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FICIL Position Paper on the Transport sector issues

1. Executive Summary

Effectiveness and transparency of the transport industry and related policies are key components that ensure solid economic growth and stability in regards to the transport sector. The Foreign Investors Council in Latvia (FICIL) appreciates the initiative taken by the Ministry of Transport in outlining future plans to improve said sector, with intention to tackle issues that have been apparent for many years. While looking at the current and future investors, it is important to emphasise sustainable mobility to enable economic growth and promote predictability, integration, continuity, territorial cohesion and openness within the transportation network of Latvia.

Further effort is required to ensure a transparent and effective transport sector in Latvia, while also looking forward to the future opportunities that large-scale transport infrastructure projects will bring. FICIL has identified underlying concerns affecting the business environment and investment climate in Latvia when it comes to the current state of the transport sector, as well as awaiting future investment in connection to large scale transport infrastructure projects being realised in the Baltic States.

To improve the performance of the transport sector, FICIL would like to highlight these areas requiring action:

1. In terms of improving the existing transportation network environment:
 - 1.1. Analyse the most suitable and effective governance model for transport sector enterprises. Establishment of good corporate governance principles with the goal to improve efficiency, transparency and competitiveness;
 - 1.2. Improve quality, connectivity and maintenance of existing infrastructure;
 - 1.3. Enforcement of existing rules and legislation to reduce shadow economy in transport sector.
2. In terms of new investment:
 - 2.1. Focusing efforts on attracting investment for Latvian ports, airports, rail and road infrastructure;
 - 2.2. Marketing Latvia as the most attractive of Baltic countries when it comes to utilising opportunities gained from large scale infrastructure projects, in port sector, rail sector;
 - 2.3. Directing and operating a high-tech transport industry to differentiate Latvia from neighbouring countries.
 - 2.4. Conducting research on opportunities to enhance military mobility.

2. Recommendations

The focus should be split on two parallel positions: necessary improvements in regards to supporting existing transport sector investors, as well as attracting future foreign investor with opportunities to develop and promote Latvia as the transportation hub of the Baltic states.

1. Improving existing transportation network status in Latvia

1.1. Analyse the most suitable and effective governance model for transport sector enterprises. Establishment of good corporate governance principles

As included in the Government declaration¹, no. 82 points out that “in operation of large ports, the aim is to apply the principles of OECD state-owned enterprise management, increase the influence of the state in decision-making and ensure more efficient use of resources. The aim includes evaluating and reforming the large port management model, providing for their transformation into state-owned enterprises.”

Before making any changes if necessary, a thorough analysis and due diligence needs to be carried out to find the most suitable governance model for transport sector enterprises. Due diligence needs to be carried out in terms of the management and supervision model of many public enterprises supported by private companies. This is required to ensure responsibility spheres and verify that decision-making ability is clearly defined. The role of institutions in the governance of these companies should be clearly outlined, without duplicating obligations. These changes have the potential to facilitate transparency and effectiveness of the sector as a whole, however before implemented, a thorough evaluation needs to be carried out.

1.2. Improvement of quality and connectivity of existing infrastructure, maintenance of existing infrastructure

1.2.1. Roads

- Adequate funds need to be allocated for road maintenance, while this financial provision should be planned in the long term.
- At the moment there are no **incentives to facilitate cargo transport shift** away from roads to other modes of infrastructure, such as railway. This is needed to preserve the quality of roads, meaning repairs will be needed less frequently, subsequently reducing funding needed.
- A change needs to take place from reactive approach to proactive. Financing plans need to be long term, with focus on many different financing sources, with less of a focus on European Union funds. Possible review of transit tariffs is needed.

1.2.2. Ports

- **Enhancing port access routes** with efficient linkages to and from all ports.
- Port development plans need a strong correlation with city infrastructure development plans to ensure efficiency and coordination.
- Bettering the connection of both coasts of Daugava in Riga to limit cargo transportation traveling through the Riga city center.

1.2.3. Rail

- Ensure **overall capacity increase of existing railway infrastructure**. This can lead to increase in volume of freight transported via rail, also potentially easing the overload of cargo trucks on roads.

