

# *Strengthening Finland's logistics position*

*An Action Programme*



MINISTRY OF TRANSPORT  
AND COMMUNICATIONS FINLAND



Strengthening Finland's logistics position  
An Action Programme

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# Strengthening Finland's logistics position

## An Action Programme

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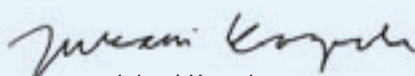
## Introduction

The Programme of Prime Minister **Matti Vanhanen's** Government says that in the context of EU-Russian economic cooperation, the Government will prepare a transport development programme aimed at strengthening Finland's logistics position and exploiting its economic potential. The programme will be drawn up in collaboration between government authorities, business representatives and universities. The Ministry of Transport and Communications appointed a steering group to take charge of the work to draft a logistics development programme during the period from 31 May 2004 to 31 May 2005.

Finland's logistics position has changed. EU enlargement, rapid growth in Russia, the emergence of Asian economies and globalisation have all combined to impact and influence the business environment. It is important in this changing environment to identify the challenges faced by logistics and to see how the growth prospects and employment can be strengthened in Finland.

Efficient logistics is crucially important to competitiveness and employment. The role of logistics costs and service capability is highlighted in the current situation of a changing operating environment. Requirements of transport cost effectiveness, punctuality and speed also place demands on the development of the transport infrastructure and on collaboration between domestic and international authorities. Because of the sheer size of the country and its distance from export and import markets, the development of transport links both nationally and internationally is extremely important to Finland.

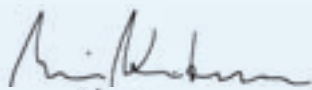
Key challenges for Finland's international infrastructure and logistics policy are to make sure there is access to reliable and moderately priced international routes to and from Finland's major export and import markets, to maintain Finland's logistics position as Russia's neighbour, and to secure its logistics appeal as the competitive position of Estonia, Latvia, Lithuania and Poland continues to strengthen.



Juhani Korpela



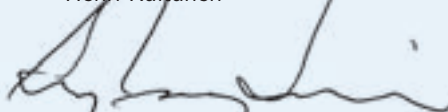
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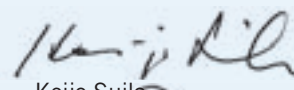
Henri Kuitunen



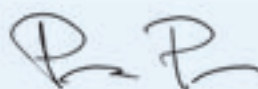
Antti Vehviläinen



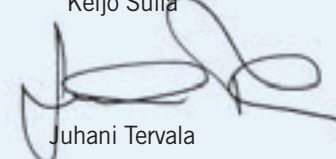
Henry Fagerström



Keijo Suila



Perttu Puro



Juhani Tervala

The steering group was chaired by Minister of Transport and Communications, Ms **Leena Luhtanen**. Its vice-chair was Mr **Tapani Erling**, Director-General of the National Board of Customs. The other steering group members were **Juhani Korpela**, Permanent Secretary (Ministry of Transport and Communications); **Raimo Sailas**, Permanent Secretary of State (Ministry of Finance); **Raimo Mansukoski**, Senior Advisor (Confederation of Finnish Industries); **Matti Viialainen**, Deputy Director (Central Organisation of Finnish Trade Unions); **Matti Pursula**, Rector (Helsinki University of Technology); **Henri Kuitunen**, Director-General (VR Group); **Antti Vehviläinen**, Vice President (Stora Enso); **Juha Silvanto**, Managing Director (Steveco Ltd); **Jukka Laaksovirta**, Chief Operating Officer (Finnlines Plc), **Matti Aura**, CEO (Finnish Port Association); **Henry Fagerström**, Chairman of the Board (Schenker Ltd); **Keijo Suila**, CEO (Finnair Plc); **Jyrki Räsänen**, Director of Development (Inex Partners Oy); **Olli Rehn**, economic policy advisor, until 11 July 2004 (Prime Minister's Office), **Mari**

**Kiviniemi**, economic policy advisor, from 12 July 2004 (Prime Minister's Office); and **Kare Halonen**, Director-General (Ministry for Foreign Affairs). The steering group secretariat members were **Perttu Puro**, State Secretary; **Lassi Hilska**, Senior Advisor, Transport and Logistic Services; **Kaj-Peter Mattsson**, Ministerial Advisor; **Juhani Tervala**, Senior Advisor, Infrastructure; and **Jari Gröhn**, Senior Research Officer, from the Ministry of Transport and Communications.

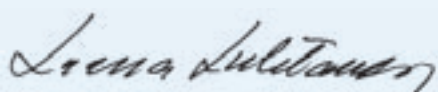
The first draft programme prepared by the secretariat was discussed at a working seminar in Oulu on 20 January 2005. The Ministry of Transport and Communications has commissioned two reports for use by the working group, viz. *Logistic partnership between Finland and Russia* (Publications of the Research Institute of the Finnish Economy, B 209) and *Transport links between the EU and Russia: current state and future outlook* (Ministry of Transport and Communications Publications 4/2005).

Having convened on six occasions, the steering group has now completed its

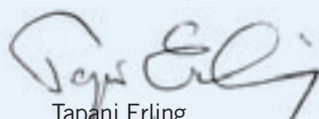
unanimous proposal for the strengthening of Finland's logistics position. It submits a list of 35 proposed measures for the development of know-how, the improved use and application of technology, the development of markets and market regulation, the development of infrastructures and transport and communications links, the stepping up of international interest protection and cooperation among different authorities. The vision and the measures proposed shall be implemented jointly by government authorities and logistics actors in line with an agreed division of labour and responsibilities.

Furthermore, the steering group proposes that a follow-up group composed mainly of steering group members shall meet once or twice a year throughout the duration of the programme to assess the progress made with the proposed measures and where necessary to submit new recommendations to strengthen Finland's logistics position.


Helsinki, 6 June 2005



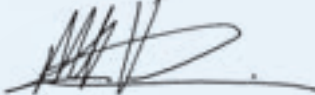
Leena Luhtanen



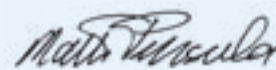
Tapani Erling



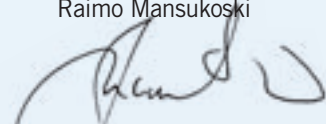
Raimo Mansukoski



Matti Viialainen



Matti Pursula



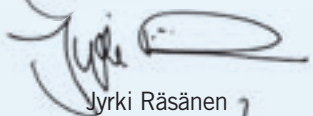
Juha Silvanto



Jukka Laaksovirta



Matti Aura



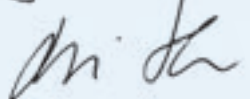
Jyrki Räsänen



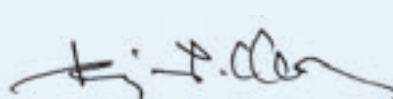
Mari Kiviniemi



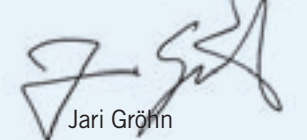
Kare Halonen



Lassi Hilska



Kaj-Peter Mattsson



Jari Gröhn

# 1. Background and vision

*With the advance of economic globalisation, international competition is spreading everywhere. The development of logistics services has contributed to the rapid growth of international trade. Good logistics is a necessary condition for business success.*

Efficient logistics and good transport links will continue to assume greater importance for Finnish competitiveness in the future. A strong logistics market acts to boost competitiveness, economic growth, employment and welfare. Logistics costs in trade and industry amount to around 20 billion euros a year, accounting for some 10 per cent of turnover in this sector. Logistics is also a major source of employment in Finland, with some 100,000 people employed in the logistics service sector. Constant efforts are needed to lower logistics costs and to increase logistics efficiency.

In the new competitive situation that is unfolding with globalisation, economic growth in Russia and stiffening competition in the Baltic Sea region, it is imperative that a long-term and systematic effort is undertaken to strengthen Finland's logistics position. This will also require flexible customs and other official procedures at different stages of the transport chain.

A key challenge for Finland's infrastructure and logistics policy is to make sure there is access to reliable and moderately priced international routes to and from Finland's major export and import markets. Another major challenge is to maintain Finland's logistics position as Russia's neighbour, at the same time as the position of Estonia, Latvia, Lithuania and Poland continues to strengthen.

The development programme is based on an assessment of Finland's logistics competitiveness and its development. It also takes account of the recommendations made by the Prime Minister's Office in its "Finland in the Global Economy" project as well as the measures that will be introduced in response to those recommendations. The aims, structure and content of this development programme are illustrated in Figure 1 below.

The EU is committed to promoting closer EU-Russian integration and to achieving strategic partnership. It is in Finland's best interests actively to promote that partnership.

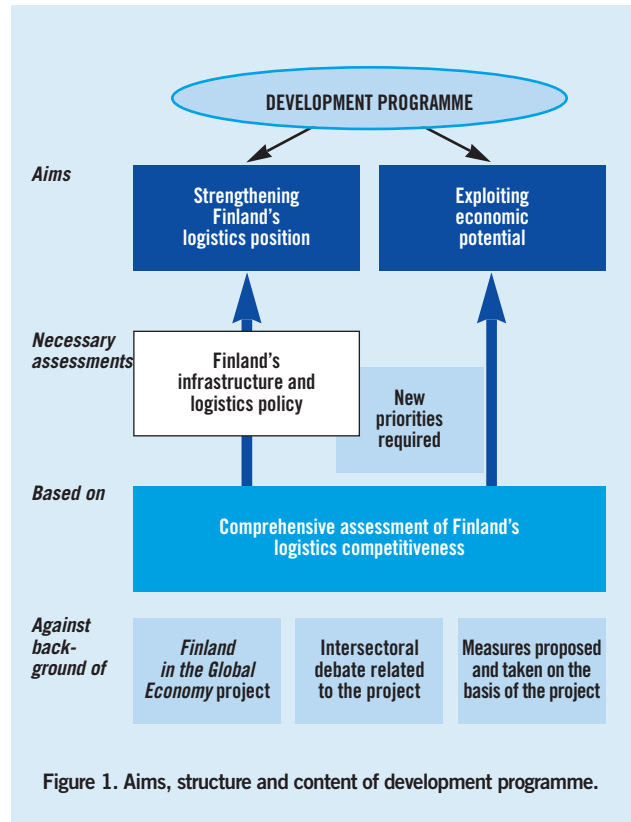


Figure 1. Aims, structure and content of development programme.

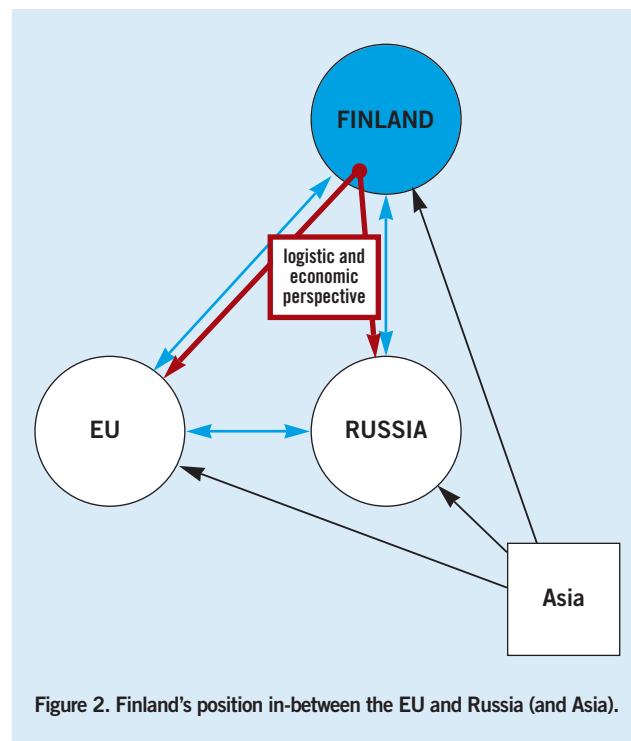


Figure 2. Finland's position in-between the EU and Russia (and Asia).

Logistics, including haulage, transport and communications as well as active government involvement, has a key role to play in integration and partnership.

The European Union has in recent years been working to open up its transport services market, and the common market will continue to expand as new members come on board. In international transport this development is still in its infancy and (with the exception of shipping) constrained by bilateral agreements. In the EU it will also take some time for the impacts of this opening up to filter through, but they will certainly do so over the next few years.

In spite of transparency objectives and ideas of partnership, there remain clear conflicts of interest within the logistics field. The interests of the customer and service provider do not always coincide, because what is a cost for one party is an income for the other. This is a constant factor that never changes.

There are both constant and variable factors in Finland's logistics position. One constant factor is the country's geographic location, i.e. its distance from its main markets. In logistics, distance is a definite disadvantage, reducing speed and adding to costs. Long transport journeys involving multiple legs are time-consuming – and time is often the most critical scarcity factor in logistics. On the other hand, distance may serve to protect some areas of domestic production. One way to reduce the impact of distance is to accelerate speed at all stages of the order-delivery chain – the potential for improved performance is the greatest at various terminal stages.

