FREEPORT OF RIGA

DEVELOPMENT PROGRAMME

2019-2028

Table of Contents

List of Abbreviations and Terms **4**
Summary **5**
Introduction **9**

1. Preparatory Framework of the Freeport of Riga Development Programme 2019–2028 **10**
1.1 Legal Framework 10
1.2 Framework of Planning Documents 12
1.3 Procedures for the Implementation and Update of the Freeport of Riga Development Programme 2019–2028 14
1.4 Process of Formulating the Freeport of Riga Development Programme 2019–2028 15

2. Implementation of the Freeport of Riga Development Programme 2009-2018 **16**

3. Characterisation of the Freeport of Riga **18**
3.1 Review of Economic Activity of the Freeport of Riga 18
3.1.1. Cargo Turnover 18
3.1.2. Passenger Transport 19
3.1.3. Maritime Traffic 20
3.2. Port Territory and Use Thereof 20
3.3. Infrastructure Within the Ownership and Possession of the FRA 22
3.3.1. Hydrotechnical Structures 22
3.3.2. Road Transport Networks and Other Infrastructure 23
3.3.3. Cargo Handling Infrastructure 24
3.3.4. Passenger Service Infrastructure 25
3.4. Port Management 25
3.4.1. FRA Status and Functions 25
3.4.2. Property Rights and Management of Real Estate Objects in the Freeport of Riga 25
3.4.3. Licensed Commercial Activity in the Freeport of Riga 26
3.4.4. LLC (SIA) “Rīgas brīvostas flote” 26
3.5. Financial Management and Tariff Policy 27
3.5.1. Operating Income of the Freeport of Riga Authority 27
3.5.2. Operating Costs of the Freeport of Riga Authority 28
3.6. Environmental Protection 29
3.7. Port Security and Protection 29
3.7.1. Maritime Safety 29
3.7.2. Safety of Port Terminals 30
3.7.3. Public Order and Security 30
3.8. Information and Technology Systems 30
3.9. Port Marketing and Communication 31
3.9.1. Marketing 31
3.9.2. Communication and Social Responsibility 31
3.9.3. International Co-operation 31
3.10. Companies Operating in the Freeport of Riga. 32

4. Market Analysis **33**
4.1. Market Area of the Freeport of Riga 33
4.2. Baltic Sea Corridor 33
4.3. Cargo Segments 36
4.3.1. Energy Cargoes 38
4.3.2. Agricultural and Forestry Cargoes 39
4.3.3. Container Cargo 40
4.3.4. Ferry and Passenger Transport 41
4.3.5. Other Cargoes 42
4.4. Market Position of the Freeport of Riga 42

5. Cargo Turnover Forecasts 45
5.1. *Minimum scenario* 48
5.1.1. Characterisation of Macroeconomic Assumptions 48
5.1.2. Energy Cargo Forecast 48
5.1.3. Agricultural and Forestry Cargo Forecast 48
5.1.4. Container Cargo Flow Forecast 49
5.1.5. Ferry Cargo Transport Forecast 49
5.1.6. Summary of *Minimum Scenario* by Cargo Types 49
5.2. *Optimistic scenario* 50
5.2.1. Characterisation of Macroeconomic Assumptions 50
5.2.2. Energy Cargo Forecast 50
5.2.3. Agricultural and Forestry Cargo Forecast 50
5.2.4. Container Cargo Flow Forecast 51
5.2.5. Ferry Cargo Transport Forecast 51
5.2.6. Cargo Turnover Forecast for the *Optimistic scenario* 51

6. Analysis of Strengths, Weaknesses, Opportunities and Threats of the Freeport of Riga 52

7. Development Strategy of the Freeport of Riga 53
7.1. Mission and Vision of the Freeport of Riga 53
7.1.1. Mission 53
7.1.2. Vision 53
7.2. Strategic Objectives of the Freeport of Riga 53
7.3. Strategic Action Plan 56
7.3.1. SO1: To Promote Stable Long-term Increase in Cargo Volumes 57
7.3.2. SO2: To Make Riga a Significant Port for Cruise and Passenger Ferries in the Baltic Sea Region 58
7.3.3. SO3: To Promote More Efficient Use of the Port Territory and to Attract Development Projects promoting an Increase in Maritime Cargo Turnover to the Vacant Port Territories 59
7.3.4. SO4: To Promote Development of Manufacture and Cargo Added Value Services in the Freeport of Riga 60
7.3.5. SO5: To Promote Recognition of the Freeport of Riga and to Attract New Customers 61
7.3.6. SO6: To Maintain a Safe and Sustainable Ship Service Infrastructure 62
7.3.7. SO7: To Maintain and Develop Land Infrastructure Suitable for the Service of Cargo and Passenger Flows 63
7.3.8. SO8: To Ensure Efficient Port Safety and Protection Systems Compatible with Today's and Future Challenges 64
7.3.9. SO9: To Strengthen Good Governance and Corporate Culture Principles at the FRA 65
7.3.10. SO10: To Implement a Sustainable Financial Policy 66
7.3.11. SO11: To Strengthen the Freeport of Riga as a Socially Responsible Body, Open to Society 67
7.3.12. SO12: To create a 'Cluster' of the Freeport of Riga Companies By Ensuring Availability and Synergy of Services 68
7.3.13. SO13: To Develop the Freeport of Riga According to the Operating Principles of the "Smart Port" 69
7.3.14. SO14: To Reduce the Environmental Impact of the Freeport of Riga 70

8. Strategic Financial Plan and Socio- economic Impact 71
8.1. Methodology and Key Assumptions 71
8.2. Financial Forecasts of the Development Scenarios 72
8.3. Investments 73
8.4. Analysis of Sensitivity and Risks 74
8.5. Socio-economic Impact 75

List of Abbreviations and Terms

RER – renewable energy resources

airBaltic – JSC (AS) "Air Baltic Corporation"

AS – Joint-Stock Company

Baltic Sea Corridor – one of four main maritime corridors servicing import and export flows to/from Eurasian inland territories, the service of which is one of the focuses of the Freeport of Riga

CSB – Central Statistical Bureau

DWT – *deadweight tonnage*

EBITDA – *earnings before interest, taxes, depreciation and amortization*

EC – European Commission

EU – European Union

GT – *gross tonnage*

Stakeholders – individuals and legal entities and public and municipal institutions, which are interested in the performance of particular activities (including their ability to affect or control activity, are able to participate in the implementation of activity, which may affect performance result or side-effects of the activity)

GDP – Gross Domestic Product

IMDG – *International Maritime Dangerous Goods Code*

ISPS – *International Ships and Port Facilities Security Code*

STCC – Maritime Traffic Control Centre

Riga International Airport – SJSC (VAS) "Starptautiskā lidosta "Rīga""

LDz – SJSC (VAS) "Latvijas Dzelzceļš"

Cabinet – Cabinet of Ministers

Port neighbourhoods – Neighbourhood of Riga City, which is partially located in the territory of the Freeport of Riga or bordering with the territory of the Freeport of Riga, or located in the immediate proximity of the Freeport of Riga and may be affected by the activity of the Freeport of Riga

POR – *Port of Rotterdam International* (Structural unit of the Port of Rotterdam)

PPP – public and private partnership

FRDP 2019–2028 – Freeport of Riga Development Programme 2019–2028

FRDP 2009–2018 – Freeport of Riga Development Programme 2009–2018

RBF – LLC (SIA) "Rīgas brīvostas flote"

FRA – Freeport of Riga Authority

Ro-Pax – *Roll on – Passenger* (cargo-passenger ferry-boat)

Ro-Ro – *Roll on – Roll off* (rolling cargo)

RSP 2006–2018 – Riga Spatial Plan 2006–2018

RSP 2030 – Riga Spatial Plan 2030

LLC (SIA) – Limited Liability Company

Stevedore Company – company providing cargo loading/unloading ships

SVID – strengths, weaknesses, opportunities and threats

LNG – liquefied natural gas

LPG – liquefied propane gas

TEN-T – *Trans-European Transport Network*

Terminal – within the framework of this document, used as a synonym for the word "stevedore company"

TEU – *twenty foot equivalent unit* (for container traffic)

~ – approximately

Summary

Preparatory Framework of the Freeport of Riga Development Programme 2019–2028

Pursuant to Section 7, Paragraph 3, Clause 1 of the Law on Ports, the Freeport of Riga Authority (FRA) has prepared the Development Programme of the Freeport of Riga 2019–2028 (*FRDP 2019–2028)*. The board of the FRA approves the *FRDP 2019–2028* in accordance with Paragraph 33.3 of the Regulations of the Cabinet of Ministers No 378 of 29 May 2012 "By-law of the Freeport of Riga Authority".

The *FRDP 2019–2028* has been prepared in accordance with the framework laid down by the European Union (EU), the Republic of Latvia and Riga city local government policy planning and spatial development planning documents. Changes to the aforementioned planning documents may determine necessity to clarify also separate strategic objectives defined in the *FRDP 2019–2028* of actions for the achievement thereof.

Characterisation of the Freeport of Riga

Riga is a multi-functional port, which handles all types of cargoes. In terms of volume, the most important types of cargoes in the period of the last 10 years are – coal, oil products, container cargo, various timber, bulk chemicals , metals, agricultural products, as well as construction materials and Ro-Ro cargoes. From 2009 to 2014, the total volume of cargoes handled in the port gradually increased reaching 41.1 million tons in 2014 (the highest cargo turnover in the history of the Freeport of Riga). Since 2015, along with the decrease of transit of energy resources, the total volume of cargoes handled at the port has decreased.

During the last 10 years, the structure of the cargoes handled in the Freeport of Riga has changed – the proportion of coal and oil products has decreased, while the proportion of container, agricultural and metal cargoes has grown. During this period, transit cargoes accounted for ~75–80% of the total cargo volume of the Freeport of Riga, furthermore, cargoes dispatched by maritime transport accounts for ~85–90% of the total cargo turnover.

The total number of passengers handled by the Freeport of Riga in 2017 was 830.4 thousand, furthermore, 90% of this number were ferry passengers. In 2017, 86 cruise ships entered the port bringing 87.4 thousand cruise tourists to Riga, which is the highest number of cruise passengers in the last decade.

The total handling capacity of the Freeport of Riga terminals is 63 million tons per year, and spare capacity is available in all cargo segments. The Freeport of Riga has 122 berths for cargo handling, total length of 18.17 km. The port is able to accommodate/serve ships of length up to 300–320 m, maximum draught alongside is 15 m. One specialised maritime passenger terminal is operated in the Freeport of Riga, and it is located on the right bank of the River Daugava in Andrejsala, next to the centre of the city.

