

## DETERMINATION OF THE TRANSIT POTENTIAL OF LATVIA IN THE TRADE BETWEEN TURKEY AND THE EU

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### Abstract

Transit has been and remains a priority sector of the economy of Latvia, since the majority of goods transported by rail, road and sea transport - it is a transit cargo. Given the level of trade with Turkey is traditionally oriented towards the Western European market and more than half of its foreign trade turnover accounted for the EU Member States, further development of the Latvian transit sector, as well as economic and partnership relations between Latvia and Turkey would contribute to an increase in turnover through Latvia. To determine the transit potential of Latvia in the trade between Turkey and the EU is the purpose of this study. To achieve this goal in the planned analysis of the foreign relations of Turkey with the EU, to identify the most important direction of trade between Turkey and the EU countries in terms of possible transit through Latvia and consider potential prospects of transit development in Latvia.

### Introduction

One of the priority directions of the national economy of Latvia is to ensure stable growth of the volume of transit cargo. That is why significant investments are made in the transportation infrastructure of ports and highways, and railways, serving the flow of transit. In addition, transit development directly depends on external economic relations with various countries.

Given that the European Union have an important and stable place in Turkey's external trade, as well as Turkey's intention to significantly increase export volumes to these countries, further development of partnership between Latvia and Turkey would favour the increase in freight turnover through Latvia. The *aim* of the present article is to determine the transit potential of Latvia in the trade between Turkey and the EU.

To achieve the aim, *the tasks* can be formulated as follows:

1. To identify the most important, in terms of possible transit through Latvia, directions (countries) and volumes of trade between Turkey and the EU countries.
2. To analyse volumes of import/export freight traffic in Turkey by mode of transport.
3. To analyse possible transport routes of export/import freight traffic and evaluate them in terms of possible transit through Latvia.

The study was carried out within the bounds of project: "Potentials for Latvian -Turkish cooperation on the fields of economic development and trade: feasibility of transport routes and Latvian transit capability", developed by request of the RISEBA management and Turkish Embassy in Latvia.

The article is divided in two sections. The first section presents the analysis of Turkey's export and import volumes and determines areas, where Latvia could be considered as a transit country that allows making estimation of the possible transit volumes through Latvia. The second section presents the analysis of Turkey's export and import freight traffic by mode of transport and the study of trade routes from Turkey to the EU, selected as prioritised in terms of possible transit through Latvia.

During the study, interviews with experts of companies engaged in cargo transportation and dispatcher services were conducted.

## Determination of possible transit volumes through Latvia in trade between Turkey and the EU countries

According to Turkish Statistical Institute (TURKSTAT), Turkey in 2009, imported goods from 233 countries and has exported its products to 239 countries. To identify the most important, in terms of possible transit through Latvia, directions of trade between Turkey and the EU countries, countries were ranked by the volume of export and import deliveries. Afterwards, a number of countries were selected that could use Latvian transport routes by implementing the trade cooperation initiative with Turkey (see Table 1).

Table 1

**The transit potential of Latvia in the trade between Turkey and the EU, 000 \$**

<i>Imports to Turkey by countries</i>			
Country	2009	2010	2010/2009
Sweden	1 890 994	1 922 782	1,017
Finland	795 959	1 115 496	1,401
Estonia	102 011	146 192	1,433
<b>Sum</b>	<b>2 788 964</b>	<b>3 184 471</b>	1,142
<i>Exports from Turkey by countries</i>			
Country	2009	2010	2010/2009
Sweden	748 396	947 363	1,266
Estonia	105 984	90 535	0,854
Finland	196 622	296 093	1,506
<b>Sum</b>	<b>1 051 002</b>	<b>1 333 991</b>	1,269
<b>Exports + Import</b>	<b>3 839 966</b>	<b>4 518 462</b>	1,177

Source: Turkish Statistical Institute [1]

As can be seen from Table 1, volumes of freight transportation, feasible for Latvia, under export or import deliveries between Turkey and the selected countries (Sweden, Finland and Estonia) - are significant. In 2010, volumes of imported goods from these countries to Turkey totalled over 3184 mln.US dollars, and exported - over 1334 mln.US dollars. The total US dollar amount of export-import deliveries in 2010 increased by 17.7%, to more than 4518 mln.US dollars.

## Determination of the transit potential of Latvia in the trade between Turkey and EU

### 1. Analysis of possible transit routes

To evaluate possible transit routes through Latvia, it is necessary to identify types of transport used to export/import traffic in Turkey.