Another time-related factor is punctuality, which ties in directly with the factor of predictability. Predictability impacts stockpiling levels and capacity needs and thereby has a direct bearing on the costs of logistics.

An increase in speed requires major investments and/or an increased costs, whereas increased punctuality usually requires minor investments combined with an effort to develop and improve operations strategies and management. On the route from Helsinki via Vaalimaa to St.Petersburg, for example, even major investments in transport infrastructure will not have a significant effect on overall transport time, much of which is spent elsewhere than on the roads or rails. For this reason the development of customs procedures and related information transfer at dispatch, border crossings, and arrivals is a key condition to improving logistics efficiency.

The key to developing Finland's export and import logistics, and at once transit transport, lies in the improvement of border crossing practices. It is necessary to apply all the methods set out in this development programme in the effort to develop operational practices, technology and know-how.

*The measures proposed for strengthening Finland's logistics positions are aimed at the achievement of the following vision.*

***Logistics is a recognized factor of competitiveness***

In Finland logistics is based on efficiency, good transport markets and the development of transport connections. In their decision-making business firms and the authorities take account of the needs of sustainable and competitive logistics.

***Education and research in logistics are well respected***

Finland has in place a comprehensive education system in logistics which produces competent and knowledgeable people for logistics jobs at all levels. Logistics research is of an internationally high standard. Logistics businesses have considerably stepped up their investment in research and development.

***The cost level for logistics services is competitive***

Logistics services in Finland show better cost effectiveness than today. The conditions for competition in Finland – including the overall tax rate, transport pricing and the social dimension – are comparable to its nearest rivals.

***Finland is an active player in Baltic region and intercontinental logistics***

Finland's logistics know-how and cost effectiveness contribute to the country's strong competitiveness in trade and logistics between the EU, Russia and Asia. Finland has taken advantage of its strengths since the Russian market opened up.

## 2. Proposed measures

*With the exception of air transport, Finland is 2–3 days further away from the main European markets than its rivals in Central Europe. Distance alone goes a long way towards explaining the higher logistics costs of Finnish business firms. Finland's logistics position vis-à-vis Russia, on the other hand, is very favourable. It is important to make even more effective, systematic and long-term use of this position.*

For businesses operating in Finland, it is crucially important that cost levels can be lowered and that efficient transport services are at their disposal for export purposes. A high level infrastructure can compensate for the extra transport costs that are due to the large size of the country.

The working group's recommendations are designed to influence the various component factors of Finland's logistics position in such a way that business firms' logistics costs are reduced and that their competitiveness is strengthened vis-à-vis rival countries.

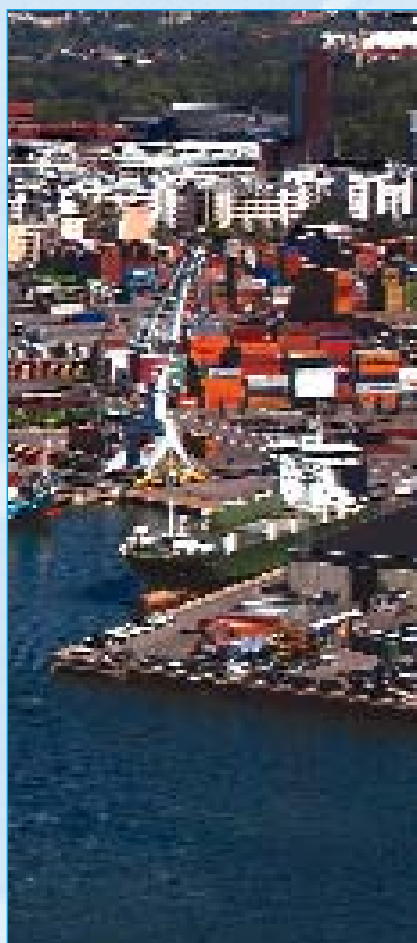
The proposed recommendations are grouped under the following headings:

### **Know-how, innovation and application of technology**





***Markets, regulation and intensified dialogue***



***Connections and infrastructure***



***International lobbying and interest protection***



## 2.1 Know-how, innovation and application of technology



Logistics is gaining increasing importance as a competitive tool, but at the same time the scarcity of skilled labour is threatening to hamper its development. It is important that Finnish know-how and labour in shipping and aviation are not allowed to drain out of the country. Steps are needed to develop the education system so that it produces competent people for transport and logistics jobs at all levels. International student exchange in the logistics field must be promoted, particularly with Russia. The quality of university education in logistics must also be raised, and logistics must be offered as a minor subject more often.

The efficiency of logistics is based on know-how. New know-how is created in basic research as well as in applied R&D that addresses the needs of businesses and administration. Know-how and competence at the highest level requires a sufficient level of long-term investment in research. Resources in Finland, however, are inadequate to run several centres of excellence in research. Researchers therefore need to network with one another and with leading universities around the world. Research cooperation with Russian partners must be stepped up. Both the public and the private business sector must continue to invest in logistics research, without forgetting the importance of basic research.

Information and communication technologies are used to promote the swift and trouble-free transport of goods. Jointly agreed and compatible operational practices make for better predictability in operations and for more efficient resource use. Freight transport telematics architecture provides the foundation for the introduction of electronic transport data. Electronic documents and automatic identification in particular are expected to pave the way to increased automation in transport and handling chains. Efforts shall be continued to further develop electronic business solutions in the transport sector both domestically and in international cooperation. Responsibility for information on existing and new possibilities rests with the Finnish Information Society Development Centre TIEKE.

It is important that new technology is put to good use as widely as possible. In shipping and port activities, conditions must be created that facilitate the increased use of automation. Steps are also needed to expand professional competencies and to facilitate increasingly flexible operational practices. Work to develop the vessel and port technology required by the special conditions in Finland must be continued in a joint effort among the various parties involved.

The measures proposed will serve to strengthen and promote logistics education at the highest professional level, research and innovation, and the export of logistics know-how. The aim is to bolster the competitiveness of Finnish logistics businesses and to increase their market share and by the same token to create more jobs in the industry.

<i>Content of proposed measure</i>	<i>Responsible agent</i>	<i>Timetable</i>
1. Highest level education in the field shall be developed in line with the recommendations issued by the joint working group appointed on 19 Dec 2004 by the Ministry of Transport and Communications (MTC) and the Ministry of Education (MoE) to discuss higher education in the transport sector. Where necessary this will be followed up by a review of the special needs in the logistics industry. The MTC and the MoE will jointly draft a development programme on basic and applied research in logistics, taking account of the recommendations by the working group just mentioned. The Academy of Finland and the National Technology Agency Tekes will also be involved in this effort. Special attention will be paid to the development needs of education at the PhD level.	Ministry of Education, Ministry of Transport and Communications, Academy of Finland, Tekes	31 Dec 2006
2. A working group will be appointed for the purpose of developing professional education in the transport and logistics sector. Professional education shall be developed to make sure there is access to skilled and competent labour.	Ministry of Education, Ministry of Transport and Communications	31 Dec 2005
3. Professional training for HGV drivers shall be provided in keeping with the new EU directive, with regular vocational education accepted as one entry avenue. Access to HGV driver training shall be secured throughout the country.	Ministry of Education, Ministry of Transport and Communications	31 Dec 2005
4. Low cost training shall be provided for new would-be entrepreneurs to keep fresh blood flowing into the transport sector. It is also necessary to look into the feasibility of organising courses in connection with other vocational training funded from the public purse.	Ministry of Transport and Communications, Ministry of Education	31 Dec 2005
5. An assessment shall be carried out of the need for operator independent training for locomotive drivers and other rail safety personnel.	Ministry of Education, Ministry of Transport and Communications	31 Dec 2006
6. Steps shall be taken to develop up-to-date information transfer and processing systems that serve the needs of freight transport and logistics parties. Where possible the corresponding services shall also be provided across the Russian border.	Ministry of Transport and Communications, Finnish Customs	31 Dec 2006
7. Steps shall be taken to develop and introduce IT solutions required by international transport. <ul style="list-style-type: none"> <li>• An active contribution shall be made to the creation of a joint logistics information network for the Baltic Sea region.</li> <li>• Support shall be provided for the introduction of new compatible information systems in Russia's Baltic ports.</li> <li>• The new PortNet service shall be launched in accordance with ongoing planning in 2008.</li> <li>• Steps shall be taken to introduce in international transport a system of electronic transport documents that covers all modes of transport.</li> <li>• Efforts shall be made to agree on the rules for paperless trade in international cooperation.</li> </ul>	Ministry of Transport and Communications, Ministry for Foreign Affairs, Ministry of Trade and Industry, Maritime Administration, TIEKE, businesses	Ongoing

## 2.2 Markets, regulation and intensified dialogue



In a competitive market, customers are free to use the services of their choice, and service providers aim to produce them with the greatest possible efficiency. It is necessary to establish the advantages, drawbacks and preconditions for the creation of a joint Finno-Russian transport area. Measures 8-20 are aimed at promoting the development of an efficient market for logistics services and at securing access to high quality and reasonably priced logistics services. An efficient logistics and transport market strengthens competitiveness, economic growth and employment.

To curb the growth of logistics costs, restraint should be exercised in putting up taxes and fees, which would have the effect of driving up labour costs. Decisions on the prices of freight transport and subsidies shall more closely consider their socio-economic and regional policy impacts. More transparency is needed in transport pricing and public subsidies.

Traffic safety shall be incorporated as an integral part of business management and quality systems. Steps are also needed to improve the management of security risks in business transports. Research projects aimed at improving the safety of heavy goods transport and concerned with both drivers, vehicles and the transport environment, shall be launched as recommended by the working group.

Issues related to markets, regulation and security and environmental impacts shall be included in the proposed research programme outlined in recommendation 1 above.

<i>Content of proposed measure</i>	<i>Responsible agent</i>	<i>Timetable</i>
8. The need for and possibilities of revising road transport and rail transit transport agreements shall be jointly reviewed with the Russian authorities. At the same time the negotiating partners shall look into the possibilities of simplifying the special permit system for heavy goods transport and discontinuing the system of bilateral travel permits, and assess the pros and cons of reciprocally opening up rail transport in the border region.	Ministry of Transport and Communications, Ministry for Foreign Affairs	31 Dec 2006
9. Efforts shall be made to improve the air transport agreement between Finland and Russia with a view to increasing the number of destinations and flights. A key concern in talks between the EU Commission and the Russian authorities on air transport is to secure favourable conditions for the development of air transport in Finland.	Ministry of Transport and Communications, Civil Aviation Administration, Ministry for Foreign Affairs	31 Dec 2006
10. A stance shall be taken on the discontinuation or extension of the reciprocal transitional period concerning cabotage beyond 1 May 2006. To this end the Ministry of Transport and Communications will work closely with the labour market organisations and other relevant interest groups to compile an assessment by 1 January 2006 on the pros and cons of discontinuing the reciprocal transitional period of road haulage cabotage.	Ministry of Transport and Communications and labour market organisations	1 Mar 2006
11. Steps shall be taken to prepare for the opening up of competition in domestic rail freight in 2007 and to make sure that any new operators receive equal treatment on the rail network.	Ministry of Transport and Communications, Finnish Rail Administration	31 Dec 2006
12. An assessment shall be carried out to see whether it is possible to strengthen Finland's logistics position by developing the priority principles for rail use by passenger and freight transport.	Ministry of Transport and Communications, Finnish Rail Administration	31 Dec 2006
13. The system of fairway dues shall be upgraded with due consideration to the requirements for national economic balance, and the legislative amendments submitted to Parliament.	Ministry of Transport and Communications	2005
14. A government bill for a new Port Act shall be drafted. The new law will differentiate between the business side of port activities and the role of the authorities and business. The purpose is to make sure that the Constitution is followed and enforced and that all port users receive fair and equitable treatment.	Ministry of Transport and Communications	31 Dec 2006
15. Dialogue between the labour market organisations in the logistics sector shall be continued on the basis of the experiences gained in the Finland in the Global Economy project. The MTC will create a framework for this dialogue with a view to gaining a clearer understanding of customer needs, improving labour productivity, creating stable and productive jobs, securing skills and competencies and welfare in the workplace as well as improving working conditions so that the gap between the demand and supply of jobs at different stages of the logistics chain can be reduced.	Ministry of Transport and Communications and labour market organisations	Ongoing
16. The principle of continuous negotiation as adopted in the incomes policy agreement for 2005–2007 shall be promoted together with the concept of local cooperation and agreements in the transport sector. In the context of normal cooperation between the labour market organisations, efforts shall be continued to develop new types of contact that could pave the way to improving competitiveness and to resolving emerging problems and conflicts in advance.	Labour market organisations in transport sector	Ongoing
17. An assessment shall be carried out on the need for increased control of heavy goods transport and for relevant new legislation. This assessment will take account of the transport control programme (7 April 2005) and the review for the need of safety research into heavy road transport (31 March 2005).	Ministry of Transport and Communications, Ministry of the Interior, Ministry of Justice	31 Dec 2005
18. Steps shall be taken to develop subscriber responsibility in heavy goods transport in line with the findings and statements of the relevant working group and the related legislative amendments shall be submitted to Parliament.	Ministry of Transport and Communications	1 Oct 2005
19. The energy efficiency of the transport sector shall be improved. A follow-up system shall be set up for company-specific feedback and national comparative data with a view to supporting development efforts.	Ministry of Transport and Communications, Ministry of Trade and Industry, Ministry of the Environment	Ongoing 31 Dec 2005
20. An assessment shall be carried out on the need to test an English-language pilotage service and a separate survey carried out on the pros, cons and other effects of the experiment.	Ministry of Transport and Communications, Maritime Administration	31 Dec 2006

## 2.3 Connections and infrastructure



It is important for Finland that its business and industry have access to efficient transport services and a sufficiently high level infrastructure that compensate for the extra transport costs arising from the country's geographic location. Both domestic and international transport links are important. Most crucially, infrastructure bottlenecks in the vicinity of major international junctions must not be allowed to hamper transport efficiency and punctuality.