The 'cluster' of Freeport of Riga companies consists of ~200 various companies, the operation of which is related to port services: 35 stevedore companies, nine cargo storage companies, 31 ship agent companies, eight tugboat and bunkering service providers, six manufacturing companies, three shipbuilding and repair companies, as well as ~90 companies providing other services related to servicing cargoes and ships.

The majority of the stevedore companies operating in the Freeport of Riga are multi-functional cargo terminals, handling various types of cargoes. Specialised terminals include nine port liquid bulk terminals, one specialised container terminal, as well as a specialised bulk terminal. In 2017, cargo turnover exceeding 1 million tons was provided by seven stevedore companies.

Characterisation of the Freeport of Riga Authority

In accordance with the laws and regulations, management of the Freeport of Riga is ensured by the FRA, which is a derived legal entity of public law. Functions of the FRA include management of the port in the area of complying with the requirements set for port dues and tariffs, navigation and maritime safety, security and environmental protection, enforcement of internal laws and regulations and control of their execution, conclusion of contracts with commercial companies on activity in the port territory, planning of the development of port infrastructure and other port management functions laid down in the Law on Ports.

Funds at the disposal of the FRA are allowed to be used only for the management and development of the port and infrastructure, as well as for the implementation of functions of the FRA laid down in the Law on Ports. The FRA manages assets related to the port operation

in the amount of 426 million EUR. The FRA does not receive state and municipal budget funds to provide its operation (apart from the public financing from the EU funds for the implementation of infrastructure investment projects). The majority of the revenue of the FRA consists of port dues. Whereas, the highest costs are fixed costs – depreciation, maintenance of fixed assets, personnel costs and service costs.

Characterisation of the Market

The Freeport of Riga serves a wide area of Eurasia – mainly Russia, as well as Belarus, Ukraine, Kazakhstan, Uzbekistan and other countries located in the continent and without access to the sea. The market of the Freeport of Riga therefore has a population of ~282 million people, and a GDP of 2.5 trillion US dollars. The ports servicing this territory handle approximately 1.2 billion tons of maritime cargoes annually. These cargoes are being transported through four main corridors: the Baltic Sea corridor, the Black-Azov corridor, the Arctic corridor and the Far East corridor. The Baltic corridor is the largest one in terms of handled cargoes.

The Freeport of Riga is part of the Baltic Sea corridor. The total annual turnover of the Baltic Sea corridor ports is ~500 million tons or 42% of the total cargo turnover in the ports of the aforementioned transport corridors. The Freeport of Riga is the fifth largest port of the Baltic Sea corridor handling 7% of cargo.

There is fierce competition among the ports of the Baltic Sea corridor. This can be explained both by the fact that the ports have a similar operational profile and are oriented to service the same inland territories and the fact that in general, port capacities in the region exceed the total volume of cargo flow. Competition is significantly enhanced by the concerted activities of Russia, aimed at directing cargo from Russia and even Central Asian countries, to its own ports.

The Freeport of Riga is a typical transit port, i.e., the port mainly (75–80% of the total cargo turnover) handles transit cargoes, whose origin or destination is outside Latvia (mainly – in Russia and Belarus).

The majority of the transit cargoes handled in the Freeport of Riga are energy resource cargoes, the majority of which is accounted for by the export of Russian fossil fuels – coal and oil products. Considering the geopolitical situation and Russian transport development policy, as well as the global trends in the area of energy, such a dependence causes significant risks for the further development of the Freeport of Riga.

Coal accounts for ~35% of the cargo turnover of the Freeport of Riga and has ensured a significant contribution to the growth of the port for the last 20 years. Along with the changes to the market situation, coal is the highest risk cargo segment for the Freeport of Riga considering the geopolitical situation, Russian port development plans, as well as changes in the volume of coal consumption and geography in the global market. Whereas, in 2017, oil products accounted for a mere 17% of the cargo turnover of the Freeport of Riga, while turnover of oil products is to be forecast in the long term, affected by the aforementioned factors related to market situation.

Market research performed during the drawing up process of the *FRDP 2019–2028* identifies container cargo, agricultural and forestry cargoes as the perspective cargo segments of the Freeport of Riga. Development potential has been identified also for passenger transport.

Container cargo is the fastest growing cargo segment in Latvia. During the last decade, volume has doubled reaching the average annual growth of 10% and reaching approximately 450 thousand TEU. The Freeport of Riga provides 99% of the total container cargo turnover across Latvian ports. For the future, the development prospects for this segment are positive.

The development potential of agricultural cargoes (including grain and grain products) in the Freeport of Riga is determined by two factors: Growth in grain export volumes, as well as the possibility to attract transit cargoes from neighbouring countries (Estonia, Lithuania, Belarus and Ukraine). The forestry cargo turnover in the Freeport of Riga is also mainly accounted for by the exports of Latvia, and it is expected that the volume of forestry cargoes in the Freeport of Riga will remain stable.

Cargo Turnover Forecasts

During the drawing up of the *FRDP 2019–2028*, consultants of the transport sector Port of Rotterdam International (POR) have prepared forecasts for the turnover of cargoes in the Freeport of Riga up to 2037 by drawing up two scenarios – Minimum and Optimum. The

Minimum scenario provides for the simultaneous impact of market factors, which are adverse to the Freeport of Riga, while the Optimistic scenario reviews the situation, when cargo shipping develops in the way favourable to the Freeport of Riga.

The Minimum scenario provides for the decrease in the cargo turnover in the Freeport of Riga from 34 million tons in 2017 to 29 million tons in 2027 and ~18 million tons in 2037. The main reason for the decrease in the cargo turnover is the decrease in the volume of coal and liquid bulk. In contrast to the total volume of cargoes, container cargo turnover increases from 446 thousand TEU in 2017 to 610 thousand TEU in 2027 and to 690 thousand TEU in 2037. The majority of container cargo turnover will be provided by transit cargoes. The number of handled passengers will slightly decrease along with the decrease in the number of residents of Latvia.

According to *the Optimistic scenario,* total cargo turnover in the Freeport of Riga will reach 41 million tons again before 2027, but this indicator will reach 42 million tons before 2037. Comparatively constant cargo turnover in the long term will be affected by the decrease in handled volumes of bulk liquid. A t the same time, the volume of container cargo will increase up to 720 thousand TEU in 2027 and 1 million TEU in 2037, with transit cargo as the largest proportion. The number of passengers also increases: from 830 thousand in 2017 to 1 million in 2027 and 1.4 million in 2037, by the increase in number of both ferry and cruise ship passengers.

Development Strategy

The strategy of the Freeport of Riga includes mission, vision, strategic objectives of the port and Strategic Action Plan for the next decade.

Mission of the Freeport of Riga

The task of the Freeport of Riga as a global crossroad of cargo transportation is satisfaction of the market demand for good quality handling services for all types of cargoes adjusting to the wishes of customers and global market changes, and offering attractive conditions for the development of entrepreneurship related to the port operation.

By the implementation of a socially responsible policy, the Freeport of Riga ensures environmental sustainability and the formation of social dialogue between the port and society.

The commitment of the Freeport of Riga is to provide an attractive environment for the attraction of investments for the development of cargo transshipment, cargo handling and manufacture, to contribute consistently to the economy of Latvia.

Vision of the Freeport of Riga:

The Freeport of Riga is a multi-functional, modern and long-term development oriented port located on the crossroads of transport corridors with growing importance in the global cargo and passenger transport chain, which provides its customers with safe and reliable high-class port services at competitive prices in line with best practice of European ports.

The Freeport of Riga is a sustainable Baltic-scale centre of business, manufacturing companies and investment attraction which provides a significant contribution to the national economy.

The growth of the Freeport of Riga is based on the implementation of a socially responsible policy, sustainable use of resources, care of the environment and creation of long-term cooperation with public and municipal institutions and society for the development of a comprehensive and integrated transport infrastructure.

According to the mission and vision of the Freeport of Riga, strategic objectives of the port have been defined and a *Strategic Action Plan* for the achievement thereof has been drawn up. Strategic objectives have been formulated and structured according to four general performance areas of the FRA: cargo handling and passenger transport; added value, industrialisation and spatial development; infrastructure development and innovations; port management.

A map of the strategic objectives (SO) of the FRA is depicted in Figure 1. Within the framework of the Strategic Action Plan, each SO is accompanied by justification, key activities for the achievement of the objective have been defined, as well as a link to the remaining strategic objectives has been indicated.

Detailed actions for the achievement of the strategic goals, as well as their costs, financing sources and economic justification will be determined in consecutive Action Plans, including the first *Action Plan 2019–2022*, whereas the subsequent ones – for a three year period each.

Within the framework of the *FRDP 2019–2028,* the *Strategic Financial Plan* has been prepared making estimates of the revenue and operating costs of the FRA, as well as related investments and financing flows. The Strategic Financial Plan has been prepared for a shortened period of five years (up to 2023) to provide a sufficient reliability level of calculations. The Financial Plan has been prepared on the basis of the cargo flow forecast prepared by POR consultants and revenue forecast.

The Strategic Financial Plan justifies the financial capabilities of the FRA to implement the actions defined in the *FRDP 2019–2028*, it estimates the amount of own funds for the financing of investment projects, as well as assesses the possible risks and impact on the financial situation of the FRA during the planning period. It has been established that the risk of changes to the volumes of cargoes has the most significant impact on the financial flows and financial stability of the FRA, furthermore, the highest risk is related to changes in coal handling volumes. This risk is intensified by the market risks related to further transit of energy cargoes through the Baltic ports. Remaining types of cargoes separately do not account for a significant part of the overall cargo portfolio handled by the Freeport of Riga, thus, decrease in the volume of each type of handled cargo does not account for such a significant impact on the financial performance of the FRA.

Figure No 1

Map of the Strategic Objectives 2019–2028.