According to the Turkish Statistical Institute, the majority of imported and exported goods in Turkey are delivered by sea and by road. Dynamics of shares by mode of transport in 2000 - 2010 for import and export traffic is shown in Figure 1.

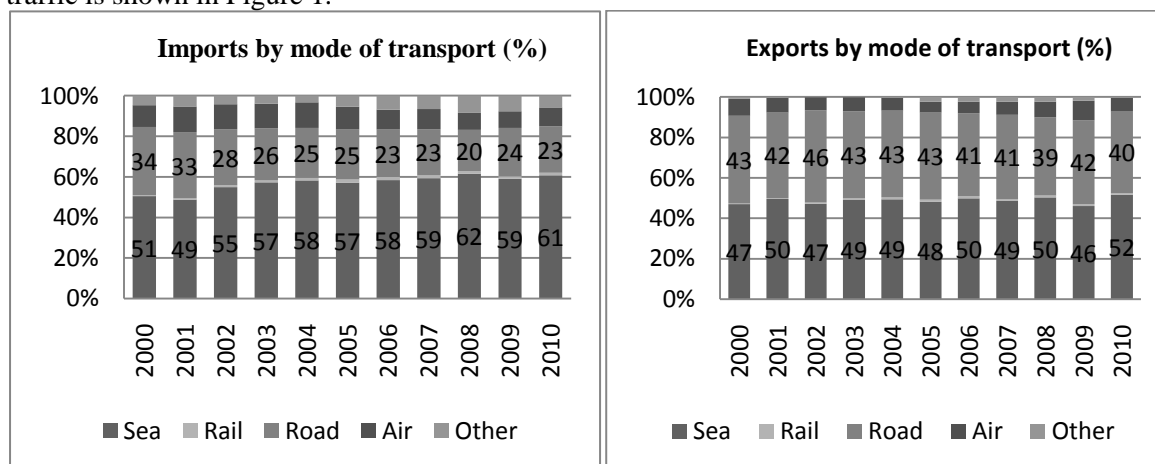


Figure 1. Dynamics of shares distribution by mode of transport 2000 - 2010 for import and export traffic

Source: Turkish Statistical Institute [1]

Figure 1 describes the structure of transportation of the last ten years - it remains unchanged, the main means of transport are sea and road transport, although it should be noted that the volume of transported

goods has increased significantly in absolute expression. Thus, the volume of imported goods transported by sea in 2010 was 112 599 mln.US dollars, and exports – 58 791 mln.US dollars, which increased more than 4 times in comparison to 2000. The volume of imported goods transported by road has increased 2.31 times and accounted for – 42 441 mln.US dollars in 2010, transportation of exported goods increased 3.83 times to total – 45 988 mln.US dollars. The volume of imported and exported goods transported by rail, for the period 2000 - 2010 increased more than 10 times to total – 2 455 and 993 mln.US dollars in 2010, respectively. The share of this mode of transport, both in export and import traffic remained low - around 1% (see Figure 2).

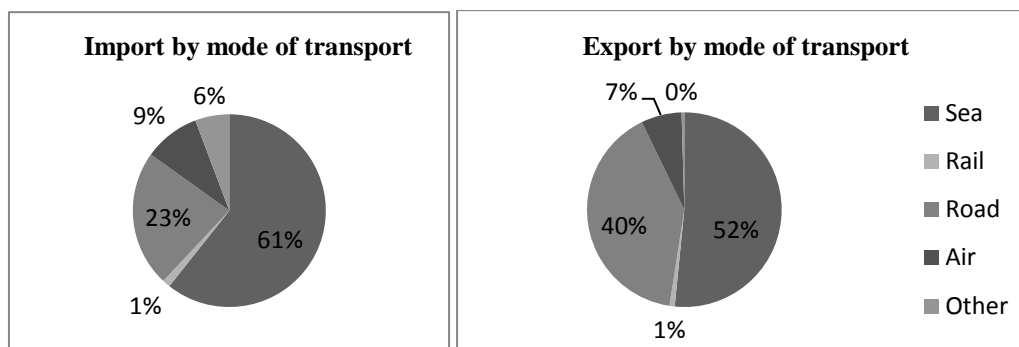


Figure 2. Distribution of shares by mode of transport on import and export traffic in 2010 [1]

Over a period 2000 - 2010, the proportion of goods imported/exported by air increased 2.95 and 3.29 times respectively and reached the volume of imported goods – 17 410 mln.US dollars, and exported – 7 688 mln.US dollars.