¹ [Declaration of Prime Minister Arturs Krišjānis Kariņš Government](#)

- Increase railway **competitiveness for cargo flows** with neighboring rivals and improve CO₂ footprint by improving railway infrastructure i.e. continuation of the economically warranted electrification of the Latvian railway network.
- Look at securing and attracting major railway cargo shippers by providing mid-term freight rates (3-4 years) in exchange of guaranteed cargo volumes.

1.2.4. Air

- It is necessary to continue developing the infrastructure in and around Riga airport, while reducing environmental impact, increasing airport capacity in line with increasing number of flights passengers and cargo transportation.
- Ongoing support needed for the **further development of Riga Airport**, including connection to the Rail Baltica project and linkage of transport infrastructure.
- **Linkage and coordination** of Air Baltic development plans and Riga Airport development plans to further the growth of the sector as a whole in Latvia.

1.2.5. Public transport

- **Improvement in quality of public transport** is necessary. Mobility survey in Latvia shows that people use private cars because public transport can't meet the requirements of comfort and time consumption. Improvements in public transport will decrease regional inequalities.
- When it comes to Riga, support the government in continuing to identify corrupt practices in all national, regional and local transportation institutions. Transparent governance is important.

1.3. Enforcement of existing laws and legislation

- Using digitalisation, thorough control of the weight of cargo being transported around the territory of Latvia is needed in order to **facilitate safe road transportations** that do not damage road network designed and built for load limits included in existing legislation.
- **Effective and regular controls of cargo weight** executed in cooperation with the State Police would result in a lower level of shadow economy in cargo sector and promote fair competition.
- A few problems around the transport sector have risen because of insufficient enforcement and control of the existing legislation, for example taxi industry at the Airport of Riga. The written legislation needs to be applied correctly with punishment in place if necessary.
- Review of best practices taking place in other EU countries can be used as a tool to better the system in Latvia, including using digital means to check the application and enforcement of the written laws in real time.
- **Full integration of e-customs systems** between port authorities, railways and other stakeholders is necessary to further effective operation of transport and logistics industry. It is necessary to ensure a more accelerated function of the EDMAS system.

2. **Facilitating future investment in and around the transport sector**

2.1. Attracting capex/opex type of investment to Latvia

- 2.1.1. Providing **government incentives** to direct foreign investment related to transportation

- Engineering consultancy companies entering the market for upcoming large-scale design projects (corporate income tax relief)
 - Construction services companies entering the market for upcoming infrastructure projects (simplified visa regimes for international labor)
 - Railway rolling-stock manufacturers providing locally produced initial equipment and locally sourced maintenance services to upcoming operators (incubator and accelerator programs)
 - Structured business park development surrounding freight logistics facilities (special economic zone expansion to include eastern ex-urban zones of Riga (Salaspils/Vangazi))
- 2.1.2. Implement **fair and balanced procurement processes** and implementation agreements for new infrastructure projects – processes that are based on quality and not lowest price.
- Procurement procedures should be structured to enhance broader interest and competitiveness by placing an even higher emphasis on evaluating qualitative criteria, not quantitative cost criteria
 - Large-scale infrastructure project design and construction agreements should be structured to have balanced and fair terms and conditions between the Client and the Consultant/Contractor – precedents from other mature markets and standardised FIDIC type agreements (without numerous exceptions and additional conditions) should be used as the framework for future agreements.
- 2.1.3. Utilise **Public-Private-Partnership (PPP) investment models** to attract foreign capital
- Roadway/railway infrastructure improvements and maintenance + new construction (similar to Kekava bypass roadway PPP)
 - Railway infrastructure project development (Salaspils intermodal freight terminal expansion)
 - Aerotropolis development (surrounding Riga International Airport – freight/cargo/logistics + live/work environments + convention center development)
- 2.1.4. Strategically **target international second tier supply chain companies** that provide light industrial production for large scale EU manufacturers:
- Automotive sector
 - Bio-med/Pharmaceutical sector
 - Agricultural sector
- 2.1.5. Provide investment incentives and **economies of agglomeration for smart logistics** operations
- Enhance R&D actions in cooperation with RTU/LU
 - Support Deep-tech Start-ups related to high-tech research-based logistics innovations
 - Create logistics development cluster zones (Salaspils/Marupe/Riga Port) with SEZ incentives
 - E-customs system full integration in order to have one central system for stakeholders.

