SMART COMPETITIVENESS FOR THE CENTRAL BALTIC REGION

Policy briefing paper

2nd Policy Development Roundtable

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Introduction

The 2nd SmartComp policy development roundtable was held on the 22nd of May, 2013, at Forum Marinum Maritime Centre in the city of Turku, Finland. The topic of the roundtable was "The Future of Maritime Clusters in Central Baltic Sea region and Russia". The subject was topical for the project, as Russia's growing maritime sector offers both opportunities and challenges for the Central Baltic Region (CBR) maritime clusters. Understanding Russia's needs in regard to logistical solutions and industrial growth is an important factor in deciding the direction of developments in the future.

The aim of the roundtable was to strengthen the collaboration among triple helix actors and stimulate discussion regarding co-operation prospects, developments and business opportunities between the CBR countries and Russia. At the event speeches were heard from significant industry influencers such as Kimmo Nordström (Chairman of the Board of Containerships Ltd.), Mikko Niini (Managing Director of Aker Arctic) and Esko Mustamäki (CEO of Arctech Helsinki Shipyard). The event gathered together over 80 experts from Finland, Estonia, Latvia and Russia and besides presentations, an interesting panel discussion took place.

The event was organised by the SmartComp – Smart Competitiveness for the Central Baltic region project aiming to support smart and environmentally sustainable growth and cooperation of maritime clusters in the CBR. The SmartComp project is partly financed by the Central Baltic INTERREG IV A Programme 2007-2013.

The event was divided into two main sections: Logistics and Maritime Industry. The logistics session focused on the coming sulphur directive, logistic solutions of the Russian port industry and logistics cluster. The Maritime Industry session discussed shipbuilding co-operation with Russia and oil spill challenges. The event was finalised by a panel discussion: "Developing logistical and industrial networks in the Baltic Sea region". The panellists represented the triple helix perspective of the maritime sector.

The 2nd SmartComp policy development roundtable outlined the importance of the maritime sector for the region. Estonia, Finland, Latvia and Sweden have been, are at present and will be in the future very dependent on maritime clusters that operate well. SmartComp has combined the ideas generated at the roundtable event into the following recommendations. The recommendations are seen as matters which decision-makers should pay further attention to and be able to create favourable conditions for their fulfilment. These recommendations will contribute to the final SmartComp policy recommendations publication targeted at decision-makers of Estonia, Finland and Latvia, in which they will be further refined and developed. After the recommendations there is a summary of the main themes discussed during the event based on the presentations and discussions.

Recommendations:

1. Discuss the challenges and opportunities regarding the SOx emission regulation regionally in order to spread good practices and avoid problem transfer.
2. Increase action and cooperation on all different levels (international, governmental, authority, academia and private) so that in the future issues such as the SOx regulation would be prepared, studied and formulated in collaboration from the beginning.
3. Develop a smart and working finance system including investment grants and innovation support. Improve the ways that EU money is used within the region.
4. Develop and improve the logistics supply chain in the region nationally and regionally. Increase the centralisation of ports and added value.
5. Create new competitive advantages (e.g. in cleantech, customer added value, cooperation networks) and focus on long term planning.
6. Utilize the new opportunities which lie in the arctic.

Maritime Logistics

Shipping is extremely important for all CBR countries. All of the countries have high maritime traffic volumes and the sector is essential for their economic growth, international competitiveness and prosperity. This leads to the fact that the countries are highly reactive to any changes in the economy. The economic developments in Russia create potential for the logistics services but also create challenges and increased competition. Another factor affecting the sector is the changing environmental regulations.

The new sulphur regulation, which comes into force in the beginning of 2015, restricts the sulphur content in the fuel of vessels travelling the Baltic Sea, North Sea and English Channel (and the United States and the Canary Islands) to 0,1 %. The background of the regulation is found in the

International Maritime Organisation (IMO) MARPOL Annex VI, which was revised in 2008 and 2010. The Annex sets the limits of NOx and SOx emissions from ships. The European Commission revised the EU Sulphur Directive according to the ratified IMO regulations.

There are many contrasting feelings regarding the regulation. On the one hand, progressing environmental standards and improving people's health has been very much on the agenda of Nordic countries and the region as a whole, so the developments seem natural. On the other hand, the fact that the regulation will come into force first alone in the Baltic Sea, North Sea and English Channel puts the region in a disadvantageous position in relation to other sea areas of the EU. The transportation costs in the Emission Control Areas (ECA) will possibly increase significantly which will affect companies' competitiveness. There are national discussions on how the state could help compensate for some of the losses, for example in the form of lowering or abandoning waterway dues. In the end the consumer will have to pay the price of the cost increases in any case. The impacts of the regulation are seen to be more dramatic for Finland and Sweden than for Estonia and Latvia, as they have long sea transport routes to their main markets and there are no other proper alternative routes.