Performance Area of the Freeport of Riga Authority	Strategic objectives **(SO)**					
Cargo Handling and Passenger Transport	**SO 1** To Promote Stable Long-Term Increase in Cargo Volumes	**SO 2** To Make Riga a Significant Port for Cruise and Passenger Ferries in the Baltic Sea Region	**SO 5** To Promote the Recognition of the Freeport of Riga and to Attract New Customers	**SO 12** To Create a "Cluster" of the Freeport Companies of Riga By Ensuring Services Availability and Synergy	**SO 13** To Develop the Freeport of Riga According to the Operating Principles of the "Smart Port"	**SO 14** To Reduce Environmental Impact of the Freeport of Riga
Added Value Industrialisation and Spatial Development	**SO 3** Promote More Efficient Use of the Port Territory and to Attract Development Projects Enhancing Increase in Maritime Cargo Turnover to the Vacant Port Territories	**SO 4** To Promote Development of Manufacture and Cargo Added Value Services in the Freeport of Riga				
Infrastructure Development and Innovations	**SO 6** To Maintain a Safe and Sustainable Ship Service Infrastructure	**SO 7** To Maintain and Develop Land Infrastructure Suitable for the Service of Cargo and Passenger Flows	**SO 8** To Ensure Efficient Port Safety and Protection Systems Compatible with Today's and Future Challenges			
Port Management	**SO 9** To Strengthen Good Governance and Corporate Culture Principles at the FRA	**SO 10** To Implement a Sustainable Financial Policy	**SO 11** To Strengthen the Freeport of Riga as a Socially Responsible Body, Open to Society			

Introduction

The Freeport of Riga Development Programme 2019–2028 (*FRDP 2019-2028*) has been prepared during the period, when the global transport sector experiences rapid changes due to the impact of both economic and political events, and technological progress.

In 2017, global sales of goods and services showed the highest growth rate in the last six years, even despite trade restrictions introduced in many places. Growth of sales exceeds growth of the global Gross Domestic Products (GDP), which points to further globalisation of the economy. Forecasts for 2018 are also positive, however, implementation of forecasts may be significantly affected both by the possible expansion of trade restrictions and structural changes in the economics of China (transfer from the phase of investment to the phase of consumption, which provides for significantly lower imports), which, in general means unclear future development under the circumstances of both great opportunities and significant risks.

Similar trends are visible in the global maritime transport sector – the volume of transported goods increased by 4% in 2017 and retains an equal growth forecast for 2018. In the medium term up to 2023, an average annual sectoral growth of 3.8% is forecast, but in the container cargo segment – 6–7%. However, this forecast is significantly endangered by the trade restrictions introduced between the USA, China, the European Union (EU) and other countries and regions of the world, which may increase in the future.

The transport and storage sector is an important part of the economy of Latvia, providing steadily ~15% of the total manufacturing amount of goods and services. Total cargo traffic volume (tons) in the transport network of Latvia during the last two decades has grown, however, since 2015, a decrease in cargo volume can be observed along with changes to the geopolitical situation. In 2017, ~55% of the total nationwide cargo turnover was received or dispatched through Latvian ports, furthermore, the Freeport of Riga handles more than half (54% in 2017) of all the cargoes handled in Latvian ports.

The Freeport of Riga is a part of the Baltic Sea corridor and serves a wide territory of Eurasia, where the main countries of origin of cargoes are Russia and other countries of the Commonwealth of Independent States. The market area of the Freeport of Riga can be characterised by ~282 million residents, a GDP of 2.5 trillion US dollars and an annual maritime export cargo flow of ~1.2 billion tons (including 0.5 billion tons – through the Baltic Sea corridor). The service of these flows (or cargo transit) provides ~75–80% of the cargo turnover of the Freeport of Riga. Thus, the Freeport of Riga is dependent on the tendencies of social economic development of the countries of its market area, as well as changes to the logistics chains. The export and import cargo flows of the countries of the market area have a significant impact on the Russian port development strategy. One of priorities of the Russian transport policy is re-orientation of export cargoes, as well as transit cargo flows of other Eurasian countries to its own ports, furthermore, continuation of such a policy in the future is surely expectable.

The Baltic Sea corridor includes several similar specialisation ports, which serve the same market area offering a similar range and quality of services. These are mainly multi-functional ports with good road and railway connections and developed ship service and cargo handling infrastructure. Russian protectionism has resulted in a significant growth in competition between the ports in the Baltic Sea region.

The Freeport of Riga takes a stable and significant market position in Latvia and in the Baltic Sea region – it is the largest port of Latvia in terms of cargo turnover, second largest port in the Baltic States and the fifth largest port on the Eastern Coast of the Baltic Sea. The Freeport of Riga has development potential, however, in the forthcoming years, the FRA and port companies should be able to make the best use of existing strengths, and invest in mitigating the impact of weaknesses to continue successful competition in changing market conditions.

1. Preparatory Framework of the Freeport of Riga Development Programme 2019–2028

1.1. Legal Framework

Pursuant to Section 7, Paragraph Three, Clause 1 of the Law on Ports, the FRA shall create the draft port development programme in conformity with the approved development concept (programme) for the ports of Latvia, as well as the development programme and spatial plan of Riga local government. Pursuant to Paragraph 33.3 of the Regulations of the Cabinet of Ministers No 378 of 29 May 2012 "By-law of the Freeport of Riga Authority", the development programme is approved by the Board of the Freeport of Riga Authority. According to Section 11, Clause 1 of the Law on Ports, opinion on the draft development programme shall be provided by the Latvian Port, Transit and Logistics Council. Period of the FRDP 2009–2018 ends in 2018, and the FRA has prepared a development programme for the next decade.

The *FRDP 2019–2028* is subjected to national and regional level spatial development planning documents. It is significant that Riga Spatial Plan 2006–2018 (RSP 2006–2018) is applicable at the moment of preparation of the FRDP 2009–2018, whereas, the Riga Spatial Plan 2030 (RSP 2030) is in the development process, and approval of the final revision is scheduled for 2019. The RSP 2030 could define a different regulatory framework for the use of the territory of Riga, thus causing necessity to clarify the *FRDP 2019–2028* in matters related to the use of the area of the Freeport of Riga. All local plans affecting Kundziņsala, Krievu Island and Eksportosta, have entered into effect. No new detailed plans are available within the framework of RSP 2030 yet.

The *FRDP 2019–2028* is developed pursuant to several laws and regulations of the Republic of Latvia governing the operation of both the FRA and port companies. The most significant laws and regulations of the European Union (EU), the Republic of Latvia and Riga local government are listed in Annex No 1 to the *FRDP 2019–2028*. The most significant ones are specified hereunder:

General matters regarding the drawing up of the Freeport of Riga Development Programme:

1. Law on Ports.
2. Law on the Freeport of Riga.
3. Customs Law.
4. Law on the Application of Taxes in Free Ports and Special Economic Zones.
5. Law on Preservation and Protection of the Historic Centre of Riga.
6. Law on Local Governments.
7. Regulations of the Cabinet of Ministers No 378 of 29 May 2012 "By-law of the Freeport of Riga Authority".
8. Binding Regulations of Riga City Council No 255 of 2 May 2017 “Regulations of the Freeport of Riga”.
9. Spatial Development Planning Law.
10. Development Planning System Law.

Activity of the Freeport of Riga with real estate:

1. Law on Alienation of the Real Estate Required for Societal Needs.
2. Construction Law.
3. Law on the Ownership Rights of the Public and Municipal Land and Corroboration Thereof in the Land Registers.
4. Law on Privatisation of the objects of Public and Municipal Property.
5. Regulations of the Cabinet of Ministers No 1250 of 27 October 2009 "Regulations Regarding State Fee for Registering Ownership rights and Pledge Rights in the Land Register".

6. Binding Regulations of Riga City Council No 146 of 28 April 2015 “Binding Regulations Regarding Maintenance of the Territory of Riga City and Structures”.
7. Regulations of the Cabinet of Ministers No 240 of 30 April 2013 "General Regulations for the Planning, Use and Building of the Territory".
8. Regulations of the Cabinet of Ministers No 198 of 18 December 2012 "Procedures for the Granting of Property Tax Relief in Riga".
9. Regulations of the Cabinet of Ministers No 164 of 9 March 2016 "Regarding Transfer of the State Real Estate to the Ownership of Local Government".
10. Regulations of the Cabinet of Ministers No 204 of 15 March 2011 "Procedures by Which Fair Remuneration for the Real Estate to be Alienated for Societal Needs is Determined".
11. Regulations of the Cabinet of Ministers No 1191 of 29 October 2012 "Procedures By Which a Public Person Leases Real Estate from an Individual or Capital Company and Publishes Information on the Leased Real Estate and Real Estate to be Leased".
12. Binding Regulations of Riga City Council No 34 of 20 December 2005 “Regulations on the Use and Building of the Territory of Riga”.

Environmental Protection in the territory of the Freeport of Riga:

1. Law on Environmental Impact Assessment.
2. Law on Pollution.
3. Law on the Movement of Dangerous Goods.
4. Land Management Law.
5. Waste Management Law.
6. Law on Specially Protected Nature Territories.
7. Environmental Protection Law.
8. Regulations of the Cabinet of Ministers No 18 of 13 January 2015 "Procedures for the Assessment of the Environmental Impact of the Intended Activity and Acceptance of the Intended Activity".
9. Regulations of the Cabinet of Ministers No 264 of 16 March 2010 "General Regulations on the Protection and Use of Specially Protected Nature Territories".
10. Regulations of the Cabinet of Ministers No 1060 of 15 September 2009 "Regulations Regarding the Handling and Control of Dangerous and Polluting Cargoes in Ports".
11. Regulations of the Cabinet of Ministers No 1082 of 30 November 2010 "Procedures by Which Polluting Activities of Category A, B and C Shall Be Declared and Permits for the Performance of Category A and B Polluting Activities Shall Be Issued".
12. Cabinet Regulation No. 970 of 25 August 2009 "Procedures for the Public Participation in the Development Planning Process".

Laws and regulations of the EU governing the ports and management thereof:

1. Regulation (EU) 2017/352 of the European Parliament and of the Council of 15 February 2017 establishing a framework for the provision of port services and common rules on the financial transparency of ports.
2. Regulation (EU) No 1315/2013 of the European Parliament and of the Council of 11 December 2013 on Union guidelines for the development of the trans-European transport network and repealing Decision No 661/2010/EU.
3. Regulation (EC) No 725/2004 of the European Parliament and of the Council of 31 March 2004 on enhancing ship and port facility security.
4. Directive 2005/65/EC of the European Parliament and of the Council of 26 October 2005 on enhancing port security.

Listing of the aforementioned laws and regulations include only the most significant laws and regulations of the European Union (EU), the Republic of Latvia and Riga local government affecting the operation of the FRA.

1.2. Framework of Planning Documents

Table No 1 and No 2 provide a summary review of the key policy planning documents of the EU and the Republic of Latvia in relation to the development of the large ports of Latvia (Freeport of Riga, Freeport of Ventspils, Klaipeda Port), accentuating the development of the Freeport of Riga.

