for large tenders. Large scale tenders that are published in Latvian without translation to English and not allowing submission of proposals in English limit the possibility of foreign professionals that qualify to do the work to submit their offers.

In addition, large infrastructure tenders require presence of foreign engineers who are qualified to do the work. No clear certification process exists to accept the engineers with foreign expertise. The process is currently run by Latvian Railway Association, but lacks resources and process in order to process applications of foreign engineers on timely basis.

FICIL specifically recommends to revise the rules with respect to acceptance of foreign engineer qualifications. One alternative that we see is to accept a generally recognized European engineering certificates and diplomas (for e.g. TSI standard). Another alternative is to establish a well running process that would allow to quickly process local certification of foreign engineers.

Furthermore, the Railway Law is outdated as it relates to currently operating broad gauge railway lines. FICIL recommends to make updates to the Railway Law in order to ensure that foreign specialists have access to the basic information when submitting tenders for large infrastructure projects.

We recommend Ministry of Transport to cooperate with European Commission in this question, as EC have approved the financing for large infrastructure projects in Latvia and would be interested to assist in proper execution of these projects. In addition, FICIL notes that Estonia has committed to switch to English in tenders related to infrastructure already in the Q3 of 2017.

Success to be measured by the quality of submitted proposals for large infrastructure tenders and proportion of cancelled tenders due to insufficient qualification of advisors.

4. Integrated e-customs

This issue is linked to newly added task Nr1.4 (Maritime) in Transport Development Guidelines 2014-2020.

FICIL acknowledges e-customs platform exists and functions, but it does not fulfil its role fully. All companies involved in port and transit business have their own IT systems. The problem is that it is not integrated in the common network. Integration is critical to avoid duplication of data and speed up the procedures to make them more efficient. In particular, currently a lot of customs data overlap and need to be filled several times for one and the same cargo: port customs, railway customs, etc.

FICIL notes that the system SKLOIS has been under development of the Ministry of Transport for some time already, but has not reached its key goal to date of connecting all involved parties.

FICIL therefore recommends the Ministry of Transport to set a specific deadline, not later than 1 year to reach e-customs system full integration between the railways, port authority systems in order to have one central system. That would allow single filling of cargo data and more efficient passing of transit cargo through the territory of Latvia. Such system exists and works in Estonia, which could be a good example of an integrated e-customs system.

Success can be measured by ranking on Global Logistical Index and particularly customs index.

3. Rationale for recommendations

Drop in global logistical ranking

FICIL notes that the global logistic index for Latvia has deteriorated during the last 5 years. While Latvia was 37th in global logistical ranking in 2010, it has dropped to 43rd place (out of 160 countries) as of today. At the same time, we see that Estonia and Lithuania have improved their logistical indices and are ahead of Latvia with 29th place for Lithuania and 38th place in Estonia in 2016 (5 years ago both countries ranked behind Latvia). The key factors pushing the overall ranking downwards for Latvia is low ranking on customs efficiency and low timeliness index. While Latvia ranks 45th for performance of customs (a relative drop from 40th place half a decade ago), both neighbors report significantly better progress and stand at 29th (Lithuania) and 28th (Estonia).

FICIL observes that Estonia and Lithuania are developing transport and logistics industry at a better pace than Latvia. Therefore, examples of these countries can be used to solve high priority issues in transport and logistics in Latvia.