One of the major domestic infrastructure investments is the Nordic Triangle, which is an EU priority project. Finland has undertaken to make these investments before 2015. Steps are also needed to develop road and rail links to and from ports as well as border crossing infrastructures. Other

key targets for development that are crucial from a logistics points of view are the ease of border crossings with Russia as well as the efficiency of terminals. Border procedures between Finland and Russia must be simplified among other things by developing electronic data transfer systems.

A longer term view is needed in decision-making on transport investments. Trickle funding should gradually give way to longer term financial planning that looks ahead over several years. Funding decisions should place more weight on the benefits of investments made to the national economy and to Finland's international competitiveness. This also applies to national decision-making on EU subsidies. The current fiscal approach (maximising the TEN subsidies paid out to Finland) shall give way to an approach in which the emphasis is on the development of Finland's foreign contacts.

There are also important infrastructure projects outside of Finland's borders. In particular, it is important that connecting links for Finnish sea transports in continental EU, Nordic Triangle projects and the Via Baltica and Rail Baltica projects are supported in EU bodies. The ultimate aim is to create smooth and efficient transport "pipelines" between Finland and its major market areas. The Motorway of the Baltic Sea concept is a useful tool in the development of these transport chains. Therefore it is important that work is continued with other Baltic Sea countries and the EU Commission to develop and implement the Baltic Sea motorway and its concrete follow-up projects. Russia must also be encouraged to join the Baltic Sea motorway project.

A more comprehensive approach needs to be adopted to the development of the transport network in the Helsinki – St.Petersburg – Moscow corridor. Finland and Russia need to share a common view on the future outlook of traffic volumes through different border crossing stations and on the necessary investments. Key projects from a Finnish point of view include the fast train link to St.Petersburg, the road link to St.Petersburg, the new Saimaa Canal road and the road link to Svetogorsk. It is also important to look into the possibility of using new, innovative funding instruments as part of the Helsinki – St.Petersburg – Moscow investment programme and its funding plan.

As for air transport, it is crucial to make sure that the Helsinki-Vantaa airport is in the position to offer a competitive alternative (in terms of air terminal services, land transport connections, etc.) as a terminal of intercontinental transport, as well as serving Finland's neighbouring regions.

<i>Content of proposed measure</i>	<i>Responsible agent</i>	<i>Timetable</i>
21. An assessment shall be carried out to see whether it is possible to bring forward the Lahti–Luumäki rail project and the Lappeenranta–Imatra motorway project, both of which are crucial to Finland's international transport links, and to apply the life cycle model in these projects.	Ministry of Finance, Ministry of Transport and Communications	Summer 2005 government budget session
22. All necessary proposals shall be submitted for the development of transport arrangements and facilities at the Vaalimaa border station during the current Government's term of office.	Ministry of Transport and Communications, Finnish Customs, Frontier Guard	1 Oct 2005
23. For purposes of the next Government investment programme, a proposal shall be drafted regarding the launch of a thematic project for the improvement of road and rail links at border crossing locations.	Ministry of Transport and Communications, Finnish Road Administration, Finnish Rail Administration, Finnish Customs, Frontier Guard	1 Oct 2005
24. Plans shall be drawn up for the creation of an HGV queueing management system at the Vaalimaa border station so that the project can go ahead in 2007. Studies shall be conducted into the possibility of cooperation and exchange of up-to-date information with the Russian border and road authorities.	Finnish Road Administration, Finnish Customs, Frontier Guard, Ministry of Transport and Communications	31 Dec 2006
25. For purposes of the next Government investment programme, a proposal shall be drafted regarding the launch of a thematic project for the improvement of transport links to and from ports. This project covers road and rail links as well as sealanes.	Ministry of Transport and Communications, Finnish Road Administration, Finnish Rail Administration, Maritime Administration	1 Mar 2006
26. Ongoing efforts to develop customs clearance methods between the EU and Russia provide an opportunity for the regional piloting of new electronic data transfer methods along the border between Finland and Russia.	Finnish Customs, Frontier Guard	Ongoing
27. Within the framework of the <i>Wider Europe for Transport</i> process (a high level working group which prioritises EU transport links to neighbouring countries), lobby efforts shall be aimed at ensuring that <ul style="list-style-type: none"> <li>• the Helsinki–St.Petersburg–Moscow transport corridor and its extension the Trans-Siberian railway are selected as one of the EU's main external transport corridors</li> <li>• the Barents Euroarctic Transport Area (BEATA) is integrated in the <i>Wider Europe</i> process</li> <li>• key projects from a Finnish viewpoint, particularly the Trans-Siberian railway and its various branches, as well as <i>The Northern East West Freight corridor (N.E.W.)</i> are promoted.</li> </ul>	Ministry of Transport and Communications	31 Dec 2005
28. Every effort shall be made in talks with Russia to secure the conditions for continued traffic along the Saimaa Canal.	Ministry of Transport and Communications, Ministry for Foreign Affairs	ASAP

## 2.4 International lobbying and interest protection



Most transport related legislation is drafted by the EU. It is therefore important that there is a systematic effort to remind EU institutions about Finland's and other peripheral EU members' distinctive characteristics (long distances, low population density, winter conditions) and their impacts on logistics costs. This requires careful and persuasive argumentation, credible communication and active lobbying. Finnish interests must be taken into account in the preparation of EU regulations and international agreements.

Active lobbying is needed to make sure that transport fees within the EU remain reasonable and that there are equal opportunities for competition. Efforts are needed to curb the growth of transport costs in peripheral EU states. In domestic tax policy and other decision-making it is important to take account of existing practices in our rival countries as well as current EU legislative proposals. Furthermore, it is necessary closely to monitor the economic and financial policy measures taken by other EU members with a view to improving their logistics competitiveness and the competitiveness of their businesses firms in the logistics market. It needs to be considered whether corresponding measures are feasible and necessary in Finland.

Major efforts are needed within the EU and especially in transatlantic relations and international transport organisations to highlight the need to keep in check the cost effects of the safety and security precautions required in the transport sector. As the EU's trade policy jurisdiction continues to expand, it is important to ensure that Finland's transport policy and logistic interests are protected. This applies, for instance, to international transport and aviation agreements with Russia, Asian countries and the United States.

EU-Russian dialogue on transport and logistics policy shall be promoted in line with objectives of the Common Economic Space (CES) between the EU and Russia. Harmonisation of the conditions for a pan-European transport market shall be supported in follow-up talks concerning the implementation of a common economic area as part of the EU neighbourhood policy. Efforts shall be made to ensure that on the toll roads opened in Russia, no discriminatory charges are imposed on international transport.

Various steps shall be taken to facilitate legal trade with the growing Russian markets. In addition to measures related to border crossings, cooperation shall be continued in questions around certification and licensing. Furthermore, it is important that there is continued cooperation with the relevant authorities and the other countries involved in the transport chain to combat crime.



<i>Content of proposed measure</i>	<i>Responsible agent</i>	<i>Timetable</i>
29. During Finland's EU Presidency logistics shall be promoted as a key competitiveness issue in EU transport policy. Systematic, long-term development of logistics shall be an integral part of EU competitiveness policy. The Commission will be expected to issue a Communication on logistics in 2006. The role of logistics shall be emphasised in common EU transport policy, such as in the interim review of the White Paper on European Transport Policy and the implementation of the Lisbon strategy. Lobby efforts are needed to have logistics included in the 7th EU framework programme for research.	Prime Minister's Office, Ministry of Transport and Communications, Ministry of Trade and Industry	31 Dec 2005
30. The EU Commission, international financial institutions, Russia and other interested EU countries in the Baltic Sea region shall be persuaded to carry out a joint assessment of the conditions and need for a Northern Dimension transport and logistics partnership.	Ministry of Transport and Communications, Prime Minister's Office, Ministry for Foreign Affairs	31 Dec 2005
31. Steps shall be taken to intensify Baltic cooperation in transport policy and the logistics sector within various regional councils (Baltic Sea countries, Nordic countries, Barents region and the Arctic region) and in bilateral cooperation. The aim is to streamline operations, establish a clearer division of labour and improve opportunities to promote the regions' common interests and projects within EU transport policy.	Ministry of Transport and Communications, Ministry for Foreign Affairs	31 Dec 2006
32. Through the forums of bilateral negotiation, EU external relations and trade policy and talks aimed at Russian WTO membership, efforts are made to the effect that <ul style="list-style-type: none"> <li>• Siberia overflight charges are phased out as agreed</li> <li>• Russia's rail transport tariffs are harmonised</li> <li>• the transparency of transport fees and charges is increased.</li> </ul>	Ministry for Foreign Affairs, Ministry of Transport and Communications	31.12.2005
33. Steps shall be taken to promote the dialogue on logistics between Asia, Russia and the EU and to create a permanent framework for these discussions. The matter shall be raised in connection with the ASEM summit in Finland.	Ministry for Foreign Affairs, Ministry of Transport and Communications, Confederation of Finnish Industries	31.12.2005
34. Lobby efforts shall be made to persuade increased EU funding outside Finland's borders on projects that strengthen Finland's foreign connections. Steps shall be taken to increase cooperation and coordination between different ministries.	Ministry of Finance, Ministry of Transport and Communications, Ministry of the Environment, Ministry of the Interior and Ministry of Trade and Industry	31.12.2005
35. Bilateral and EU customs cooperation shall aim to promote smoother border crossing procedures (green line) that are based on electronic information transfer, harmonised data contents and consistent customs procedures. The aim is to speed up both border crossings and customs clearances.	Finnish Customs, Ministry for Foreign Affairs	31.12.2005

## 2.5 Economic impacts of the proposed measures



The measures outlined above will primarily have the effect of creating smoother heavy goods transport. Faster and more punctual deliveries will increase the efficiency of resource use both in logistics service companies and in trade and industry. Increased efficiency, then, will mean lower transport costs and reduce the adverse effects from inefficient transport.

The measures shall be carried out primarily by allocating operating funds as well as R&D funds to the relevant agencies and offices, and by making available appropriations earmarked for cooperation with neighbouring regions. However, if the inquiries and the long-term basic research and R&D activities proposed are to be successfully carried out, the Ministry of Transport and Communications R&D appropriations need to be increased by at least one million from the current figure of 6.85 million euros a year, because only a small fraction of the monies can be spent on logistics.

The budget for the development project at the Vaalimaa border crossing station under measure 21, according to plans drawn up for the project, stands at 16 million euros. The budget for road and traffic rearrangements at the goods transport centre is around 8 million euros, which should be allocated to the Finnish Road Administration separately in the State budget. The costs of building construction are also budgeted at 8 million euros. Finnish Customs and the Frontier Guard will be commissioning the building project to Senate Properties, which will be funding the work out of its own pockets and reclaiming the costs by charging an advanced rent in the coming years. The advanced rent and the necessary acquisitions of monitoring equipment and staff recruitment needs will be addressed separately in these authorities' own budgets. Finnish Customs has a need for an additional 32 person-years, acquisitions worth one million euros and overheads at 0.5 million euros/year; the corresponding figures for the Frontier Guard are 30 person-years, 0.4 million euros for acquisitions and 0.2 million euros/year for overheads.

Decisions on additional appropriations shall be handled in the regular budget process and any decisions made separately in connection with budget decisions.

The preliminary budget for the border crossing points and port transport connections planned for the next government term is around 30 million euros. More detailed information on the additional costs required by the development of education and infrastructure will be available once the relevant reports are completed.



### 3. Rationale and justification

#### 3.1 Role and trends of logistics

Logistics is the management of materials, capital and information flows and related processes in organisations. Its aim is to get the right product at the right time to the right place in the right condition and with the right information at the lowest possible cost.

Business firms today operate in an environment where delivery chains are global, where there is increasing uncertainty, products are increasingly complex and customers insist on higher quality standards at lower prices. In the late 1990s, logistics in the best business companies was responsive, agile and light. Today's catchwords are collaboration, management of the value chain and differentiation.

The most visible part of logistics is transport, which is at once the aspect that can most readily and directly be influenced by government measures. Transport requires roads and other corridors, terminals, transport equipment, drivers, as well as information and communications technologies. The availability, price and quality of all these is influenced and controlled by government decisions.