Table No 1

Summary of the Key Policy Planning Documents of the EU.

Document	Planning period	Objectives, tasks and activities concerning the operation of ports
EC White Paper on Transport "Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system"	2011–2050	EU long-term transport policy planning document. The objective of the EU transport policy is to establish a competitive and sustainable transport system before 2050. The following criteria apply to the defined criteria for ports: 1 Optimising the performance of multimodal logistic chains, including by making greater use of more energy-efficient modes. Several planned measures apply to maritime transport: • 50% of the cargo transport by road, the transportation distance of which exceeds 300 km, are transferred to railway or water transport, at the same time developing the required infrastructure before 2050; • Fully functional TEN-T core network established before 2030 (the Freeport of Riga is part of the TEN-T core network); • Ensuring sufficient connection of all key sea ports with the railway freight transport system (Latvian public-use railway section Daugavpils, Rēzekne–Riga is part of the TEN-T core network), where possible, with an inland waterway system, before 2050. 2 Enhancing transport and infrastructure use efficiency by information systems and market-based initiatives (introduction of air traffic control, as well as land and water transport control systems, for example, ship Long-Range Identification and Tracking System or LRIT).
European Union's strategies for the Baltic Sea region 2030	2009-2030	3 general strategic goals: • To preserve the sea; • To connect the region (transport sector is subject to the sub-objective “Good Transport Connections”); • To increase prosperity. Areas of cooperation essential for Latvia (pursuant to the national position of Latvia, approved by the Cabinet on 18.08.2009) related to ports: • Coordinated development of the TEN-T network and connections thereof to the neighbouring countries of the EU; • Increasing the competitiveness of logistics services; • Providing capacity of the external border of the EU. For the purposes of development of sustainability of the Baltic Sea region, the strategy provides for the implementation of the “green corridor” concept, which forms an essential part of this area of transport policy.
Commission Report “Ports – Driving Force of Growth” (EU Port Strategy)	2013-2030	The document includes six tasks, two of which are the main ones: 1 Connection of ports to the European network. Modernisation of state support before the end of 2013. Note: On 17 June 2014, the Commission Regulation (EU) No. 651/2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty entered into effect. This Regulation stipulates significant exemptions for the construction of port infrastructure by stipulating that the assigned public financing (state aid) is compatible with the EU internal market and is not to be notified to the European Commission (EC). 2 Attraction of investments to ports EU financing is intended for investment projects according to the transport corridor development plans, including the TEN-T development guidelines. Priority for inter-modal projects, which enhances coordinated management and development of ports, railway and inland waterway infrastructure.

Table No. 2

Summary of the Key Policy Planning Documents of Latvia.

Document	Planning period	Objectives, tasks and activities concerning the operation of ports
Sustainable Development Strategy of Latvia Until 2030	2010-2030	Key national long-term policy planning document including all sectors of national economy. Two priorities are applicable to the operation of ports: • Priority 4 “Innovative and Eco-Efficient Economics”; • Priority 6 “Spatial Development Perspective”. Within the context of the port development, Latvia 2030 provides for the development of transport infrastructure for the use of environmentally-friendly transport, but the key accent is on the spatial development perspective enhancing the external accessibility of Latvia. The development of the TEN-T infrastructure plays a significant role in the enhancement of external accessibility. The development of such infrastructure provides an opportunity for Latvia to develop as a significant transit state both between Asia, Russia and the EU, and in terms of the EU's internal trade between Northern Europe and Eastern Europe.
National Development Plan of Latvia for 2014–2020 (NDP2020)	2014–2020	Key national medium-term planning document. The development of ports is included in Priority 1 "Growth of the National Economy", area of action 2 "Outstanding Business Environment". The objective of Priority 1 is the sustainable growth of the Latvian economy with growing competitiveness in international markets. Whereas, one of the objectives of the area of action 2 is to ensure the international accessibility of Latvia. An indicator of the achievement of the objective of action 2 applicable to ports, is the growth of cargo turnover in the large ports of Latvia (Riga, Ventspils and Klaipeda). • 67.4 million tons (base value, 2011); • 80 million tons (2014); • 98 million tons (2017); • 116 million tons (2020).
Transport Development Guidelines 2014–2020	2014–2020	Medium-term transport policy planning document. The objective of the transport policy of Latvia is a competitive, sustainable, co-modal transport system, which provides high quality mobility through efficient use of resources, including EU funds. The priority of the guidelines 2020 in the area of port development: Maintenance and improvement of the competitiveness of the transport corridor of Latvia maintaining the role of transit in Latvia in the East–West transport corridor, integrating into the single transcontinental multi-modal transport corridors, offering high added-value services, increasing the cargo volumes to be handled and attracting new cargo flows, including cargoes with higher added-value, maintaining stable fee for the use of public-use infrastructure under the circumstances of variable cargo traffic volumes by using the multi-annual contract mechanism provided for in the Railway Law.
Latvian Port Development Programme 2014–2020	2014–2020	Medium-term development planning document, which stipulates objectives of development, key performance areas of Latvian ports and priorities for the achievement thereof. The objective of the programme is the maintenance and retention of highly developed ports complying with international standards, which have been integrated into the single transcontinental multi-modal transport corridors through successful operation by offering high added-value services and ensuring high quality passenger service. Seven performance areas and eight results to be attained have been determined for the achievement of the objective of the development programme, including the provision that the volume of cargoes handled in the ports of Latvia is the highest among the Baltic States. Performance areas for the achievement of the objective of the programme directly concerning the development of the Freeport of Riga: • Promotion of provision of higher added-value services and the creation of new jobs, as well as the creation of favourable conditions for the development of industry in the industrial areas of port; • Further development of modern port complexes and cargo terminals with developed adjacent infrastructure in Latvian ports, which enable provision of good quality and competitive conditions for the manufacture, handling and storage of cargoes; • Provision of the development of Latvian ports according to contemporary safety and environmental protection requirements, as well as consideration to residents who reside in the territories adjacent to the ports; • Stimulate the development of passenger and Ro-Ro transport lines by investing in the required port infrastructure and developing favourable port due policy. Objectives and performance areas of the Freeport of Riga mentioned in the development programme for Latvian ports correspond to the Freeport of Riga Development Programme 2009–2018. The objective of the Freeport of Riga is to be the leading port in the Baltic States and a significant source of economic welfare of Latvia.

Sustainable Development Strategy of Riga until 2030	2014-2030	Long-term spatial development planning document of Riga local government including vision of long-term development, strategical objectives, perspective of spatial development and development priorities of the local government. Development of the Freeport of Riga has been included in the IM4 "Riga – Internationally Recognisable, Significant and Competitive Metropolis of Northern Europe". 19 performance areas have been determined for the achievement of the long-term development objectives of Riga city, including 17th development direction RV17 "Growing Multi-profile Port". Detailed layout of performance areas is provided in the Riga Development Programme 2014–2020.
Riga Development Programme 2014–2020	2014–2020	Medium-term development planning document of Riga local government, which stipulates medium-term priorities, and the body of measures for the achievement of the objectives set in the Riga Sustainable Development Strategy Until 2030. Expected values of the fourth long-term objectives in 2020 concerning the operation of the Freeport of Riga: • Annual passenger turnover at the Port of Riga 1.5 million; • Annual cargo turnover at the Port of Riga 49 million. Priorities of the 17th performance area: • Port infrastructure development; • Port image promotion; • Covered coal handling; • International scale cooperation for the port development and enhancement of employment. The following tasks have been set for the implementation of the aforementioned priorities: • Improvement of capacity of navigation ways and the infrastructure related thereto; • Enhancement of the development of port companies; • Enhancement of the development of industrial and logistics centre in the Freeport territory; • International promotion of the capabilities of the Freeport of Riga; • Cooperation with the neighbourhoods adjacent to the port.

1.3. Procedures for the Implementation and Update of the Freeport of Riga Development Programme 2019–2028

The *FRDP 2019–2028* has been prepared for a period of ten years, and, pursuant to the *Characterisation of the Freeport of Riga*, *Market Analysis*, *Cargo Turnover Forecasts,* as well as *SWOT analysis*, a development strategy of the Freeport of Riga has been determined therein, thus setting strategic objectives and drawing up the *Strategic Action Plan*.

The Strategic Action Plan determines the main activities to be performed as a priority for the achievement of the strategic objectives. In order to determine in detail activities to be performed, performance schedule and the required resources, the FRA will draw up individual medium-term *Action Plans*.

The First Action Plan will be prepared in 2019 for a period of four years (2019 – 2022). The *FRDP 2019–2028* stipulates several new performance areas of the FRA, therefore, a preparation period for the planning of actions will be necessary. Furthermore, in 2019, the new RSP 2030 will enter into effect, which may introduce changes in aspects related to the use of the territory of the Freeport of Riga and which will have to be coordinated with the *FRDP 2019–2028*. The following two Action Plans will be prepared for 3 year periods each, thus spanning the entire period of the *FRDP 2019–2028*.

Figure No 2

Procedures for the implementation of the FRDP 2019–2028.

* Coordination with the National Development Plan, Transport Development Guidelines, Development Programme for the Ports of Latvia and Riga Development Programme

Within the framework of each *Action Plan,* a corresponding Financing Plan including costs of activities, sources of financing, as well as information on the economic justification of investments will be prepared. In 2022 and 2025, during the preparation of *Action Plans* for the following period, assessment of the implementation process of the *FRDP 2019–2028* will be performed, and, if necessary, the *FRDP 2019–2028* will be updated.

During the development of the *Action Plans,* the FRA will assess other national and municipal planning documents, which are to be directly applied to the Freeport of Riga and to be updated or re- written during the validity period of the *FRDP 2019–2028*, including the *National Development Plan of Latvia* (current document is valid from 2014 to 2020), *Transport Development Guidelines of Latvia* (2014–2020), *Port Development Programme of Latvia* (2014–2020), as well as the Riga Development programme (2014–2020). The aforementioned planning documents for the next operational periods may include conditions, which will necessitate the updating of separate strategic goals and performance areas of the *FRDP 2019–2028*. Upon establishment of such a necessity, appropriate changes will be made to the *FRDP 2019–2028*.