2.2. Marketing Latvia as a transport sector and investment hub

- 2.2.1. Develop focused strategy for **transportation sector awareness** at Ministry of Economics (continue to enhance the existing VIA Latvia brand)
 - 2.2.2. Enhance **LIAA financial trade show support** to RB Rail, RIX, Port Authorities to promote exposure at international transport events.
 - 2.2.3. Create and support a **transportation focus group** at the Latvian Chamber of Commerce (by leveraging other international chambers)
 - 2.2.4. Focus Ministry of Foreign Affairs **marketing campaign to the transportation sector** for the next 5-10 year (Latvijas Institūts/DDB)
- 2.3. Latvia as the Baltic research and development hub of the transport sector; Differentiating Latvia from other Baltic states with emphasis on technology industry trends in the transport field
- 2.3.1. Actively **involve the existing transportation institutes** of Latvia's academic entities in partnership with other EU institutions (Germany/Spain/France/Italy)
 - 2.3.2. **Build a Research & Development (R&D) culture** surrounding transportation (seek input from start-ups/accelerators/investors/industry leaders)
 - 2.3.3. **Establish transportation sector business incubator** funded by private and public equity (involvement of the Latvian Logistics Cluster)
 - 2.3.4. **Leverage the Rail Baltica Growth Corridor network** to identify and define differentiator approaches and tactics for Latvia as part of the broader Baltic Sea region.
- 2.4. Research opportunities and strategies to secure Military Mobility funding from the EU in the context of Rail Baltica.
- 2.4.1. **Identify funding envelope and grant procedures** for securing EU military mobility funding (6.5 billion EUR)
 - 2.4.2. **Prepare feasibility studies and business/defense plan** in conjunction with the Ministry of Defense and Ministry of Transport.

3. Rationale for recommendations

The transport sector plays a vital role in raising the productivity of all sectors within the economy and thus investment in transport infrastructure would bring about high returns in connection to increased competitiveness and efficiency.

In the Baltic sea region, Latvia is lagging behind when it comes to quality of **roads**, this in turn affects development of transnational logistics, mobility of people and goods in Latvia, according to the Ministry of Transport of Latvia.² Competitiveness among the **ports** in the region is also increasing, meaning Latvia needs to differentiate itself with more of a well-rounded approach to investment attractiveness in this area of transport infrastructure. At the moment, if a larger amount of cargo could be transported via **railway**, freight cargo transport on roads would be relieved, which would have a positive impact on the quality of roads, while at the same time improving the efficiency of railway infrastructure. While there have been many changes in the recent years when it comes to **air** transport sector, increased coordination among airlines and the Riga Airport could further benefit the sector with elevated potential for development. **Enhancing transportation linkages between multiple modes of transportation will improve the mobility of passengers and freight throughout Latvia and the adjacent region.**

Over the last few years, Latvia's position in the Logistics Performance Index has been slipping, according to the World Bank.³ Among the Baltic states, Latvia is currently lagging behind. With large infrastructure projects being implemented in this region in the coming decade, each country is in a unique position to differentiate itself as the most investment-attractive. Projects like Rail Baltica are drawing investors interest - but in deciding where to invest, many factors come into play. When looking at the Aggregated Logistics Performance Index, from 2012 till 2018, Latvia ranks in the 55th place, while Lithuania is 43rd and Estonia comes in at 36th place.⁴ There have not been substantial developments in the sector in Latvia recently, with the future projects planned, Latvia should utilise this opportunity to position itself as the most transparent, efficient and cohesive transport sector in the region.

² [Ministry of Transport Guidelines for Transport Development 2014-2020](#)

³ [The World Bank Logistics Performance Index](#)

⁴ [The Aggregated Logistics Performance Index](#)