## 2. Analysis of possible transit through Latvia

### *Shipping/ sea traffic*

According to the data of Central Statistical Bureau of Latvia (LR CSB), 40% of all cargoes in 2009 were transported by sea, in absolute expression totalling to 61 980 tons [2]. The sea route from Turkey to the EU is shown in Figure 3 [3].



Figure 3. Sea routs from Turkey to Sweden, Finland and Estonia [3]

As pointed out by experts, freight ships from Turkey follow to one of the major ports (Rotterdam, Hamburg, Antwerpen, Bremerhaven), where cargo is loaded to feeder vessels with further delivery to smaller ports. Consequently, further cargo is shipped to its destination, and there is no need to stop at ports of Latvia.

**Cargo traffic by road**

Under LR CSB data, in 2009 – 37 820 thsd. tonnes of cargo has been transported through Latvia, totalling to 25% of all transported cargo [2]. The dynamics of domestic and international traffic is reflected in Figure 4, which shows that domestic traffic makes up a significant share of all freight traffic by road, in 2009 - 84% and 16% is the share of international traffic, respectively.

The decline in the volume of transported cargo with the onset of economic crisis in 2007 can be distinctly traced on the diagram (see Figure 4).

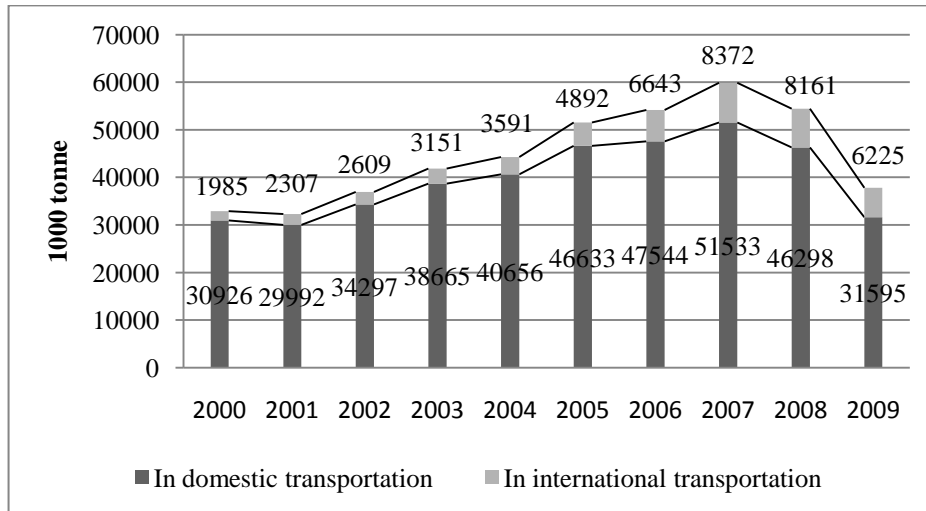


Figure 4. The dynamics of domestic and international cargo traffic by road from 2000 to 2009, thsd.t [2]

Reduction of freight traffic volumes continued in 2009. To assess the situation of international road traffic in the market, the diagram of changes in the volume of transported cargo in international road traffic has been created (see Figure 5).