1.4. Process of Drawing up of the Freeport of Riga Development Programme 2019–2028

The FRDP 2019–2028 was developed in 2018. The *FRDP 2019–2028* was developed by the FRA Work Group in cooperation with sectoral experts and advisers, including:

- Experts of the transport sector of the *Port of Rotterdam International* (advisory structural unit of the Port of Rotterdam) conducted a market analysis and developed a forecast for the cargo flow in the Freeport of Riga for the next decade (with the perspective long-term vision for 20 years);
- Advisers LLC (SIA) "Grant Thornton Baltic" in cooperation with the FRA Work Group formulated the *FRDP 2019–2028*, as well as involving local experts LLC (SIA) "Ardenis", the law firm "Nordic Legal", LLC (SIA) "Firma L4" and organised and managed execution of their work within the framework of the development of the *FRDP 2019–2028*.

During the development of the *FRDP 2019–2028,* a comprehensive analysis of the performance of the FRA and the Freeport of Riga and summarization of the performance indicators was performed, interviews were conducted with the responsible specialists of the FRA and representatives of the Freeport of Riga companies, "brain storm" meetings were organised with the representatives of the advisers and the FRA Work Group, there was an overview of the laws and regulations affecting the operation of the Freeport of Riga and policy planning documents of the EU, the Republic of Latvia and Riga city local government were prepared, compliance with the performance indicators of the *FRDP 2009–2018* was summarized, market analysis was conducted and a cargo flow forecast for the next decade was prepared, mission, vision and strategic objectives of the FRA were defined, and a Strategic Action Plan for the achievement thereof was developed, and a Strategic Financial Plan was prepared.

During the development of the *FRDP 2019–2028,* the following surveys were conducted, the conclusions and recommendations summarised in which determine the *FRDP 2019–2028*:

Riga Development Plan Update. Market Analysis and Scenario Forecasts (POR, 2018);

Overview of the Environmental Condition and Environmental Protection Measures in the territory of the Freeport of Riga in relation to the development of the Freeport Development Programme (LLC (SIA) "Firma L4", 2018).

FREEPORT OF RIGA AUTHORITY

Port of Rotterdam

Advisers of the Port of Rotterdam International

Grant Thornton
An instinct for growth

Advisers of the LLC (SIA) "Grant Thornton Baltic" together with the LLC (SIA) "Ardenis", law firm "Nordic Legal", LLC (SIA) "Firma L4"

2. Implementation of the Freeport of Riga Development Programme 2009–2018

The *FRDP 2009-2018 was approved on 19 May* 2009. Strategic goals of the programme, key performance indicators and key achieved results for the period from 2009 to 2017 are given in Table 3.

Table No 3

Overview of the implementation of the strategic objectives of the FRDP 2009–2018 during the period from 2009 to 2017.

Strategic objective	Key performance indicators	Key achievements
SO1: To organise operation of the port in accordance with the laws and regulations of the Republic of Latvia	• Legal framework of the Freeport of Riga has been drawn up. • Operation of the Freeport of Riga Authority complies with the standard requirements of quality and environmental management.	• The Freeport of Riga Authority has been certified according to the quality management standard ISO 9001 and according to the environmental management standard ISO 14001. • Electronic systems for the document circulation and management processes (ELDIS, OCEM, HORIZON, single pass system etc.) have been implemented at the Freeport of Riga Authority. • Solutions for the information exchange between the port companies (annual surveys, monthly statistical reports etc.) have been implemented.
SO2: To ensure a competitive and transparent tariff policy, as well as maximise returns, whilst enhancing competitiveness of tariffs in the market	• Comparative assessment of the fees of the Port of Riga with other ports located on the Eastern coast of the Baltic Sea. • Proportional growth in revenue generated by the lease of land and real estate in comparison with the growth in revenue generated by port dues.	• Port dues applicable in the Port of Riga are competitive with the remaining ports located on the Eastern coast of the Baltic Sea; during the period of the Development programme, tariffs of port dues have been increased just once. • Fee determination methodologies have been developed for all services provided by the FRA, thus guaranteeing application of single principles to all customers.
SO3: To provide customers of the Freeport of Riga with the road, rail and waterway infrastructure	• The parameters of the shipping channel ensures the safe service of ships calling at the Port of Riga. • Port infrastructure is compliant with the handling of cargo flow.	Most significant projects implemented during the period of the Freeport of Riga Development Programme 2009–2018: • Development of Infrastructure on Krievu Island for the Transfer of Port Activities from the City Centre (development of the territory, reinforcement of coasts, four berths of a total length of 1.2 km, land access roads of 5.2 km, rail access roads of 11.0 km, engineering networks and administrative buildings). • Dredging of the port shipping channel and reconstruction of the access channel for the entry of ships into the port (leading line Daugavgrīva–Rīnūži has been dredged to 16.0 m; leading line of Mangaļi area to 15.5 m; leading line Mangaļi–White Church to 14.5 m; Passenger port access area to 10.5 m). • Modernisation of the railway park "Kundziņsala", construction of land and rail access roads to the territories of Kundziņsala terminals. • Development of the technical design of the port Eastern and Western breakwater. • Building of 11 new berths (FRA and stevedores) of a total length of 2.5 km).
SO4: To increase the turnover of cargo and number of passengers at the port thus increasing the port's market share in the Eastern region of Baltic Sea in terms of total cargo turnover	• Increase in handling capacity of various types of cargoes. • Increase in cargo and passenger turnover.	• Total handling capacity of the port terminals has increased from 45 million tons in 2009 to 63 million tons in 2018. • Cargo turnover of the port has grown on average by 1.8% annually since 2009 (considering the cargo turnover forecast for 2018) and exceeds the forecast of the prudent scenario included in the *FRDP 2009–2018*. • Number of passengers handled at the port has grown on average by 6.5% annually since 2009. • With the market share of 24%, the Freeport of Riga was the second largest port after Klaipeda port in 2017. • The Freeport of Riga maintains the status of the fifth largest port in the region (on the eastern coast of the Baltic Sea) with the market share of 8.1% in 2017. • Riga is the second largest bulk port in the region after Ust-Luga port in Russia. • In the segment of container cargo the share of the Port of Riga in the eastern coast region of the Baltic Sea has grown from 6.4% (2009) to 9.8% (2017).
SO5: To guarantee safe entry/exit of ships (incl. Panamax and larger), reducing the number of shipping related accidents.	• Suitable shipping equipment for the protection of humans and the environment for the activities with floating equipment in a limited port basin. • Number and proportion of Panamax and larger ships entering the port. • Number of shipping related accidents.	• Shipping equipment used at the port complies with the international requirements and safe handling of ships. • During the reporting period, modernisation of the Maritime Traffic Control Centre (STCC) equipment has been completed (portable equipment for ship pilots, IT solutions for the simulation of maritime traffic and hydro-dynamic stream modelling • etc.). • Proportion of the Panamax and larger cargo ships (DWT>60 000 t) calling at the port has grown from 2.8% (2009) to 5.6% in 2017. • From 2015 to 2017, on average one shipping related accident has been registered annually, however, the reason for these accidents has never been non-compliance of the port infrastructure or services.

SO6: To create a safe environment at the port, strengthen customers' assurance of the port as a secure location, guarantee protection of the port infrastructure and provision of good quality services in the port and the basin	• Installed safety systems. • Inspections of dangerous and polluting cargo terminals and private berths have been ensured. • Compliance with the fire safety and civil defence regulations in the port.	• In 2011, the Port Police Service was established, which has been determined as the protection institution of the Freeport of Riga Authority according to the requirements laid down in the Directive 2005/65/EC of the European Parliament and of the Council of 26 October 2005 on enhancing port security. • In 2018, the Port Internal Security Service was established, which monitors compliance with the requirements laid down in the International Ship and Port Facility Security (ISPS) Code in the port. • Structural units of the Freeport of Riga Authority ensure regular surveillance of the territory, control of movement of persons and vehicles, monitoring of circulation of dangerous goods, vessel traffic control, controls of compliance of the terminals and berths and other activities.
SO7: To decrease negative environmental impact of the operation of the port and new development projects	• Number risk control and monitoring points in the port territory. • Maintained biodiversity and ensured compensation for losses.	• Four dust monitoring stations (PM_{10} particles), including two on Krievu Island, and three volatile organic compound monitoring stations are operated in the port territory. • 20 new territories have been included in the groundwater monitoring network. • Seven pollution detectors in the basin have been installed. • In 2011, the Port Police Accident Response Unit was established, which controls the liquidation works of the consequences of pollution. • In 2017, the project implemented within the framework of Latvian-Swiss cooperation programme "Remediation of Historically Polluted Areas in Sarkandaugava Territory" was completed. • Development of Kundziņsala residential district drainage project. • Anti-noise wall between Kundziņsala residential district and the railway was put into operation in 2015. • Regular monitoring of nesting water birds in the nature reserves “Krēmeri”, “Mīlestības saliņa” and on Žurku Island has been performed, and measures for habitat improvement have been implemented at the nature reserve “Krēmeri”.
SO8: To strengthen the port as a socially responsible institution	• Number of events organised and supported by the Freeport of Riga Authority for the residents of the city. • Number of educational activities organised and supported by the Freeport of Riga Authority.	• In 2017, the Freeport of Riga Authority Corporate Social Responsibility Policy, Communication Policy and Social Media Strategy were drawn up within the framework of *the Freeport of Riga Marketing Strategy 2017–2019*; the aforementioned forms the structure of communication, directions, content and messages for the activities implemented by the FRA in relation to communication and cooperation with the media, Latvian society, residents of Riga and the port neighbourhoods, social organisations and other target audiences. • The volume of information published in mass media regarding the topicalities concerning operation of the FRA and the port was 6100 articles/ video stories in 2017. • Port profile on the online social network website Facebook has become a stable information exchange platform (number of good quality followers has grown to 1,600 in two years since the creation of the profile). • The communication process has been improved, with regular cooperation with societies of the port neighbourhoods (Vecmīlgrāvis, Sarkandaugava, Mangaļsala, Kundziņsala) and non-governmental organisations, including joint participation in the Big Clean Up. • Support to significant social, educational, cultural and sports events (Pride of Latvia" [“Latvijas lepnums”], "Port Celebration" [“Ostas svētki”], competition for students "Port for the City" [“Osta pilsētai”] etc.).
SO9: To attract new customers to the Freeport of Riga in the groups of all types of cargoes, as well as to maintain and create recognition and a positive image of the Freeport of Riga	• Improvement of the image of the Freeport of Riga and the Freeport of Riga Authority, increase in awareness of residents. • The Port of Riga is represented at significant local • and international sectoral events and organisations. • Number of new projects and new companies in the Port of Riga. • Regular publications on the operation of the port in local and international sectoral media. • Updated information on the operation of the port published on the website.	• In 2013, the Freeport of *Riga Marketing Strategy*, which defines the framework of the marketing activities implemented by the Freeport of Riga Authority, was developed. The Marketing Strategy is updated every three years, the current revision is valid from 2017 to 2019. • The FRA implements activities of external marketing in close cooperation with port companies. Every year, representation of the Freeport of Riga is ensured in the most important (10–12) sectoral exhibitions of cargo traffic, logistics, as well as the cruise industry providing updated information on port services. • Ensured single identity information materials of the Freeport of Riga (printed, electronic, audio, video etc.), available to cooperation partners, port companies, embassies, public and municipal institutions and other interested persons. • Three new companies have commenced operation at the port: - LLC (SIA) “Riga fertilizer terminal” fertilizer handling and short-term storage terminal (2013); - Establishment of the LLC (SIA) “Riga Bulk Terminal” multi-functional bulk (food and non-food) terminal at Kundziņsala to service export and import cargoes (2014); - LLC (SIA) “TFS Trans” high-shelf warehouse cargo storage and sorting logistics centre at Kundziņsala (2017). • Positive ratings in all positions were gained in the survey on the image of the Freeport of Riga in 2015.