Needs for transport vary widely from one industry to another. As can be seen in Figure 3, the single biggest transport user in Finland is the forest industry. Technology industries record the highest value added figures, but their shipments of freight tonne kilometres are at a much lower level. On the other hand technology shipments usually have greater speed and punctuality requirements than shipments in the forest industry.

The ongoing globalisation of production, acquisitions and markets means that delivery chains and logistics solutions are also becoming globalised. Global logistics services are expected to produce the same sort of quality standards (reliability, speed, flexibility, punctuality, low cost) as domestic logistics. On the other hand logistics service providers are more and more often global businesses or business networks. Good logistics is crucial to business success, especially in international competition.

Delivery networks are now growing up alongside traditional delivery chains in which suppliers, recipients and logistics service companies are working closely with one another to improve logistics service standards and cost effectiveness. Logistics information and information transfer systems have a key role to play in the creation, maintenance and management of global delivery networks. Indeed in the global marketplace it is no longer individual business companies that are competing with one another, but delivery networks.

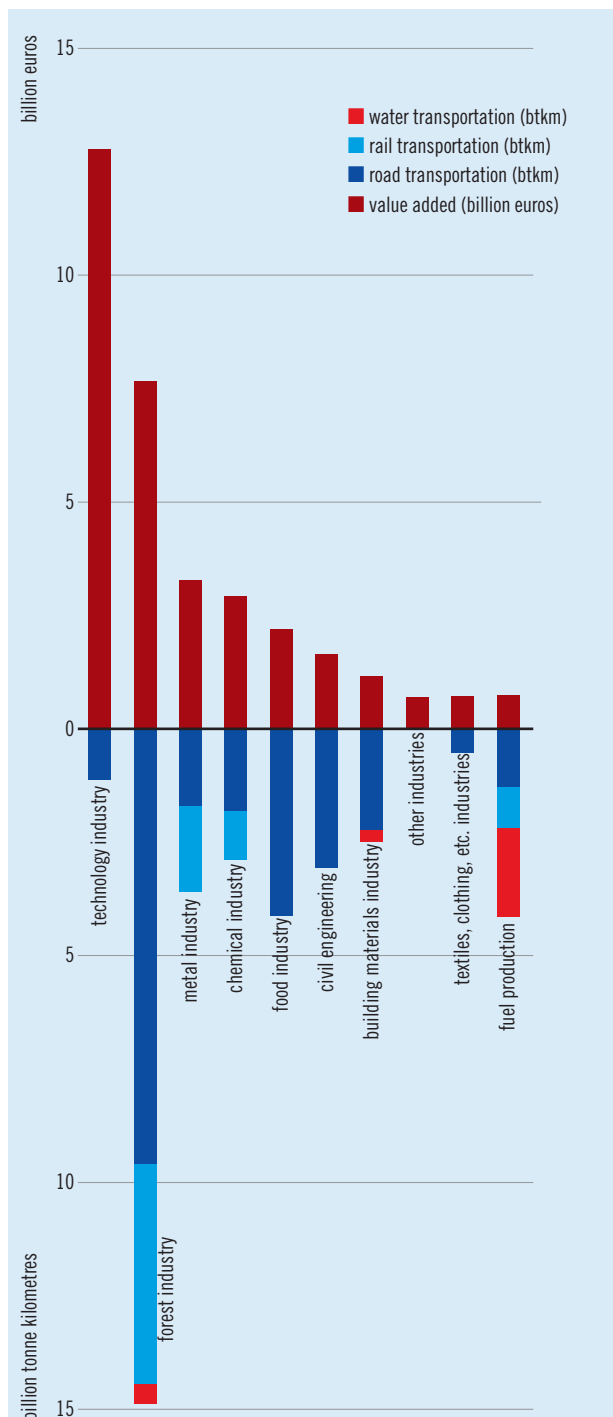


Figure 3. Value added and transport performance in Finland by mode of transport in 2002. Source: MTC 26/2004

As the demand for and supply of services through the global production chain continue to grow, even long haul shipments of valuable goods have become increasingly common, driving up the total volume of transport faster than production volumes.

The increasing use of containers and other large units is also increasing the number of intermodal transport chains. These chains make use of highly cost effective rail and sea shipments on trunk transport routes, with collection and delivery organised flexibly by road. For environmental reasons EU transport policy favours intermodal transportation over and above direct road transportation. Indeed various measures are now being applied to increase the efficiency of intermodal transport chains. These efforts also benefit global transport chains, which are often intermodal by their very nature.

Containers and other large units are often used to carry valuable or sensitive goods. The volume of containerised goods in international transport has increased significantly, and it is expected that this trend will continue at a rate of around nine per cent a year. Efficient container traffic requires advanced freight handling technologies and a high level of services.

Containers are easy and fast to handle, which means vessels have to spend fewer expensive hours sitting idle at dockside. The speeds of container ships have also increased; the fastest vessels currently in service can reach speeds of up to 40 knots. Fast and small container ships are best suited for short distance haulage, such as coastal and short sea shipping. Yet it is not the vessel's speed that is the most crucial factor, but the speed of cargo handling and minimising the number of port calls. In ocean transport the size of container ships (with a capacity in excess of 5,000 TEU) is growing rapidly, which means that second hand vessels commissioned to the Baltic Sea may well increase in size as well. Already the newest container vessels here have a capacity of well over 500 TEU; some are larger than 1,000 TEU.

A critical factor in container transport chains is the level of port services. Indeed from a logistics point of view it is important to invest in the throughput of container terminals (e.g. several loading and unloading points per vessels, adequate cargo handling equipment and personnel, automation of cargo handling) and in hinterland traffic junctions connected to ports. At current

transport volumes, 1,000 TEU vessels are in fact too large for Finnish needs because the frequency of departures would remain too low and overall transport times would increase.

ICT use allows for cost effective logistics of an increasing number of products even when distances are long and several market areas are involved. The significance of distance in logistics solutions is thus reduced. ICT provides a powerful tool for comparing alternative transport and logistics solutions, improving the predictability of logistics, real-time tracking, and reducing response times (which has the effect of increasing demand for frequent deliveries). Improved tracking facilities also help to improve transport security. Technological advances have been one of the most important preconditions for the globalisation of production, markets and logistics. On the other hand ICT use has the effect of raising quality demands and expectations for logistics services and quickly revealing bottlenecks in the delivery chain. ICT therefore helps to direct transport flows to the logistically most efficient routes.

Logistic developments made possible by new transport and communications technology:

- reduces average transport distances
- increases delivery frequencies
- increases air transport as a proportion of total transport movements
- increases the efficiency of sea transport and intermodal transport chains
- concentrates main transport flows to international hubs.

1) TEU = twenty foot equivalent unit. For instance, a 40-foot container corresponds to two TEUs.

## 3.2 Component factors of logistics position

Business operating environments are affected by numerous factors. Key among these factors are the location of markets and the availability of factors of production. However the relative weight and value of these factors varies according to the type and nature of business.

Component factors of the operating environment include:

- market
- labour
- industrial structure
- sources of acquisition
- framework for operation
- transport infrastructure
- logistics services
- business services
- passenger traffic
- image of region
- additional factors related to global operating environment.

Source: VUOLOG project

Modifying this list somewhat, the component factors of Finland's logistics position can be described as follows:

### **Logistics services**

The availability, quality and costs of logistics services impact the operating environment of all businesses. Some give priority to speed, others want to have special tailored services, others still give priority to cost effectiveness. Among a group of companies located in the same area and with access to the same services but different logistics needs, some may regard their logistics position as poor, others as excellent.

Rail transport, at its best, is highly efficient, but it is hard to serve thin and scattered flows by train. Finland has a rather good rail network and adequate resources to address customer needs. The opening up of the markets will contribute to greater operational efficiency and create a more balanced demand and supply structure, even if there is no immediate, direct competition.

The capacity and frequency of regular sea transport services and the reliability and low cost of port services are crucially important to Finland's foreign trade. For reasons of geography only transports to Russia and part of northern transports can rely exclusively on land routes.

Air freight accounts for more than ten per cent of the value of foreign trade transport. Growing demand in air freight has also been reflected in service development, which for good reason has received increasing attention.

In respect of air transport Finland remains in a strong position at least for the time being. Finland's location is ideal for intercontinental air transport, but scarcity of local demand has effectively prevented the development of a global air freight hub. Nonetheless transit air freight generates a significant proportion of Finland's overall freight revenue and accounts for a significant proportion of jobs in the industry.

### **The significance of volumes**

The volume of Finland's own foreign shipments is not enough to produce sufficiently frequent and regular services to Central Europe and ocean ports. Transit traffic to and from Russia adds to the efficiency of these transport flows by increasing the volumes carried and the frequency of departures. The additional demand generated by transit traffic means the supply of logistics services in Finland is better than it would be without that traffic.

Intercontinental container traffic uses the ocean ports of the North Sea. For shipments to the Far East, there is also the Trans-Siberian container service which is a cheaper option than air transport and faster than sea transport. Russia is also working to develop new connections south from the Trans-Siberian railway.

### **Location**

Location is often a relative concept. It depends, among other things, on the location and accessibility to markets and factors of production, as well as on the position of one's rivals. The markets are where the people are. At the end of the delivery chain is the unpredictable consumer, who in the last instance determines the competitiveness of the whole chain.

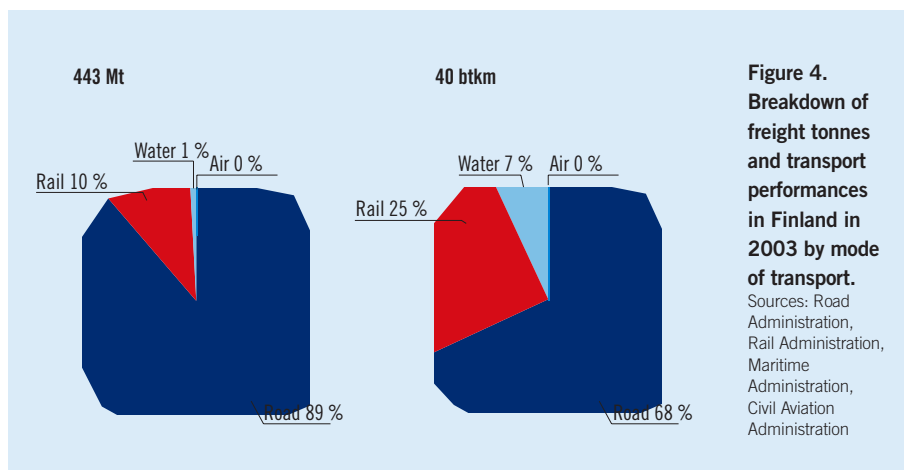
Global competition is a two-way road. Good connections mean that even remote producers can sell their goods on the world market, but also that local markets are opened up to global competition. If Finland fails to provide adequate transport connections, its producers will have no chance of succeeding in the world market, and in the absence of competition its consumers will have to pay unnecessarily high prices.

Domestic markets in Finland are very small, the main markets are overseas and intensely competitive. On the other hand the markets are growing very rapidly. Factors of production are limited, and energy imports, for instance, are substantial. In some market segments Finland has world leading expertise and successful companies that attract business from far afield.

### 3.3 Finland's logistics position between the EU and Russia

#### 3.3.1 Logistics volumes

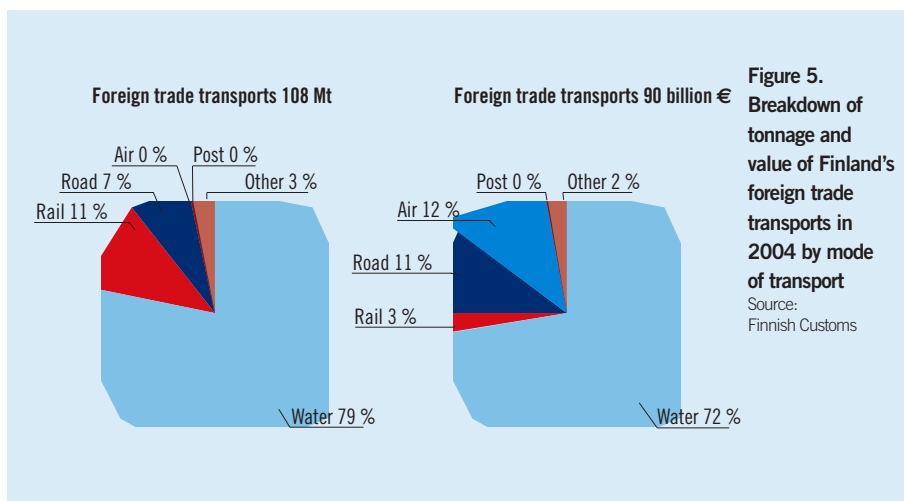
The total volume of freight transported in Finland in 2003 was 443 million tonnes (Mt). Almost nine out of ten freight tonnes were transported on the roads. The domestic transport performance amounted to 40 billion tonne-kilometres, with rail transport accounting for one-quarter of this. Domestic road and rail transport figures also include the domestic part of international transport.