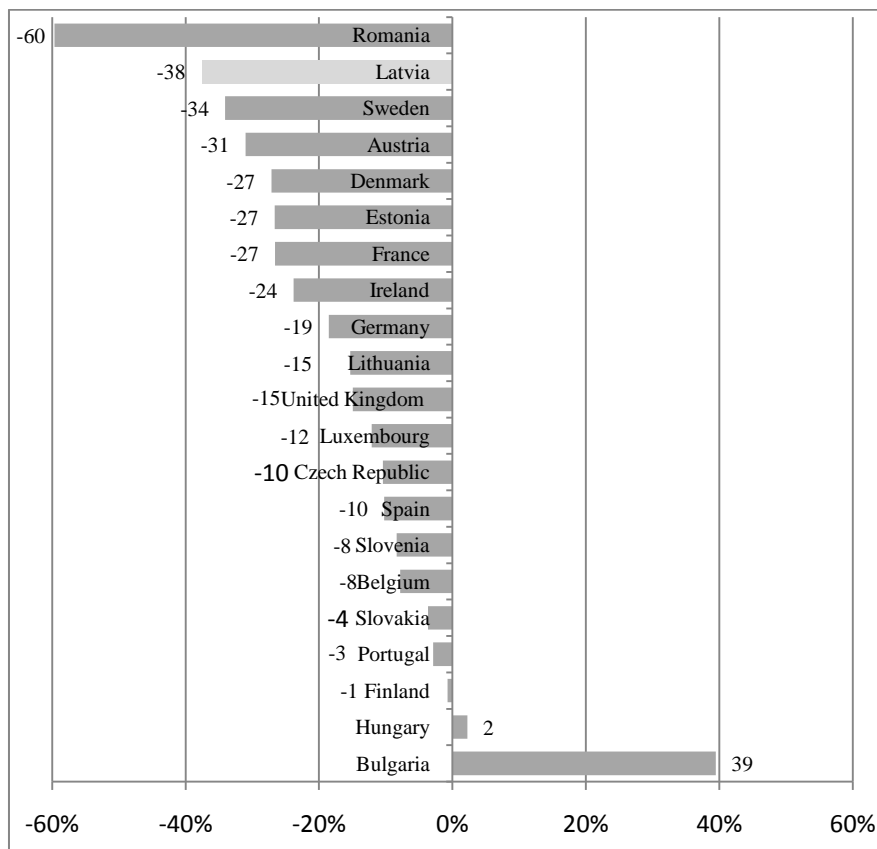


Figure 5. Transported cargo volume changes in international cargo traffic by road in 2009 [4]

The diagram (Figure 5) discloses that the volume of transported international cargo traffic in 2009 between Latvia and other countries dropped by 38%, which is a significant decrease in comparison with other countries.

In accordance with Latvian State Roads statistics as of the 1<sup>st</sup> of January 2011 Latvia's total state road network is 20 150 104 km. State average road network density is 0,312 km per 1 km<sup>2</sup> [6]. To evaluate the possibility of increasing transit traffic on the roads of Latvia, the intensity of roads usage in Latvia and the EU countries was calculated (see Figure 6).

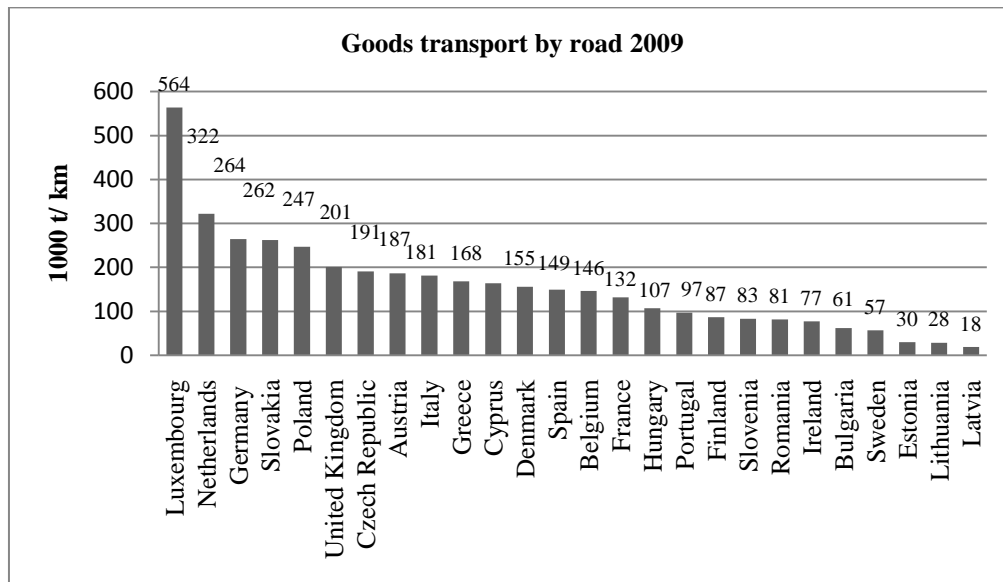


Figure 6. Intensity of road use in the EU countries in 2009, thsd.t/km [5], [7]

This diagram reflects that 1 km of Latvian roads accounted for 18 tons of cargo, which is the lowest compared with other EU countries; therefore, it is possible to increase the intensity of road traffic as the need arises.

Figure 7 represents the route of road freight traffic from Turkey to Scandinavia, Estonia and other EU countries.