There are different options on how to comply with the sulphur requirements such as using Marine Gas Oil (MGO), Scrubbers, Liquefied Natural Gas (LNG), other alternative fuels and building new technology ships. Each option comes with its own challenges and the decision is strongly affected by whether it is a new or old vessel at issue, and whether the vessel operates part-time or full time in the ECA. The most potential is seen in LNG, which at the moment is missing infrastructure. The supply chain for LNG is more expensive than for oil, especially at the start-up phase when the volumes are small and regulation and standardization needs to be developed. It is also important to take into account that maritime transport is in competition with other transport modes. One fear is that transportation will be shifted from sea to road and railway transport, which is something that should be avoided. There is still a lot of uncertainty in the shipping industry regarding the upcoming changes, which leads to the fact that no single alternative gets enough attention for development and testing.

Even though the background and equity of the regulation may be disputable, the fact that it is coming into force is not. Resources should be allocated towards taking concrete actions towards solving the issue. Regional dialogue regarding the implementation of the regulation is now of utmost importance in order to spread good practices and avoid problem transfer.

Another challenge within the logistic sector is the competition over transhipments. Russia has been and will be in the future the volume driver for the Baltic Sea and all the terminals in the region are competing between each other for these Russian volumes. The logistic sector in Russia is based on the port industry which is led by two main groups; terminals and warehouses and dry terminals and dry ports. At the moment the terminals in St. Petersburg region do not have enough capacity to answer the full demand, which means that they have higher prices than other terminals in the Baltic Sea. This will not be the case for long, as in a few years the capacity will be increased which will mean less transhipment through Baltic and Finnish ports. Already since 2010 several infrastructure projects have been started in St. Petersburg to expand the city’s terminals. This will create further pressure for the CBR port industry to come up with new ways to attract cargo. Options for responding to the challenge are developing new technological innovations, offering complete customer solutions, improving efficiency, reducing the amount of ports to concentrate the flow of goods to certain destinations and increase cooperation to be able to better answer to customer needs.

Both Estonia and Latvia have begun to respond to the competitive advantage challenge by focusing on increasing customers’ added value by offering customers complete solutions which go beyond the mere logistics services. Added value may act as a decisive tool when competing for a contract.

Maritime Industry

The Russian maritime industry can offer great potential for the CBR maritime sector if the actors are able to seize the opportunities. Russian state officials and oil and gas giants have set very optimistic artic vessel volume targets for 2010-2030. These include for example over 90 specialized ice-class supply vessels, over 45 ice-breakers, over 50 ice-class tankers etc. Even if the Russian shipyards are modernized they are unable to build all the planned vessels fully by themselves. This creates possibilities for other shipyards and subcontractors to receive orders. Particularly design and technology imports will be needed.

To take full advantage of the opportunities lying in Russia, small and medium-sized enterprises should be encouraged and assisted in internationalizing their operations. At the moment maritime industry subcontractors are fairly nationally concentrated. Operating in or with Russia comes with its own challenges which may cause hesitation for smaller companies. Matters to take into account are possible differences in shipbuilding and design practises, production limitations, efficiency, understanding of schedules, logistics, language and other cultural differences. Also regional and federal legislation is rather unpredictable in Russia. Russia's World Trade Organisation accession should make it easier to operate in the market and simplify procedures, but at the moment the impacts are too early to be seen. Despite the challenges, operating internationally brings many advantages such as cost reductions, optimising operations, business growth, new opportunities and not being as dependent on domestic markets.

The challenges of the industry are not only connected to competitiveness but there are also environmental challenges that call for intensified cooperation and common protocols. Oil spill accidents are seen as a major threat in the Gulf of Finland, where oil transportations have multiplied during the last decade. The cold weather conditions in the region create special difficulties for oil spill combat. There is national legislation regarding the possible accidents and also HELCOM has prepared recommendations, but still collaboration should be intensified.

Conclusions

In the middle of the economic downturn the CBR countries need to find new ways to structure their economies and the maritime sector. Each country needs to act in a way to take into consideration the environment, employment issues and the economic demands. Even though the financial crisis creates challenges, the BSR is a very stable and prosperous region which holds a number of good examples of productive forms of cooperation. Further increasing and intensifying such relations should be the direction of the future as well. To be able to understand the opportunities which lay ahead it is important to make long term plans. What kind of future are we looking for? Making different scenarios for the future will open up totally new perspectives. The region needs to think of ways to turn competitive disadvantages into advantages, employing what the area is known for; being innovative, having special know-how and technology, reliable, accustomed to the Russian business environment, operating in cold conditions and producing high quality. The BSR region is competing with other regions and if these countries do not rapidly invest in improving the region's competitiveness, other regions will take over.

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