**Figure 4.** Breakdown of freight tonnes and transport performances in Finland in 2003 by mode of transport. Sources: Road Administration, Rail Administration, Maritime Administration, Civil Aviation Administration

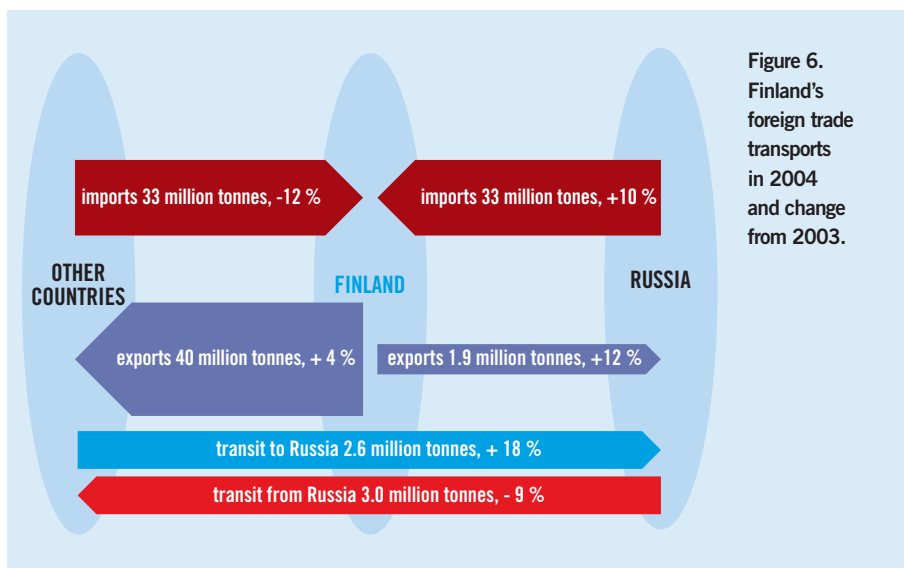
Part of this freight is exported out of the country or comes in as imports via ports or border stations. In 2004 Finland's foreign trade transports totalled 108 Mt, with imports accounting for 66 Mt and exports for 42 Mt.

Export, import and transit traffic between Finland and Russia amounted to 40 Mt, up by 9 per cent on the previous year.



**Figure 5.** Breakdown of tonnage and value of Finland's foreign trade transports in 2004 by mode of transport. Source: Finnish Customs

In spring 2005, the cost of transporting one container (at around 20 tonnes) from Kymenlaakso to Moscow is around 1,700 euros, or 8.5 cents/kg, which represents around four per cent of the average value of exports. More on the economy of Russian logistics later.



**Figure 6.** Finland's foreign trade transports in 2004 and change from 2003.

### 3.3.2 Logistics actors and their roles

There are different actors at different levels within the logistics system. In the last instance the purpose of the system is to produce goods for which end-users are prepared to pay a price that exceeds production costs. In perishable goods, for example, wholesalers and the industry can be seen as part of the system that fills retail shelves.

In a market of free competition, customer is always king. All product or service producers are dependent on their customers. Business survival depends on the ability to find a market, i.e. customers for the products or services produced; and in the longer term on the ability to hold on to those customers. It is important to listen to customers and their views on the company's products or services, and business management must be aimed at satisfying customer needs in an economically viable and profitable way.

The growing weight attached in recent years to environmental considerations is also reflected in the criteria of service quality. More and more often now, it is stressed that apart from the quality factors mentioned earlier, transportation must be so organised that it places minimum strain on the environment.

In virtually all industries there are some businesses that run a local operation, while others engage in global trade. Differences in product characteristics also mean that there are different logistics needs. Logistics service providers address their customers' needs in different ways. A business firm with a global operation will get the services it requires from a major operator that can provide similar services around the world. Local operators may be subcontractors to globally operating companies. In foreign trade, it is only rarely that the logistics partners of Finnish trade and industry are based in Finland any more.

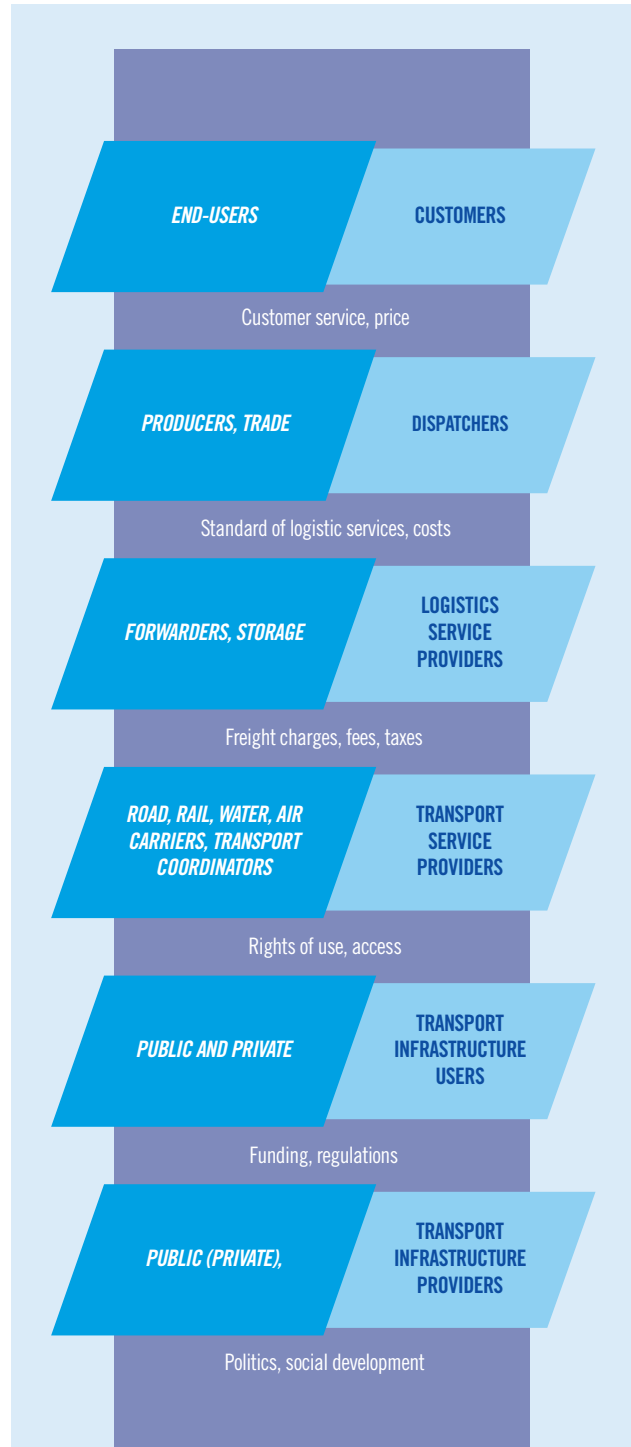


Figure 7. Logistics actors, interfaces and questions.



### 3.3.3 Logistics flows and their routes

The main Baltic Sea ports in the Gulf of Finland and along the Baltic coastline account for the bulk of EU–Russian transport flows. The land route through Belorussia, Poland and Germany remains insignificant, at least for the time being.

It is forecast that the sharpest increase in freight transport will be seen in Russian ports at the far end of the Gulf of Finland and in the Germany–Poland route, which will more than triple by 2030. This figure does not include energy transports. The Baltic ports will retain their position, but growth in their case will be less dramatic.

Russian transit traffic volumes have a major impact particularly on Baltic national economies. There is intense competition for the growing volumes, which is further enhanced by Russian investments in its own ports and a policy of favouring those ports.

Baltic and Finnish ports account for a significant proportion of Russia’s foreign trade transport. The level of transit traffic has remained high not only because of Russia’s limited port capacity, but also because of strong economic and foreign trade growth and the oil and gas pipelines than run through to the Baltic ports.

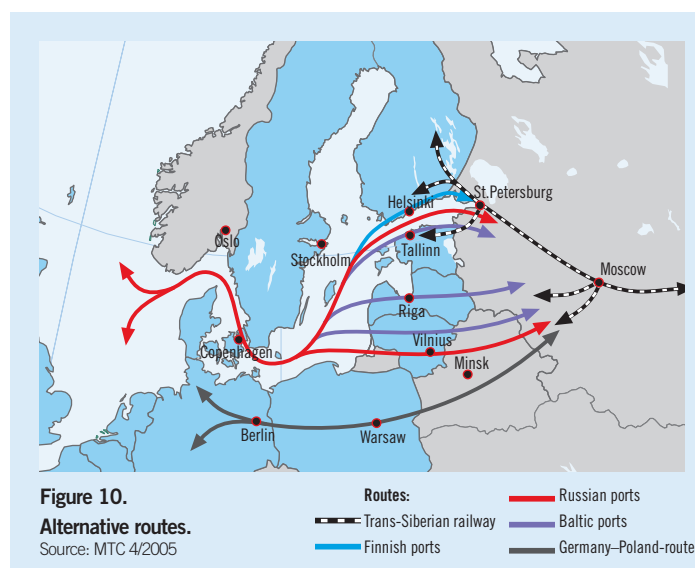
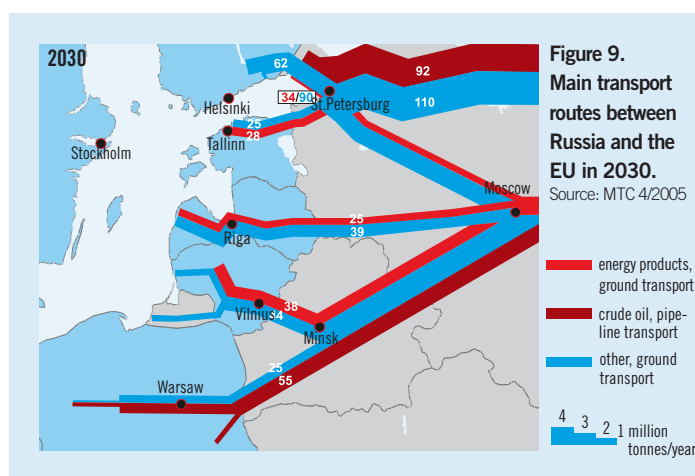
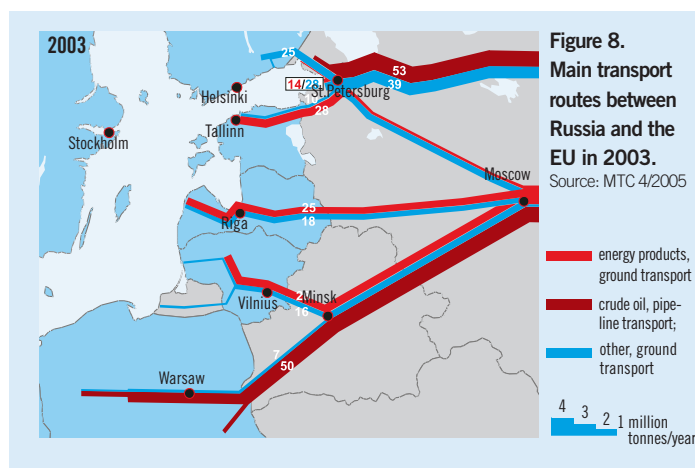
Russia’s own Baltic Sea ports are located at the eastern end of the Gulf of Finland and in Kaliningrad. The Gulf of Finland option is very much hampered by difficult ice conditions. It is only during the past few years that the port capacity in this region has shown more significant growth. As for Kaliningrad, the main difficulty is presented by the road connection cutting through Lithuania and Belorussia before reaching central Russia.

Partload traffic is set to increase in the future as a proportion of total Russian transports to Europe. This will further underline the role of speed and quality in logistics services, the speed of handling major units and the ease of border crossings.

There are four main routes of transport between the EU and Russia, all of which are directly connected to the Trans-Siberian railway and the Far East:

- the route via Finnish ports
- the route via Russian ports
- the route via Baltic ports and
- the land route via Germany, Poland and Belorussia.

The main characteristics of the transport routes between the EU and Russia and the strengths and weaknesses of the routes that run through Finland are listed in a separate table at the end of this report.



### **3.3.4 Economic statistics on logistics between Finland, the EU and Russia**

In a recent survey commissioned by the Ministry of Transport and Communications, the Research Institute of the Finnish Economy has studied the economic impacts and business potential of Russian transit transportation and the overall logistics situation between Russia and Finland. The next few pages summarise the findings of this report (*Logistics partnership between Finland and Russia*, ETLA B209).

#### **Impacts of Russian exports and imports on the Finnish national economy**

In 2003 some seven per cent of total Finnish exports went to Russia. In input-output terms, Russian exports account for just over two per cent of Finnish GDP in 2000 prices. Russian exports have had the greatest impact on production volumes in the electronics industry, mechanical engineering industry, chemical industry, food industry and paper industry.

Intermediate trade means that these production impacts are felt widely throughout the national economy, particularly in industries producing intermediate goods for Russian exports and in primary production. Examples include agriculture, forestry, energy and water supply and certain service industries.