Figure 7. Cargo traffic by road from Turkey to Scandinavian countries and Estonia [10]

The map above (see Figure 7) illustrates that delivery of cargo from Turkey to the EU countries is carried out through the EU territory, owing to Turkey's Customs Union (CU) with the European Union (EU) (since 1996), i.e. absence of customs duties and quotas on supply of goods when trading with the EU countries. Hence, transit deliveries through Latvia could rise only with an increase of delivery volumes

between Estonia and Turkey. But because of the substantial excess in cost of the road freight traffic, in comparison, for example, with sea transport, and considerable distance between Turkey and Estonia, the use of this mode of transport in trade relations between Turkey and Estonia is not economically profitable. This was also confirmed by experts engaged into cargo transportation by road.

**Cargo traffic by rail**

As follows from LR CSB data, in 2009 35% of all freights or 53 679 thousand tons were transported to Latvia by rail [2]. The dynamics of domestic and international traffic are reflected in Figure 8. As can be seen from the diagram, international transportation is many times greater than domestic, the share in total traffic volume by rail in 2009 was more than 97% (52 380 thsd.t.), domestic, shipments slightly exceeded 2% respectively (1 299 thsd.t.).

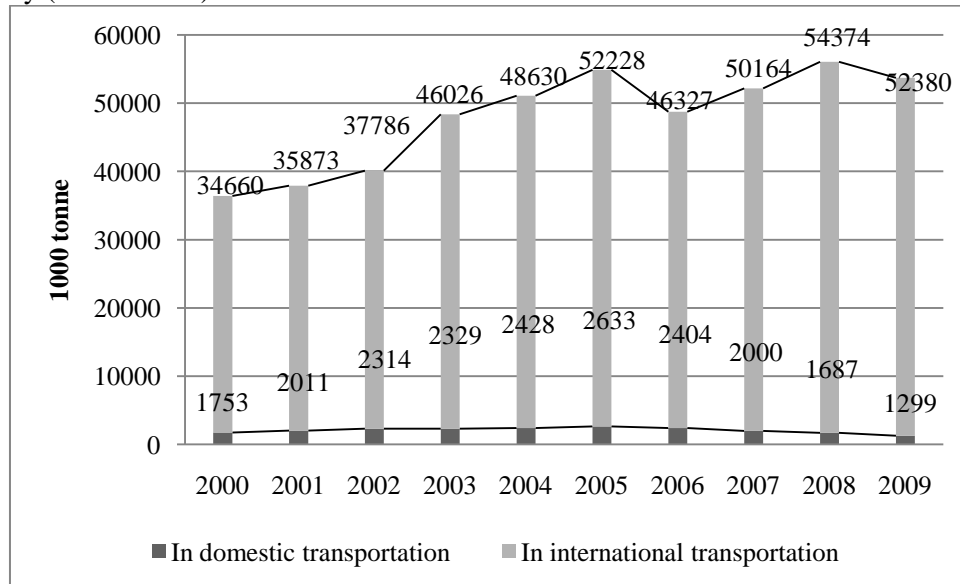


Figure 8. The dynamics of domestic and international transportation by rail from 2000 to 2009, thsd.t [2]

If we analyse the composition of international traffic from 2000 to 2009 (see Figure 9), then change in correlation of international and transit traffic after 2002 can be noted, this is due to changes in methodology in compliance with EU definitions. Prior to 2003 freight transit also included freight transportation to the ports of Latvia.