Source: FRA

3. Characterisation of the Freeport of Riga

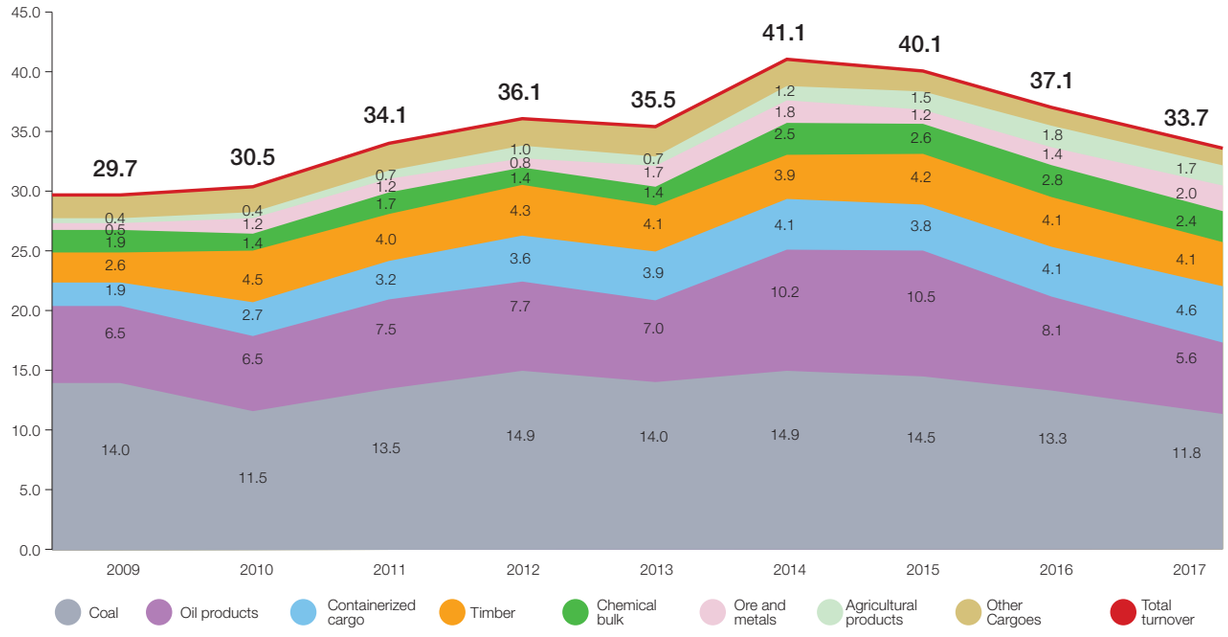
3.1. Review of Economic Activity of the Freeport of Riga

3.1.1. Cargo Turnover

Riga is a multi-functional port, which handles all types of cargoes. In terms of volume, the most important types of cargoes in the period of the last 10 years are – coal, oil products, container cargo, various timber, bulk chemicals , metals, agricultural products, as well as construction materials and Ro-Ro cargo. Cargo turnover indicators have varied during the validity period of the *FRDP 2009–2018*. From 2009 to 2014, total volume of cargoes handled in the port gradually increased reaching 41.1 million tons (highest cargo turnover in the history of the Freeport of Riga). Since 2015, along with the decrease of transit of energy resources, total volume of cargoes handled in the port has decreased (see Figure 3). In general, from 2009 to 2017, cargo turnover increased on average by 1.5% annually exceeding the minimum cargo turnover forecast for this period included in the *FRDP 2009–2018*.

Figure No 3

Cargo turnover of the Freeport of Riga (million t) during the period of the FRDP 2009–2018.



Source: FRA

The structure of the cargoes handled in the Freeport of Riga has changed during the period of the *FRDP 2009–2018*. The proportion of coal and oil products has decreased and accounted for half (52 %) of the total turnover in 2017 (in 2009 – 69%). At the same time, the proportion of container cargo has grown to 14% in 2017 (in 2009 – 6%), the proportion of agricultural products has also grown (from 1.2% in 2009 to 4% in 2017) and the proportion of metal cargoes (from 1.7% in 2009 to 6% in 2017).

Transit cargoes accounted for 75–80% of the total amount of cargoes of the Freeport of Riga during the period of the *FRDP 2009–2018,* but the proportion decreases during the last years. The Freeport of Riga mainly serves maritime cargoes, which accounted for 85–90% of the total cargo turnover from 2009–2017.

The total annual handling capacity of the Freeport of Riga terminals is 63 million tons, and spare handling capacity is available in all cargo segments (see Table 4).

Table No 4

Handling capacity of the Freeport of Riga terminals (million t annually) and utilised capacity (%) by cargo segments in 2017.

Cargo segment	Handling capacity	Cargo turnover	Utilised capacity (%)
Bulk	35	21	60 %
Bulk liquid	14	6	43 %
General cargoes	6	2	33 %
Container Cargoes	8	5	63 %
Total	**63**	**34**	**54 %**

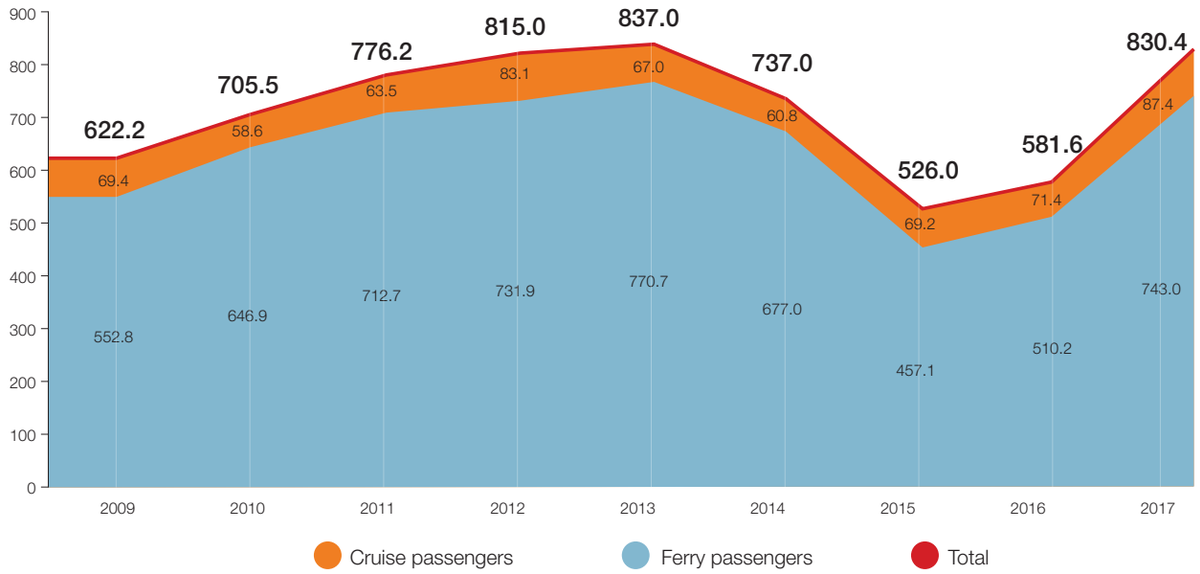
Source: FRA

3.1.2. Passenger transport

The total number of passengers handled by the Freeport of Riga in 2017 was 830.4 thousand. (See Figure 4.). 90% of them were ferry passengers. Since 2011, regular services in the Freeport of Riga are offered by one ferry line the Riga–Stockholm route, a two ferry system operated in 2018.

Figure No 4

Number of the passengers handled by the Freeport of Riga (thousand passengers) in 2009–2017.



* Decrease in the number of passengers in 2014–2016 was related to decrease in the number of ferries on that route

Source: FRA

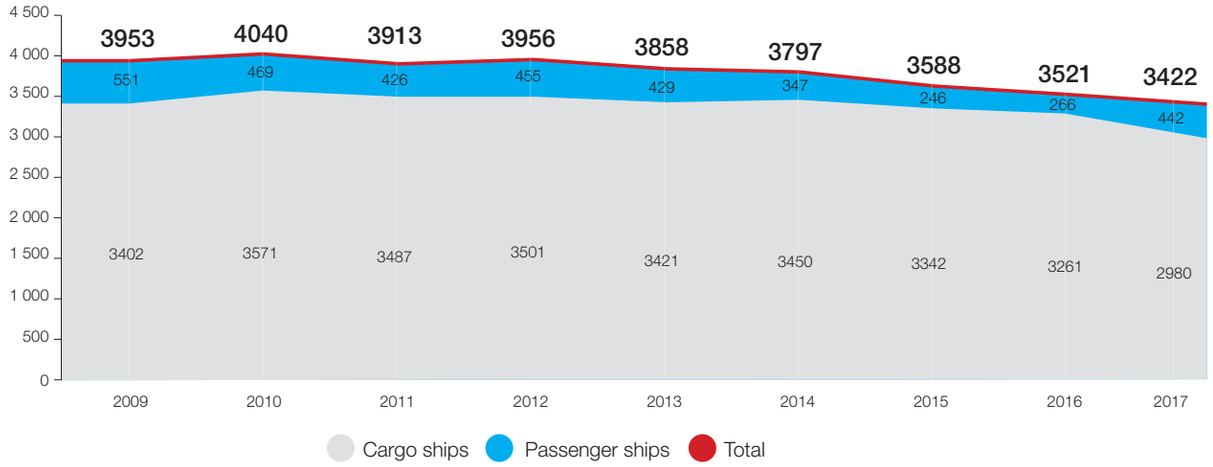
Cruise tourists arrive in Riga from more than 100 countries worldwide. The cruise business is typically subject to cycle, which affected the number of cruise ships and passengers in the Freeport of Riga from 2009 to 2017. In 2017, 86 cruise ships entered the port bringing 87.4 thousand cruise tourists to Riga. This is the highest number of cruise passengers in the last decade. The Freeport of Riga is currently included in the cruise routes as one of the stops of the Baltic cruise routes, but it is not the port of departure/destination of cruise journeys.