In the services sector the indirect production impacts of Russian exports are seen most particularly in transport and storage, trade and business services.

Using an input-output model, the estimated impact on the national economy's total output was 7.6 billion euros, almost twice the figure for the direct export and output impacts.

The employment effects of Russian exports are the greatest in mechanical engineering, business services and agriculture, at more than 5,000 persons in each branch. In the transport and storage industry it is estimated that Russian exports account for some 2,500 jobs. In the whole national economy Russian exports are estimated to account for 47,000 jobs, or around two per cent of total jobs in the country.

#### **Impact of transit transport**

National accounting data on the production and employment impacts of transit transport are not available. The production impacts of transit transport in the Finnish transport sector are primarily felt in rail freight transport and transport services because the bulk of transit road freight is carried by Russian vehicles, while water and air transit operated by Finnish companies is relatively insignificant.

According to the survey the main production and employment effects of transit transport in the Finnish national economy are through stevedoring and forwarding operations at Finnish ports. For this reason transit transport has the greatest impact in the Kymenlaakso region, with the ports of Kotka and Hamina accounting for a large proportion of overall transit traffic. Transit transport accounts for almost ten per cent of the total volume and employment of transport and storage in the Kymenlaakso region.

The total number working in transit transport stands at around 1,350, representing just over one per cent of production and employment in the transport and storage sector.

Transit transport is therefore of major significance to the logistics industry only regionally. However the volume of this transport, if properly run and organised, can help to lower the unit costs of Finnish export and import transports. This will not happen automatically, however, but strong coordination is required in order that the potential benefits can be realized.

Information about the overall processes of Finnish export and import logistics (including transit traffic), its operational practices, value added, resources and cost factors is rather scattered and fragmented. In order to rectify this situation a development project should be set up with a view to appointing a suitable organisation to collect, store and analyse this information on an ongoing basis.

### 3.4 Developing Finland's logistics position

#### 3.4.1 The roles of business and public administration

The efficiency of businesses' logistics operations depends upon the skills and competencies of the actors involved, the service market, the physical and information infrastructure, technical standards and international trade procedures. Government measures impact these factors in the operating environment in various ways, both directly and indirectly. Figures 12 and 13 illustrate this steering role of public administration and the chain of impacts.

Logistics is an information-intensive business, and modern, high-powered ICTs have allowed for improved management of delivery chains and more efficient resource application. Work to develop harmonised interfaces between information systems and to agree on technical standards is an international exercise in which the state has the role of coordinating development and protecting national interests. Standardisation in the transport and communications sector is carried out in various international organisations and their expert working groups. The work they do is for the public good, and the costs are therefore usually carried by the state. This involvement also allows the state to have its say on the content of standards and to make sure it keeps up with developments.

The markets of all modes of transport are regulated in one way or another. This obviously involves the risk that powerful interest groups can sway political decision-making and maintain market rigidities. Government measures can significantly contribute to the development and operation of efficient logistics markets

Government tax and fee policies have a direct impact on logistics costs. For reasons of competitiveness it is important to exercise restraint with respect to putting up taxes and fees, which would drive up labour costs. Freight transport is subject to taxes and fees that for geographical reasons may have a very great impact indeed. Again it is crucial to exercise caution so as not to overly complicate the conditions for production.

It is naturally also important to monitor the economic and financial policy measures taken by other EU members with a view to improving their logistic competitiveness or the competitiveness of their businesses in the logistics market. Where applicable it is necessary to consider the feasibility of corresponding measures in Finland.

On the EU internal market Finland has only limited powers to make independent decisions because legislation governing the transport market, for instance, is largely Community legislation. Finland has only limited weight in the decision-making process and our problems are different from those

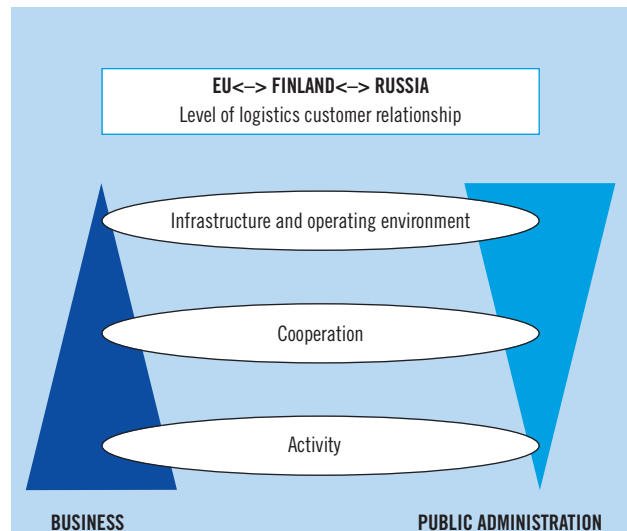


Figure 11. Public administration and business world: separation of roles.

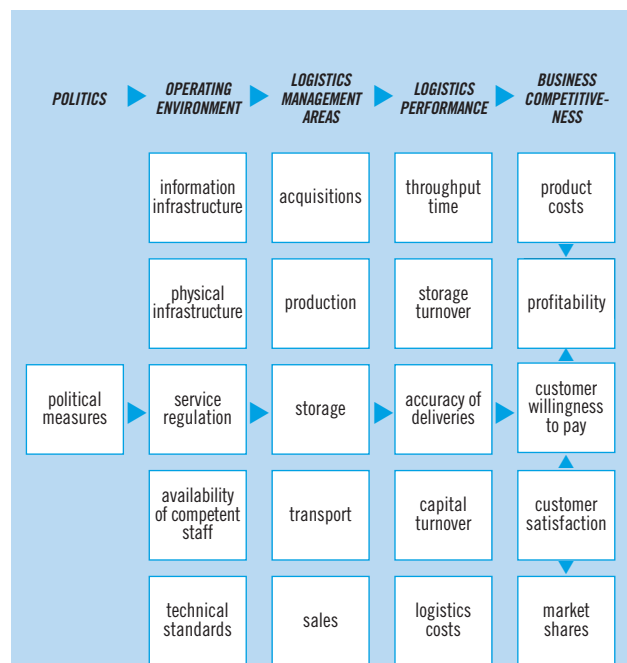


Figure 12. Impact of government decision-making on logistics (politics).

experienced by the more influential Central European members. Indeed it is a huge challenge to try and sway decision-making in the EU.

International transport agreements with other than ETA members are signed bilaterally with other state actors. The provisions of those agreements determine the conditions for entry into the transport market and for operating on that market. Ultimately, however, everything is based on reciprocity – there is no other way. In addition to agreements, international transport is governed by Finnish and foreign authorities: it depends largely on their efforts and cooperation how smoothly import and export procedures run and how competitively international transport can operate.

The efficient production of transport services requires high-quality transport corridors. The development and maintenance of these corridors is the responsibility of the state. It is the state's job to protect Finnish interests when agreements are drafted on the extent and financing of European transport networks. EU funding has only limited significance on the maintenance of Finland's transport corridor network. From a logistics point of view that network is generally speaking in good condition, but it is obviously important to ensure that this remains the case. As transport volumes continue to grow, this will require development projects. Investments in infrastructure are one of the most significant means that remain a matter of national decision-making and that can be applied to improve Finland's logistics position and competitiveness.

It is also the government that controls the education system, which produces labour with different qualifications for different industries. Other tools for controlling the availability of staff with appropriate qualifications include tax and housing policy. University-level education requires investment in basic and applied research as well as R&D. It is important that this can be done in an independent way from the public purse, but business and industry must obviously contribute as well. High level university education requires active teacher, student and researcher exchange. The logistics partnership between Finland and Russia can be promoted by increasing interaction between Finnish and Russian students, researchers and universities.

### 3.4.2 The target situation for logistics

The project to strengthen Finland's logistics position and the related strategic decisions require a clear vision of the ultimate target situation. In this case many of the factors impacting the outcome are already given in advance or decided elsewhere (geography, Russian development, EU

development, changes in world trade, etc.). Within this general framework, however, it is possible for Finland to make choices that will influence the costs and efficiency of logistics.

Our primary concern now is to work to develop the logistics operating environment according to our own needs. On the other hand this goal will be achieved by working to maintain Finland's position in the logistics of Russian foreign trade. From a transit transport point of view Finland's current logistics position can be developed by placing much or no weight at all on transit, or by adopting a middle-of-the-road policy. It has been decided that further measures shall be based on the latter option where the emphasis is placed on developing resources that are important both to Finnish foreign trade and transit transport. The idea is to move forward from the current situation both by developing Finland's current strengths and by trying to remove obstacles and bottlenecks.

The government will assume responsibility for the measures under its jurisdiction, while practical implementation of the vision will be the responsibility of logistics industry players. The Table on following page illustrates in the form of a score card the success factors of Finland's logistics positions, the baseline situation in 2005 and the target situation in 2010 from the points of view of efficiency, the customer, cooperation and know-how.

The development of Finland's export and import logistics, and at once the development of transit transport, requires first and foremost the development of border crossing practices.

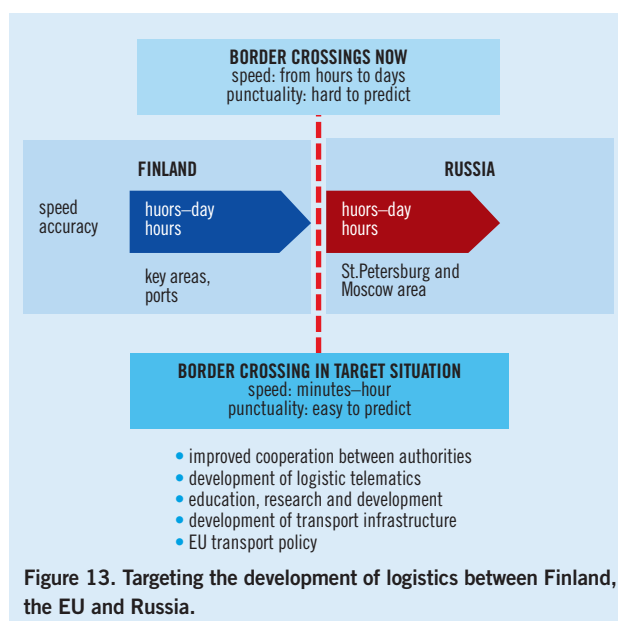


Figure 13. Targeting the development of logistics between Finland, the EU and Russia.

<b>Perspective</b>	<b>PRODUCTIVITY AND EFFICIENCY OUTCOME</b> <i>(efficiency, costs, performance indicators)</i>	<b>CUSTOMER OUTCOME</b> <i>(customer relations with the EU and Russia, added value produced for customer, customer satisfaction)</i>	<b>COOPERATION AND PROCESSES OUTCOME</b> <i>(process perspective, external/internal interest groups)</i>	<b>KNOW-HOW, INNOVATION, RENEWAL OUTCOME</b> <i>(innovation and know-how, research and development)</i>
<b>Success factors</b>	<ol style="list-style-type: none"> <li>1. Efficient logistics market</li> <li>2. Efficient labour market</li> <li>3. Competitive cost factors</li> <li>4. Economic benefits to Finland in “value logistics”</li> </ol>	<ol style="list-style-type: none"> <li>1. Well-organised logistics infrastructure</li> <li>2. Finland market leader in high value added logistics</li> </ol>	<ol style="list-style-type: none"> <li>1. Smooth border crossing processes</li> <li>2. Good cooperation among the authorities</li> <li>3. Removal of restrictions on transport rights</li> </ol>	<ol style="list-style-type: none"> <li>1. Telematics and technology put to good practical use</li> <li>2. EU development projects completed</li> <li>3. High level international logistics know-how in use</li> </ol>
<b>Baseline situation 2005</b>	<ol style="list-style-type: none"> <li>1. Room for greater freedom and efficiency in competition</li> <li>2. Rigidities at junction points</li> <li>3. Corridor, road and transport fees and taxation</li> </ol>	<ol style="list-style-type: none"> <li>1. Bottlenecks along corridors and at junction points</li> <li>2. Primarily bulk logistics</li> </ol>	<ol style="list-style-type: none"> <li>1. Poor throughput, bottlenecks</li> <li>2. Cultural and other problems in cooperation</li> <li>3. Development of aviation constrained by regulations</li> </ol>	<ol style="list-style-type: none"> <li>1. Not utilised in practice</li> <li>2. Major EU–Russian projects outlined</li> <li>3. Logistics competencies scattered, no specialisation in Russia</li> </ol>
<b>Target situation 2010</b>	<ol style="list-style-type: none"> <li>1. Good competition in markets</li> <li>2. Flexibility 24/7</li> <li>3. Competitive fees and taxes</li> <li>4. Increased employment and GDP through market share in “value logistics”</li> </ol>	<ol style="list-style-type: none"> <li>1. Bottlenecks opened, competitive services on roads, railways and at ports</li> <li>2. Large volume of logistics services in high value added logistics and large volumes in segments</li> </ol>	<ol style="list-style-type: none"> <li>1. Smooth border crossing processes, good throughput at EU level</li> <li>2. Good relations of cooperation, Win-Win activity</li> <li>3. Air traffic regulation has been dismantled</li> </ol>	<ol style="list-style-type: none"> <li>1. Practical ICT, automation and telematics solutions in use</li> <li>2. Results in key project areas</li> <li>3. EU–Russia know-how OK, logistics know-how OK</li> </ol>
<b>Measures required to achieve target</b> <i>(“Content of proposed measure”, pages 11–17)</i>	2, 3, 4, 5 8, 10, 11, 13, 14, 15, 16, 19, 20	12 21, 22, 23, 25, 27, 28	6, 7 8, 9, 17, 18 22, 24, 26 29, 30, 31, 32, 33, 34, 35	1, 6, 7 26 29, 35

Score card describing the success factors of Finland's logistics position.