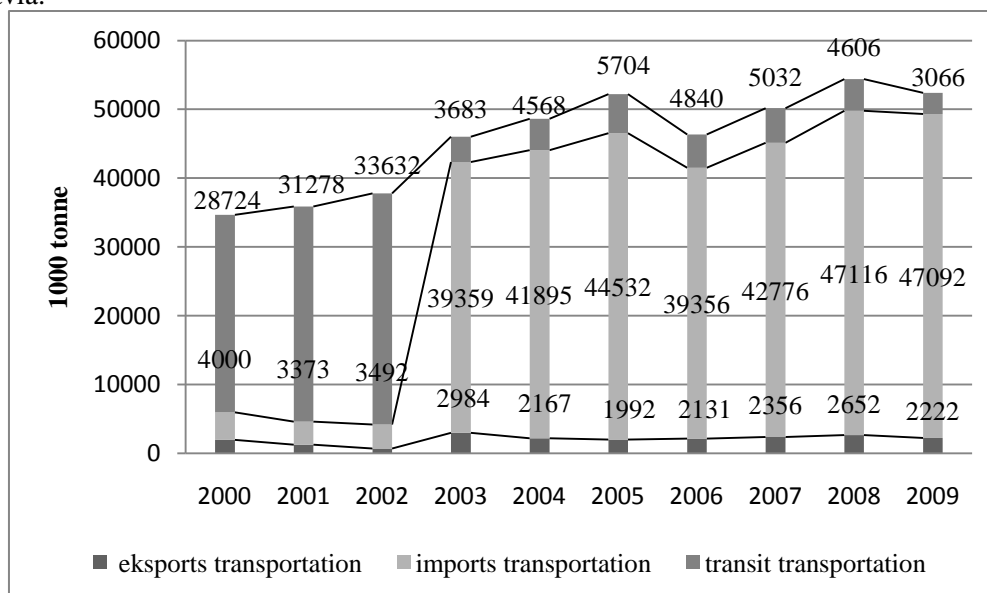


Figure 9. The structure of international transportation by rail from 2000 to 2009, thsd.t [2]

According to the EU methodology, the definition of freight transport by rail has been changed and transit implies rail transport through the respective country without unloading or loading operations. Henceforward freight transportation from other countries to Latvian ports will be looked upon as the

transport of imported goods but from Latvian ports to other countries - as the transport of exported goods. The data of export, import and transit traffic since 2003 are therefore not comparable with the data of previous years [2].

Figure 9 indicates that the biggest share in international freight transportation is given to transportation of imported goods.

If we analyse changes in international traffic for 2009, the significant decline in transferred cargo volumes can be observed in almost all EU countries, thus, international cargo transfers in Latvia have declined by 17% in 2009 (See Figure 10). Assessment of the railway use intensity in Latvia exposed that every kilometre of the railway accounts 28 tons of goods transported, which is one of the highest among EU countries, pointing to a quite high workload of railroad (see Figure 11).