3.1.3. Maritime Traffic

From 2009 to 2016, more than 3,500 ships have been handled in the port annually (see Figure 5), however, the number of merchant ships has decreased (3,422 ships were handled in 2017). This can be partially explained by the growth of gross tonnage of the ships, since the number of cargo ships has decreased on average during the reporting period by 1.1% annually, at the same time, average tonnage (GT) has grown in all groups of ships (except for tankers).

Figure No 5

Number of cargo and passenger ships handled in the Freeport of Riga in 2009–2017.



Source: FRA

Dredging of the shipping channel, as well as construction of two deep-water pile berths for additional loading of ships has allowed Riga to accommodate larger ships. During the reporting period, the proportion of heavy tonnage cargo ships (GT above 50,000 t) has doubled, and, in 2017, it accounted for 7.2% of all the cargo ships handled in the port.

Every year, more than 500 cargo ships enter the port within the regular container traffic lines. In 2018, 7 regular container lines (*Containerships*, *Hapag Lloyd AG*, *Maersk/Seago Line*, *Mediterranean Shipping Company (MSC)*, *Unifeeder*, *Poland Finland Express-2* (COSCO) and *X-Press Container Lines*) operate in the Freeport of Riga. The Freeport of Riga has regional importance in liner traffic due to the fact that cargo is shipped only within the Baltic Sea and Central Europe, mostly being short sea and feeder shipping.

3.2. Port Territory and Use Thereof

The territory of the Freeport of Riga covers 6,348 ha, which consists of 1,962 ha (31%) of land and 4,386 ha (69%) of the port basin and outer road.

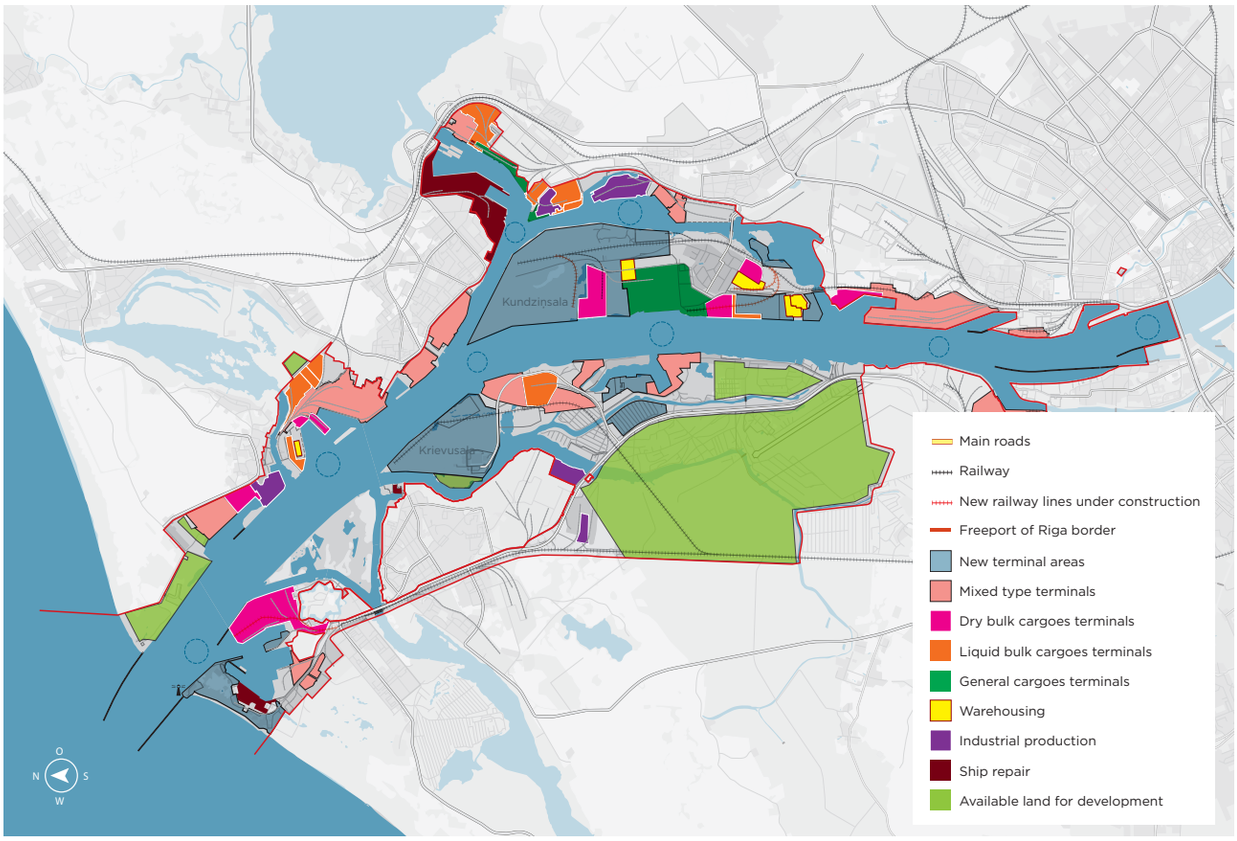
The majority of the currently actively used territory of the Freeport of Riga is located on the right bank of the River Daugava, where handling and storage of all types of cargoes takes place, as well as industrial activity (ship building and repair, fish processing etc.). Closer to the city centre – in the vicinities of Eksportosta and Andrejsala – cargo handling is being performed also beyond the boundaries of the Freeport of Riga; the only specialised passenger ship service terminal is located on Andrejsala. Port companies, which operate on the right bank of the River Daugava, provides for approximately 90% of the port's total cargo turnover.

A comparatively smaller part of the currently actively used territory the Freeport of Riga is located on the left bank of the River Daugava. During the period of the *FRDP 2009–2018,* Krievu Island has been significantly developed, where the FRA has implemented the investment project “Development of Infrastructure on Krievu Island for the Transfer of Port Activities from the City Centre” by creating a multi-functional infrastructure of bulk terminals. As a result of the project, the complete transfer of coal handling from Eksportosta to Krievu Island, as well as complete discontinuation of cargo handling on Andrejsala is planned for 2019.

Several industrial companies also operate in the territory of the Freeport of Riga (Sarkandaugava, Jaunmīlgrāvis, Daudersala, Vecmīlgrāvis, Mangaļi, Bolderāja), whereas, yacht harbours have been arranged in separate comparatively small territories – Ķīpsala, Andrejsala, Bolderāja and Mangaļsala (see Figure No 6).

Figure No 6

Current use of the territory of the Freeport of Riga
(division by terminals and other types of lessees)



Source: FRA

There are territories in the Freeport of Riga, which are not used to perform port functions – specially protected natural territories (the nature reserve "Krēmeri" and the reserve area "Mīlestības saliņa" of the natural park "Piejūra"), as well as historical structures Komētforts at Mangaļsala and Daugavgrīva. Furthermore, there are several areas in the Freeport of Riga, which are not used for economic activity – allotments at Voleri and Beķermuiža, as well as the low-storey residential development territory at Kundziņsala, Voleri and Mangaļsala. The natural protected site covers ~75 ha, while the residential districts form

~45 ha of the land area of the port. The Freeport of Riga is located in the city, therefore it borders on residential districts at many sites. A significant aspect for the operation of the FRA and port companies is to decrease the impact caused by the economic activity of the port on the residents of the neighbourhoods and the environment.

Wide non-leased areas are available in the Freeport of Riga (mainly on the left bank of the River Daugava) (at Spilve meadows, Voleri, Beķermuiža and Mangaļsala), however, use for economic activity is related to large-scale investments both for the preparation of territories (including engineering preparation of the territory, building of transport and communication infrastructure), and for legal arrangements (for example, part of the territories is covered by allotments).

Historically, zoning of the territory by the type of use is not typical for the Freeport of Riga – bulk liquid , bulk, general cargo terminals and manufacturing companies are not arranged together, but spread in various districts of the port on both banks of the River Daugava. Furthermore, the majority of companies can be classified as multi-functional cargo terminals, suitable for handling various cargoes.

3.3. Infrastructure within the Ownership and Possession of the FRA

3.3.1. Hydrotechnical Structures

The entirety of hydrotechnical structures (including breakwaters, moles, coast reinforcements, berths etc.) ensuring handling of ships in the Freeport of Riga are in the possession of the FRA. Dams, berths and coast reinforcements located in the basin of the River Daugava form a single coast reinforcement system. Requirements for the maritime safety are implemented in accordance with the *Regulations of the Freeport of Riga,* which provide for conditions for the hydrotechnical structures of the basin with regard to shipping safety and navigation.

Breakwaters

The entrance to the Freeport of Riga consists of Eastern Breakwater and Western Breakwater. The length of the Western Breakwater is 866 m, whereas, the length of the Eastern Breakwater (including coastal dam) is 2,214 m. Taking into consideration the age and depreciation of the breakwaters, reconstruction of both breakwaters is required. So far, engineering, geological, as well as a topographical survey of the breakwaters has been conducted, and technical designs of the reconstruction of the Eastern Breakwater and Western Breakwater have been drawn up.

Berths

The Freeport of Riga has 120 berths for cargo handling (including 86 berths in the ownership or possession of the FRA and 34 private berths), and six small craft and yacht berths (including two berths in the ownership or possession of the FRA and 4 private berths). Furthermore, 7 berths are closed due to poor technical condition. The total length of berths intended for cargo handling is 18.17 km, and the port can handle ships of a maximum length of up to 300–320 m, the maximum draught at the berth is 15 m (berth ZO-18).

Investments in the development of berth infrastructure are made both by the port companies and the FRA. In total, 11 new berths (total length of 2,536 km), including two deepwater pile berths used for additional loading of ships, have been built during the period of the *FRDP 2009–2018*.

Several berths are in poor technical condition at the moment, and they require capital repair or reconstruction. However, financing available to the FRA for the maintenance of berth infrastructure is not sufficient.