### 3.5 The development of transport markets



The impacts of internationalisation are gradually beginning to filter through to the Finnish logistics market and major supranational operators are now moving to take over the domestic market as well. Most performance-level jobs are naturally still done by the local workforce. The international transport business is by now virtually in the hands of other than Finnish operators. In shipping, the amount of domestic tonnage as a proportion of total transport remains exceptionally high.

In the logistics sector the process of consolidation is only just beginning, and it is clear that even major Finnish players will be taken over by European or other international businesses. This further highlights the need to maintain Finland's business appeal. It is important that Finland takes an increasingly active and forward role in promoting economic cooperation and integration between the EU and Russia. The logistics sector has a key role to play in further deepening integration. An assessment is needed to establish whether it would be possible to create a common transport area for international transport between Finland and Russia where transport operators from both countries could enjoy sufficient freedom of operation. There is a customs and passport barrier between the two countries, and there is no free movement of labour. However it is crucial that steps can be taken to increase

transport efficiency and that border procedures are clarified and simplified. The opening up of international transport should be based on the principle of reciprocity.

The Russian economy depends on rail transport, which therefore has to work as consistently as possible, without barriers and deep in the Russian system. Rail transport compatibility must be taken into account if the aim is to establish a significant longer term presence in the logistics of Russian foreign trade. An assessment is needed on the integration of rail transport between the two countries on the basis of the principle of reciprocity.

In seeking to promote the competitiveness of rail transport Finland has tended to give preference to other means than the opening up of competition. In the future, however, we need to take account of the opening up of rail freight transport to competition in 2007 and the changes that this will imply to the rail market.

The European Union is currently processing a port service directive that would allow self-handling in port services. Even if the directive is not adopted, steps are needed to explore how efficient resource use can be promoted without compromising labour and environmental safety.

The bilateral 50/50 permit quota system that is now in place means that road transport between Finland and Russia is virtually unrestricted. It is more or less a free market. Nonetheless it would be useful to look into the possibility of dropping the permit system from the road transport agreement in the near future. The number of permits exchanged currently stands at around 250,000 per annum and is rising. The system has served the function of a pressure reserve in mutual negotiations, but it has been used rather sparingly. Half a million permits have no impact on transport market shares. The Russian party, however, still considers the permit system necessary because it guarantees safe and reliable transport.

Russia continues to have a problem with the standard of vehicles it uses in domestic transport, and therefore strict traffic safety and environmental regulations will be needed in the future as well. A decision to abandon the travel permit system would therefore not spell complete lawlessness.

It is important that Finland closely monitors the situation in other member states with regard to the introduction of kilometre charges as required by the EU as well as the development of related ICTs.

As from 1 May 2004, the conditions and rules for international transport have been the same in all 25 EU

member states. In the transport field the single most significant transitional arrangement in the enlargement talks concerned cabotage, i.e. road freight transport within individual member states. During the transitional period transport hauliers in Estonia, Latvia, Lithuania, Slovakia, the Czech Republic, Poland and Hungary are not allowed to engage in cabotage in other member states, nor are hauliers from other member states allowed to engage in cabotage in the said new member states. This reciprocal arrangement was aimed at preventing distorted competition in the transport market. For Estonia, Latvia, Lithuania, Slovakia and the Czech Republic, the transitional period will run for no more than five years, in Poland and Hungary for a maximum of six years. The formula applied for establishing the transitional period was thus =  $2/3\text{years}+2\text{years}+1\text{year}=5/6\text{years}$ .

By 1 May 2006, all member states are required to report whether the transitional period shall be extended by a further two years. At this point it will be necessary to weigh the pros and cons to Finland of a reciprocal opening up of the markets. The Ministry will work closely with the relevant parties to review the impacts of the transitional period to open markets.

Member states shall report to the Commission on the possible extension of the transitional period by a further year no later than 1 May 2008. This extension, however, will only be granted in the event of a serious market disruption or the threat of such a disruption. In spite of the transitional period, member states may agree on cabotage permits on a bilateral basis.

Globalisation and toughening competition go to further underline the importance of a disruption-free labour market throughout the various parts of the transport chain. A major strength of the Finnish contract society is that the labour market organisations have open channels of communication and negotiation and that all sides are committed to implementing and following the outcomes of negotiations. Continued efforts to maintain and further develop this interaction and exchange can help to reduce any disruptions to the transport chain due to disagreements between the labour market organisations. The incomes policy agreement for 2005–2007 includes a mutual commitment to the principle of continuous negotiation and sets out principles for local cooperation. In the transport sector independent measures taken by the labour market organisations can help to strengthen Finland's logistics competitiveness by promoting the adoption and application of these principles. It is particularly useful to invest in the

further development of those lines of communication and negotiation where labour market disputes and other conflict situations can be addressed as or even before they unfold. Good bargaining and labour market relations are a key asset for Finland in a situation of intensifying global logistics competition. A concrete example is provided by the transfer in spring 2005 of two freight vessels from under the Norwegian flag to the Finnish flag.

The efficiency and capacity utilisation of the logistics chain can be improved by applying the 7/24 principles throughout the delivery chain. In April 2005 the labour market organisations have reached agreement on a new labour market agreement for port stevedores. This agreement paves the way to a rearrangement of working hours and to improving Finland's logistics competitiveness.

In addition to the actual bargaining mechanism between the labour market organisations, it is necessary to have broader dialogue and exchange between the logistics partners and the government. Experiences gained in intersectoral dialogue in connection with the "Finland in the Global Economy" project have been very good. Indeed the labour market partners should continue their dialogue with the government. The Ministry of Transport and Communications has plans to set up a separate working group for purposes of this dialogue where all the labour market organisations have comprehensive representation. The dialogue should aim to take better account of customer needs, improve labour productivity and secure stable and productive jobs, know-how, professional competence and welfare in the workplace so that there is better correspondence between the supply and demand of jobs at different stages of the logistics chain.

It is important constantly to monitor legislation and other provisions concerning the duties and responsibilities of businesses in the transport market so as to make sure they are fully up-to-date. Any defects or shortcomings shall be addressed immediately. Where new provisions are concerned, their impacts on Finland's logistics competitiveness must be taken into account. Existing legislation shall also be closely monitored to make sure that failure to adhere to any provisions aimed at maintaining traffic or employee safety does not give any competitive advantage to companies that are in breach of the rules. In addition to control and supervision by the authorities, steps are needed to promote the incorporation of transport safety into management and quality systems and to improve the control and management of transport safety risks in business and industry.

### 3.6 Better productivity through research and new technology

One of the manifestations of globalisation is that modern ICTs allow for the production of services from outside the country's border, say from India or some other country with cheap but competent labour. However the logistics industry is often quite closely tied to place. Productivity and cost developments present a major challenge for maintaining competitiveness. Given the level of labour costs in Finland, it is impossible by means of logistics competition to prevent industrial production from moving to cheaper labour countries.

New technologies offer new opportunities. Often the introduction of new technology helps to give increased efficiency in the performance of a given function. Yet the greatest development potential lies in a complete rethinking of operations, which may lead to the realisation that the earlier functions are not needed in the first place. This search for whole new opportunities is a task for basic research. It is imperative that business companies keep a close eye on basic research and the development of new technologies and where necessary launch R&D projects to support the bigger and smaller development steps within their own organisation.

In principle Finland has strong competencies in information and communications technology, but the application of new technologies in the transport and logistics market is a harder challenge. The introduction of telematics often depends on the solutions and timetables of major international transport companies. In the past ten years work to develop Russian and Finnish logistics information systems has taken place in the context of the TEDIM programme. The results have shown that this must be a consistent, long term development effort because for the time being at least, Russia is not in a position to make effective use of information and communications technology. Furthermore, high-powered and compatible information systems would impact some Russian import practices in such a way that the authorities have been reluctant to take them onboard.

Finland is closely involved in this development and it is obviously important to step up cooperation here with Russia. It is important to ensure that Finland is Russia's first partner in the introduction of new systems and procedures. This will encourage Finnish businesses to set up operations in Russia and give them a competitive edge over their rivals.

In road transport, vehicle size can no longer be increased. Vehicle fill rate and capacity utilisation, on the other hand, can still be improved, but this would require

a 7/24 operation throughout the transport chain in order to get every hour of every day of the week into maximally efficient use.

In rail transport there are less degrees of freedom than in road transport. This means that rail transport and train formation can be automated especially in the case of freight transport without compromising safety – in fact in some instances safety can even be improved. This, however, requires substantial investments and will also take time. The biggest investments are needed in the rail network and in automatic train protection and control. Automation here would bring much-needed expertise into Finland, possibly even equipment manufacture and innovation.

All terminals where switches are made between transport modes hold a strategic position and are particularly susceptible to cost increases. At rail terminals there should be open access to different alternative terminal services. More efficient technologies should be made available for the handling of transport units. The difficulty is that this equipment is expensive when compared to transport volumes.

Cost levels are the highest of all at airports. In spite of the high costs, transport volumes are increasing rapidly, which is probably explained above all by the speed of air transport and also by improved punctuality and storage management. The high costs of air transport are easiest to sustain in the transport of valuable high technology goods.

Ports have made major investments in recent years in heavy container handling technology. Finland has also built one all-weather terminal. At the same time new monitoring and control systems have been developed to keep track of traffic and transport, and freight throughput has increased. Even so there is still plenty of scope for new automation solutions. The share of human labour must be reduced and work safety standards must be raised.



### 3.7 Demand for skilled and competent labour



An ongoing development effort is required in logistics education and research. This is a multidisciplinary field that lends itself well to be studied as a minor subject. The target levels for logistics education need to be raised, and research work in Finland can contribute to strengthening the theoretical foundation of the field and to developing tools for effective problem solving. Increasing internationalisation means that logistics professionals are expected to show an ever wider range of competencies, stronger language skills and involvement in expert exchange. On 9 December 2004 the Ministry of Education commissioned a working group to review higher education in the transport sector.

The working group's remit is to:

1. Review the development of the transport operating environment and its impacts on development needs in higher education.
2. Study the need for higher education in the transport sector and submit proposals on the organisation of this education and an appropriate regional division of labour.
3. Submit proposals on how to strengthen R&D in the transport sector, bearing in mind the networking opportunities offered by universities and research institutes. The working group is due to complete its work in October 2005.

There is no such thing as Finnish logistics or Russian logistics, but it is important to know how to put theories into practice in the Russian or some other specific market. This is why the exchange of knowledge and experiences is so important and why it would be good to have Russian students in Finland at all levels. Likewise it would be useful for Finnish students to gain first-hand experience of the Russian operating environment and local training and education.

The EU has set new, higher qualification requirements for professional HGV drivers, both with respect to licences and driver training. It is impossible to overemphasise the importance of skills and competencies in this multinational and multicultural environment, especially in view of the current high rates of traffic accidents. Tougher training requirements will, however, make it increasingly difficult to hire competent staff. Transport has not been a very popular occupation as it is. The government must assume overall responsibility for the training of HGV drivers and transport hauliers so that the education system here is comparable to those in other occupations.

The appeal of the shipping sector must be maintained and the entry threshold lowered, in spite of increasing technicalisation and higher skills requirements. It is no longer possible today to try out what it is like to work at sea on a Finnish vessel without first having a vocational training. Work at sea differs to some extent from "normal" work on hard land and it would be useful for young people looking to work in this sector to find out what the job involves before getting a full-blown training.

It is important that professional maritime training is broadly based and always aimed at the sea captain's competencies. Given the standards of modern technology it seems wasteful to have vessels constantly manned with service and maintenance staff, at least in short haul shipping.

## 4. Background surveys

*The Ministry of Transport and Communications has commissioned two reports for use by the working group, viz. "Logistics partnership between Finland and Russia" (Publications of the Research Institute of the Finnish Economy, B 209) and "Transport links between the EU and Russia: current state and future outlook" (Ministry of Transport and Communications Publications 4/2005). The results of these reviews have been used earlier under section 3.3 of this report, but their main findings are still described below.*

### 4.1 Logistics partnership between Finland and Russia

The report by the Research Institute of the Finnish Economy studies the development of the Russian economy and its impacts on Russian export and import transport, discusses Finland's role in Russian foreign trade and transports, and sets out the researchers' recommendations for a Finnish strategy in Russian foreign trade logistics.