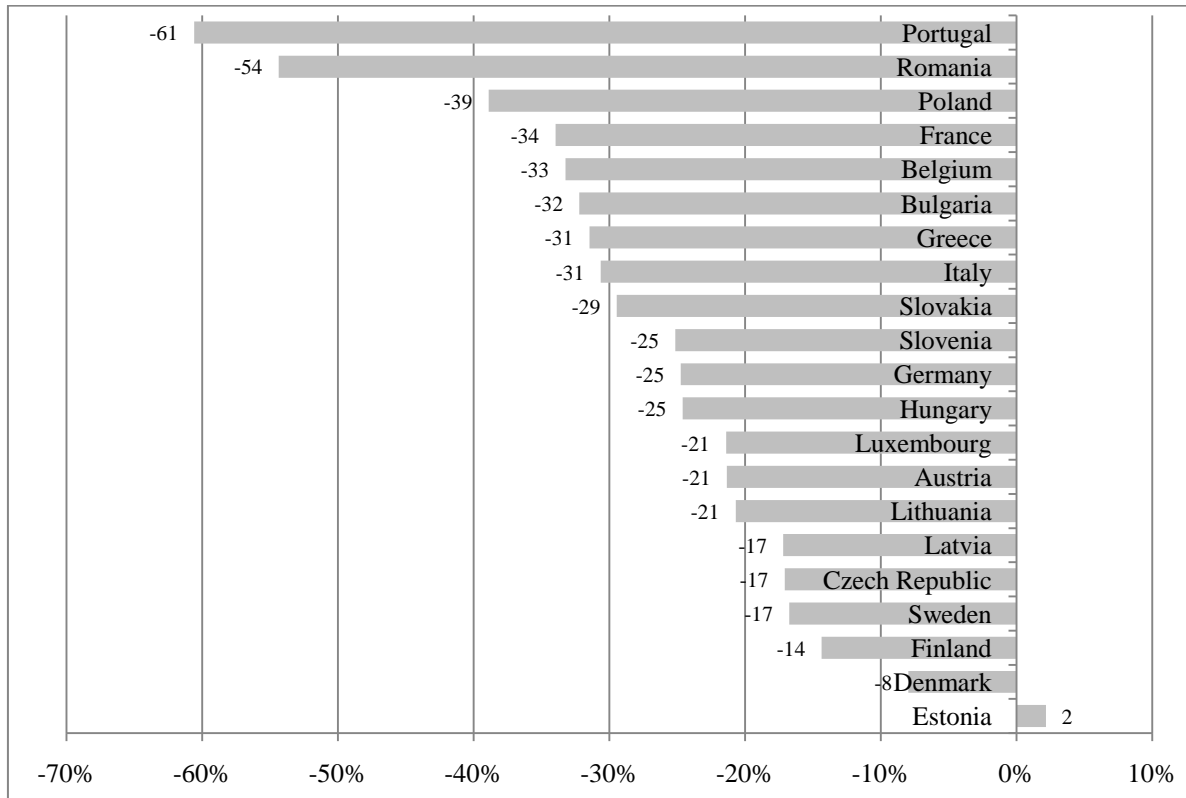


Figure 10. Changes in volume of transported cargo in international transportation by rail for 2009 [8]

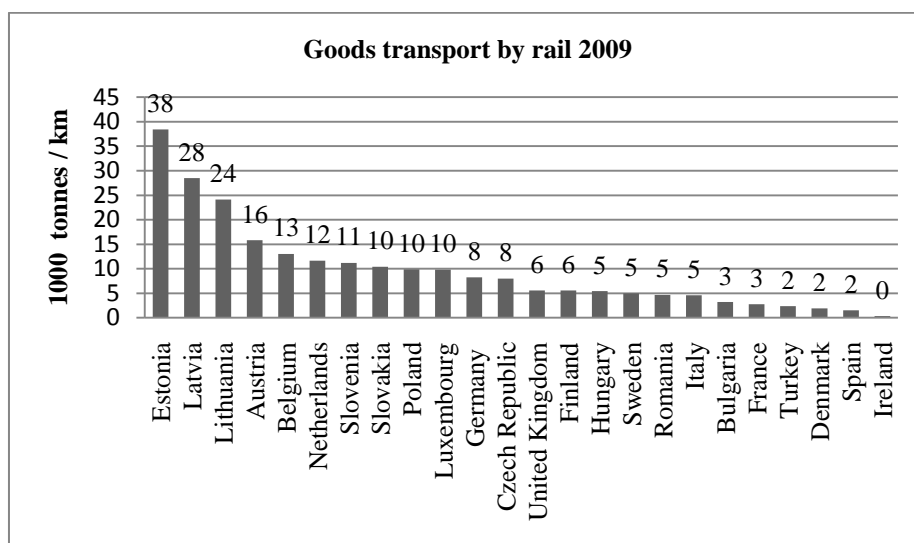


Figure 11. Intensity of railroad use in the EU countries 2009, thsd.t./km [5]

Looking at the routes of international railway cargo traffic (Figure 12), it is seen that the railway line, which could significantly shorten transportation of cargo by rail from south to north, comes abruptly to an end in Ukraine.

In 2009, in cooperation with Latvian, Belarusian and Estonian railway companies a container train „ZUBR” was created. It runs between the Tallinn (Estonia) - Riga (Latvia) and Minsk (Belarus). The project aimed at simplifying border crossing and customs procedures. In the near future it is intended to expand the route of the "ZUBR" container train to Ukraine and the Ukrainian ports – Odessa. Maritime Merchant Port and Illichivsk Maritime Merchant Port in Odessa region, with the possibility of further delivery of goods to Turkey and other Black Sea ports and their return to the Baltic States and Scandinavia [13].



Figure 12. International cargo traffic by rail [10]

### Conclusions

Despite rather large amounts of exported/imported cargo between Turkey and the EU countries, geographically located above Latvia, the increase in transit freight traffic through Latvia is currently hampered by a number of factors.

Firstly, sea transport, the most widely used for cargo transportation, is not able to increase the transit potential of Latvia at the moment, because of the current cargo transfer practice, when goods are disbanded into smaller consignments in major ports (Rotterdam, Hamburg, Antwerpen, Bremerhaven) and follow to its destinations.

Secondly, due to large distances and high transportation costs, freight traffic by road from Turkey to the EU countries cannot be regarded as a reserve for increase in volume of transported cargo through Latvia. Although it should be noted that the level of road load enables the traffic volume increase on roads of Latvia.

Thirdly, the realisation of the project on expansion of the route of "ZUBR" container train to Ukraine and Ukrainian ports would create a possibility to attract additional volumes of cargo transit through Latvia. But for the moment the intensity of railway use in Latvia is one of the highest among the EU countries. To be able to increase volumes of cargo transit by rail, it is therefore the right time to evaluate utilisation of this direction and make necessary arrangements to increase its capacity.

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