It is estimated that Russia's GDP will grow at an annual rate of around six per cent through to 2010. In a global comparison this is an impressive rate indeed. It implies an average annual increase of 10 per cent in Russian imports. Russian exports depend crucially on world market prices of raw materials, and oil in particular. The price projections behind the forecast of a 6 per cent increase in GDP corresponds to an annual increase in exports of around five per cent. Russia's huge export surplus means there is ample space for a rapid growth of imports for several years to come. The forecast for Russia's economy is optimistic, by it is this forecast that

the Russian Ministry for Economic Development and Trade considers the most likely, and it is also in line with IMF prognoses. There are risks involved in this development, including a possible collapse in oil prices or increasing internal tensions and an unfavourable turn in the business environment in the event of mounting tensions between politics and the economy.

For the Finnish logistics sector, rapid economic growth in Russia is excellent news. Finland is well placed to maintain its market share of increasing Russian imports, i.e. Finnish exports to Russia could continue to rise at an annual rate of 10 per cent. Over 80 per cent of Finnish imports from Russia consist of energy and other raw materials, which are processed and exported to the world market in the form of oil products, paper and metals. It is quite possible and certainly profitable to gain a share of Russia's five per cent average annual exports growth. In transit transport Finland has concentrated on high-value goods, for which the Finnish route is the most competitive. In value terms one-third of Russian imports come into the country via Finland. In this area of eastern-bound transit transport, the Finnish logistics industry could increase the volume of goods carried at the same rate as Russia's imports are growing, i.e. by 10 per cent a year. In western-bound transit, it is harder to predict the future outlook. Transport along the Trans-Siberian route is sharply increasing. Our estimate is that Russian transports from Finland could increase on average by eight per cent a year through to the end of the decade. In national economic terms, this is certainly a growing industry.

Overall Finland accounts for a relatively small proportion of Russian transport flows (measured in weight terms) when compared to Russia's own total transport and the flows coming in and going out through the Baltic ports. Many Baltic ports and the ports at the eastern end of the Gulf of Finland are designed specifically for high volume transports of crude oil and oil products and other bulk goods. By comparison the small size of the goods flows that are carried through Finland and safety are key assets that help to make Finland a competitive option.

#### **Finland's competitive strengths**

Finland's competitiveness in Russian foreign trade logistics is based on geographic proximity, a competitive infrastructure, the speed of transport, safety and value added services and a high level of logistics know-how.

There are important synergy benefits that add to Finnish competitiveness over rival routes:

- To satisfy Finland's own export and import as well as passenger transport needs, there are frequent connections between Finland and continental Europe and between Finland and Sweden, which can also be used for carrying transit goods.
- The same applies to trade with Russia, which by international comparison is at an exceptionally high level and which also provides transport capacity for transit purposes.

***These synergy benefits have not yet been fully exploited.***

Finnish imports and export deliveries and Russian transport, on the one hand, and transit transport, on the other, generate important mutual synergy benefits. It is possible to get more out of the same transport resources and infrastructure. At the same time, these three pillars mean that Finland is less vulnerable to the kind of sudden risks that are typical of Russian transport. The Baltic countries, then, are far more vulnerable because they depend almost exclusively on transit traffic. On the other hand, the key importance of transit to the Baltic countries makes them try that much harder – and makes them tough competitors.

***Finland's weaknesses***

Finland also has some logistics weaknesses. The Finnish route to Russia from Central Europe is longer than those through the Baltic countries and the direct land routes from Central Europe. Cost levels in Finland – wages, fuel, charges, etc. – are higher than in rival countries. The country's inflexible labour market culture can easily hamper efforts to increase the efficiency of operations. Transport flows in Finland also tend to be split between a number of rival ports and their small operators, which adversely affects efficiency and inevitably leads to overlapping investment. These weaknesses have been compensated by resorting to new technology, by adopting information technology and automating operations.

Government authorities have worked closely together in a concerted effort to open border crossing bottlenecks and to establish a common set of rules in consultation with the Russian authorities. They have invested in IT development projects, electronic customs clearance services, streamlining operations and modernising border stations, all of which has helped to speed up freight transport. Free zone storage and many other flexible customs procedures also compensate for the high costs of the Finnish route.

***Vision for 2010***

The report presents a vision for the Finnish logistics industry and outlines a strategy for improving industry competitiveness in Russian foreign trade transport. The aim of the vision and the strategy is to pursue three objectives in as balanced a fashion as possible. The key consideration for transport customers – trade and industry – is the efficiency of transport and related services that generate real value added. For the logistics industry, this is first and foremost a business operation, and it is primarily concerned with its competitiveness and success. For government and tax payers, the main concern is with the social return on investments made in transport.

Finland's Baltic highway works excellently, as does transport between Finland and Russia. By making use of existing synergy benefits, Finnish-based logistics companies are the leading carriers of high value goods in Russian foreign trade. Like western companies in the industry, Finnish logistics businesses are expanding their operation into Russia. Logistics industry income from Russian transports is increasing by at least eight per cent a year.

***The Finnish strategy in Russian logistics***

The proposed Finnish strategy is based on three main elements:

- improved transport economy,
- developing Finland as a logistics centre,
- expansion of logistics businesses into Russia.

This strategy is supported by ongoing development of the infrastructure, international cooperation and cooperation with the Russian authorities as well as concerted marketing of Finnish logistics know-how.

## 4.2 Current state and future outlook for EU-Russian transport connections



The Ministry of Transport and Communications survey examines the development of EU-Russian and EU-Asian trade, the principal transport connections and their development prospects, current and future transport volumes and Finland's position.

### **Impacts of globalisation**

With the ongoing process of globalisation, more and more production is being relocated in growing Asian economies. At the same time accelerating population and production growth is creating in Asia an economic concentration that is fast overtaking the European and US economic areas. The Chinese and Indian economies are set to grow tenfold over the next 30 years. All this will revolutionise goods flows in world trade. The Russian economy, too, is set to increase considerably, although here declining population trends will have the effect of restricting growth.

EU-Russian trade and economic dependence will continue to increase, so much so that the two areas effectively constitute one economic area. Russia will become much more self-sufficient with respect to the production of consumer and investment goods. In the future the CIS will be the only area in the northern hemisphere with substantial amounts of raw materials for export. A large part of Russian exports to the EU consists of energy products. However the share of energy in trade between the EU and Russia will no longer increase appreciably.

In the transport sector these trends will have the following effects:

- EU-25 exports (excluding energy products) to emerging economic areas (CIS, China, India, DAE countries) and to Russia will almost triple by 2030.
- EU-25 imports (excluding energy products) from emerging economic areas (CIS, China, India, DAE countries) will double or triple by 2030. Imports from Russia will triple.
- Finnish imports from Russia and exports to Russia will almost triple by 2030.

Faster than anticipated development in Russia would reduce transport volumes in foreign trade as self-sufficiency in Russia increases. Slower than anticipated development would also reduce transport volumes as demand for import and export products would decline.

**Transport routes for Russian foreign trade**

Russian transport policy planning has gained in efficiency in recent years. The protectionist ambitions that are part and parcel of Russian transport policy are a source of disagreement with EU countries. Ever stricter EU regulations are causing some difficulty for Russia and Russian transport hauliers. However it is expected that Russia's forthcoming membership of the WTO may resolve the disputes surrounding Russian tariff policies, particularly in rail and air transport.

Against the background of what has been said above, the development and status of transport routes can be described as follows:

- Shipping routes will continue to account for the largest volumes of transport between Europe and Asia, although air transport and the Trans-Siberian railway will assume increasing significance.
- Russia will devote major investments to the development of its key transport corridors, which are corridors 1, 2 and 9A, the northern sea route and the ports in the Baltic Sea and Barents Sea that serve this route.
- The capacity of Russian ports will increase more slowly than its capacity needs. Russia will continue to need transit services through the ports of other countries.
- Development of the Berlin–Moscow connection will be a slow process owing to difficulties that slow down the transit traffic through Belorussia. Investments in infrastructure and improved standards of logistics services will increase traffic on the route and attract hauliers from competing routes. The impact of improving service standards on the Finnish route will remain insignificant.
- The favourable location of Baltic ports, their efficiency and good land transport connection mean they will continue to have a vital role in Russian foreign trade transport.
- The capacity of the Trans-Siberian railway is limited and the growth of Russia's own transport needs alone may fill up the remaining free capacity. Transport between the EU and Asia will have to rely primarily on traditional shipping routes.
- It is unlikely that the northern Arctic Sea route will gain significance during the first part of this century, but by the end of the century it may be highly important.

**Factors influencing the position of the Finnish route**

The main factors influencing the position of the Finnish ports route and freight transport between the EU and Russia and between the EU and Asia are as follows:

- The growth of large-unit and intermodal transport and increasing service standard requirements (speed, safety, security, value added logistics, transport service connections) are areas in which the Finnish route is competitive. Transport costs for expensive products are also competitive on the Finnish route.
- Factors influencing the competitiveness of the Finnish route include: logistic development in the Baltic countries and Russia, policies favouring Russia's own ports, port projects in other countries and development of ground connections between Russia and continental Europe.
- Finland will not necessarily see an increase in Russian transit volumes, but by offering value added logistics services the economic significance of transit transport will increase, in spite of the slowdown in volume growth.
- The competitiveness of the Finnish route over other options is the strongest in high value goods because both transport times and costs are at the same level or lower than on those other routes.

The position of the Finnish harbour route can be strengthened by investing in value added logistics services and by developing relations with the authorities and private players in logistics chains both in Europe, Russia and Asia. It is also in both EU and Finnish interests to launch and support development projects in Finland, Russia and Asia aimed at removing infrastructure bottlenecks along the Finnish route. Price competitiveness must also be maintained by the right tariff and charge policy.

Summary of EU and Russian routes Source: MTC 4/2005

Route	Traffic significance	Transport modes	Major problems and areas of development
Germany – Poland	<ul style="list-style-type: none"> <li>• Connects TEN network with Russia's Euro-Asian corridors (Trans-Siberian railway and the Russian north–south corridor).</li> <li>• Great national significance in Russia and Belorussia.</li> </ul>	<ul style="list-style-type: none"> <li>• Multimodal Euro-Asian corridor (railway, road, water transport, connection to Russia's inland waterway network).</li> </ul>	<p><b>Railway:</b></p> <ul style="list-style-type: none"> <li>• Load transfer at Brest. Work under way to develop a carriage with automatic gauge width adjustment.</li> <li>• Work to raise speeds throughout the route.</li> </ul> <p><b>Road:</b></p> <ul style="list-style-type: none"> <li>• Polish section of the route severely congested. Long waiting times at the Polish–Belorussian border. Overhaul of the Polish section.</li> </ul>
Russian ports	<ul style="list-style-type: none"> <li>• Together with Finnish and Baltic ports Russia's most important foreign trade route.</li> </ul>	<ul style="list-style-type: none"> <li>• Multimodal corridor links up with Russia's key centres and sources of natural resources, the Euro-Asian network (Trans-Siberian railway and national corridors) and the inland waterway network.</li> <li>• Connection with main gas pipeline.</li> </ul>	<ul style="list-style-type: none"> <li>• St. Petersburg port location in a major city, difficult navigation conditions in the winter.</li> <li>• Environmental risks.</li> <li>• Extension of the Primorsk oil harbour, construction of the Lukoil Vysotsky port, development of Ust Luga.</li> <li>• Land transport connections.</li> </ul>
Baltic ports	<ul style="list-style-type: none"> <li>• Good geographic location and navigational conditions.</li> <li>• Good road transport links to Russia.</li> </ul>	<ul style="list-style-type: none"> <li>• Multimodal corridor oriented mainly to serving Russian and other CIS transit traffic.</li> <li>• Mainly liquid and dry bulk cargo.</li> <li>• Ro-Ro traffic important.</li> </ul>	<ul style="list-style-type: none"> <li>• Efficient bulk goods transport.</li> <li>• Container transport less advanced.</li> <li>• Shortcomings in environmental protection and equipment and procedures to deal with accidents.</li> <li>• Construction of deep water harbour at Sillamäki.</li> </ul>
Finnish ports	<ul style="list-style-type: none"> <li>• Best line service to the heart of Europe.</li> <li>• Efficient ports.</li> <li>• High environmental and safety standards.</li> <li>• Good land transport connections to Russia and its Euro-Asian connections.</li> </ul>	<ul style="list-style-type: none"> <li>• Multimodal corridor oriented to demanding transport operations (container handling, dangerous chemicals, Ro-Ro traffic).</li> <li>• Empty containers returning from Russia are used for Finnish import transport.</li> </ul>	<ul style="list-style-type: none"> <li>• E-18 motorway in Finland.</li> <li>• Improvements to road connection from Moscow through St.Petersburg to Finnish border.</li> <li>• Rail capacity almost fully used.</li> <li>• Increasing axle weight on Finnish section to 25 tonnes.</li> <li>• Investments required on Kerava–Lahti direct line and also east of Lahti for fast train connections.</li> <li>• On the Russian side of the border investments in the St.Petersburg–Vyborg rail line and raising speeds between Moscow and St.Petersburg.</li> </ul>



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