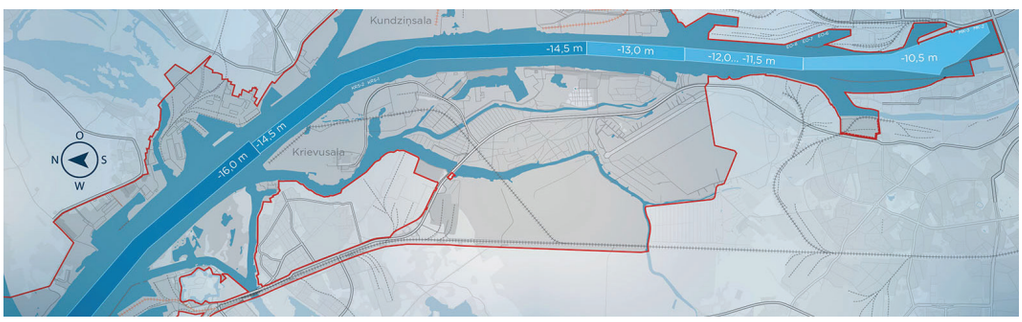
Shipping Channel

The length of the main shipping way of the Freeport of Riga from the acceptance buoy “B” (on the outer road of the port in Riga Gulf) to Vanšu Bridge is 20.85 km, and the width of the channel is 100 m. Shipping in the territory of the port basin takes place also in the Sarkandaugava Channel and the Mīlgrāvis Channel, where the width of the channel is up to 80 m.

During the period of the *FRDP 2009–2018,* the RBP has made investments both in the dredging of the main shipping way and dredging works of access ways of individual berths: The leading line Daugavgrīva–Rīnūži has been dredged to 16.0 m; dredging depth in the area of the leading line Mangaļi is 15.5 m; the leading line Mangaļi–White Church has been dredged to 14.5 m, while the Passenger port access area – to 10.5 m. The depth map of the main shipping way is depicted in Figure 7.

Figure No 7

Main shipping way depths.



Source: FRA

Draught varies in different port areas according to the depth of the main shipping way (see Figure 7 and Table 5).

Table No 5

Characteristics of the shipping channels of the Freeport of Riga.

Shipping lane area in the port	Maximum draught of ships (m)
From the acceptance buoy “B” to Rīnūži turning basin	-15.0
From Rīnūži turning basin to berth KS-29	-13.2
From berth KS-29 to berth EO-14	-12.3
From EO-14 to entry in Eksportosta basin	-10.1
From entry in Eksportosta basin to MK-4	-8.5
In Mīlgrāvis canal	-9.0
In Sarkandaugava canal to berth SD-3	-9.0

Source: FRA

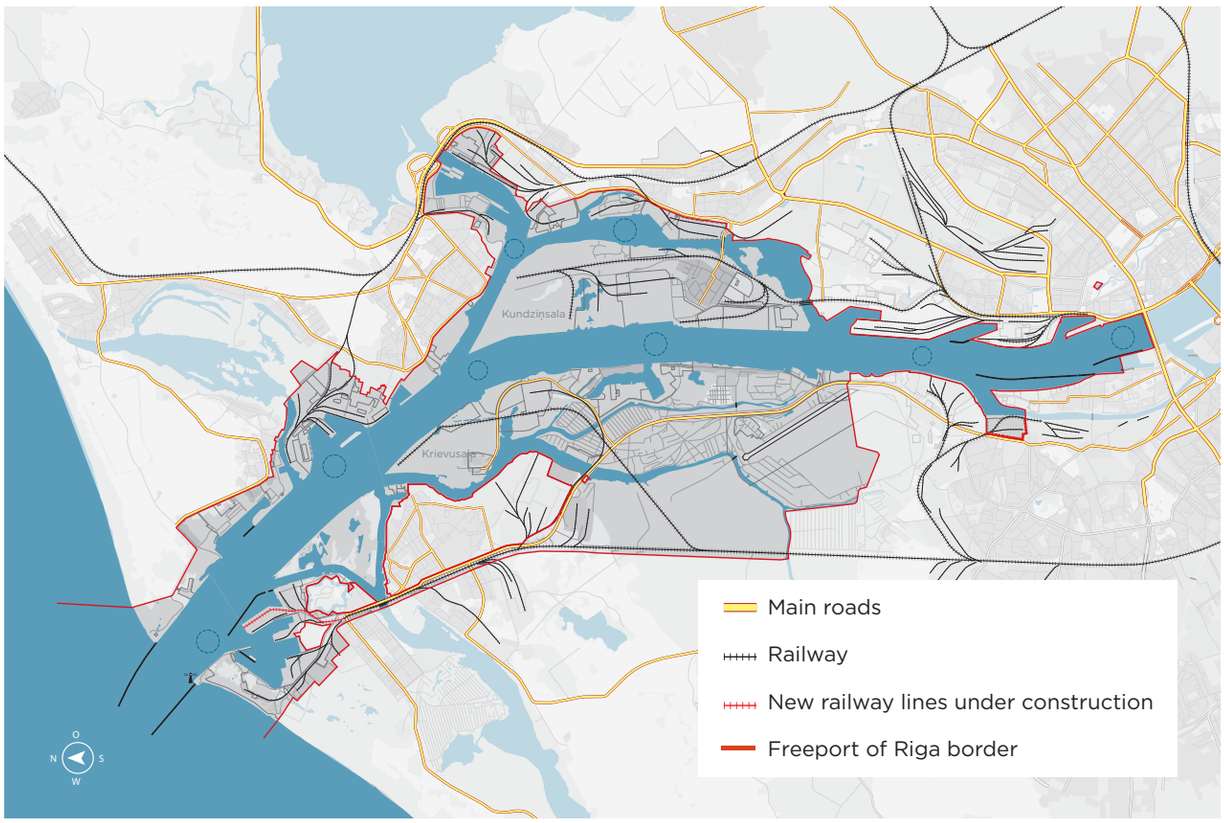
3.3.2. Road Transport Networks and Other Infrastructure

The land infrastructure in the port consists of: transport networks, engineering networks (power supply, water supply and sewerage, gas supply infrastructure, communication networks etc.), as well as security infrastructure (including barriers, access system infrastructure, video surveillance system etc.).

Cargo shipping is ensured along railway and road using the transport network of Riga city (see Figure 8). Furthermore, the railway infrastructure serves approximately 70% of the total cargo turnover of the Freeport of Riga. Conversely, cargo delivery to terminals by road transport is difficult in several districts adjacent to the port due to high traffic intensity and low street throughput.

Figure No 8

Connection of the transport network of the Freeport of Riga with the transport infrastructure of the city (scheme).



Source: FRA

Railway

The railway infrastructure ensures cargo traffic to the following port districts: On the right bank of the River Daugava to Eksportosta, Kundziņsala, Sarkandaugava, Vecmīlgrāvis and Rīnūži and on the left bank – to Krievu Island, Bolderāja and Daugavgrīva.

During the period of the *FRDP 2009–2018, the RBP has developed the railway infrastructure on Krievu Island (built access roads to the length of 11 km, Krievu Island railway park and all the related infrastructure) and in Kundziņsala (built new access roads and modernised Kundziņsala railway park). Port companies have also made investments in the development of the railway infrastructure during the reporting period.*

The railway infrastructure capacity by the port districts is as follows:

- In the direction of Eksportosta and Kundziņsala ~20 million tons annually;
- Total capacity of Mangaļi and Ziemeļblāzma railway stations is ~18 million tons annually;
- In the direction of Daugavgrīva, capacity of Bolderāja railway stations is ~5 million tons annually;
- Handling capacity of the new Krievu Island railway stations is ~20 million tons annually.

Roads

Street and road network in the port territory consists both of city streets and the roads which are in the ownership of the FRA and companies. During the period of the *FRDP 2009–2018, intensive development of the road infrastructure has taken place in two port districts – on Krievu Island (reconstructed Zilā Street, built access roads to terminals) and Kundziņsala (access roads to terminals).*

The FRA is at present implementing the project of a traffic overpass over Sarkandaugava from Tvaika Street to Kundziņsala, which provides for the building of an overpass and related infrastructure (fly-overs, exit roads, connection to the current transport infrastructure,

engineering communications. Implementation of the project was commenced in 2017, and completion thereof is planned before 2023. The new traffic overpass will enable the significant improvement of road cargo traffic to/from Kundziņsala provided that Riga local government will build a traffic overpass over the railway line Rīga-Skulte and provide reconstruction of Tvaika Street.

3.3.3. Cargo Handling Infrastructure

Cargo handling and storage services in the Freeport of Riga are provided by 34 stevedore companies, as well as 9 warehouse companies. Summary of the indicators characterising the main infrastructure is provided in Table 6.

Table No 6

Main characteristics of infrastructure of the Freeport of Riga terminals.

Infrastructure of terminals	Characteristic
Area of open cargo squares	1,894,278 m2
Area of closed warehouses	418,603 m2
Refrigerated storage area	7,800 m2
Refrigerated storage (volume of cargoes)	13.5 thousand t
Capacity of dry bulk silos	217,800 m3
Capacity of liquid bulk tank farm	522,391 m3

Source: FRA

The infrastructure of the port terminals is sufficient for the handling of both the current and additional cargo volumes. Spare handling capacity is available in all cargo segments, but total load of the terminals of the Freeport of Riga is 54 %.

3.3.4. Passenger Service Infrastructure

One specialised sea-bound passenger terminal operates in the Freeport of Riga and is located on the right bank of the River Daugava on Andrejsala, it is arranged in a strategically beneficial position next to the city centre, including Old Riga. The terminal serves passenger ferries and cruise ships, and it is able to accommodate ships with a draught of up to 8.5 m, but cruise ships with a larger draught are moored at the berths on Krievu Island, which are primarily intended for cargo handling. Berths MK-3 and MK-4 of the passenger terminal are able to accommodate ships of a length of up to 300 m (only 1 ship at a time); the Freeport of Riga is able to accommodate two cruise ships of such size only when additionally using the berths on Krievu Island. The capacity of the passenger terminal is insufficient for simultaneous accommodation of large cruise ships.

3.4. Port Management

3.4.1. FRA Status and Functions

The FRA is a derived legal entity of public law, which ensures port management. Functions of the FRA are stipulated by the Law on Ports, and it is operated pursuant to the Law on the Freeport of Riga, By-law of the Freeport of Riga Authority, as well as in accordance with other binding laws and regulations (laws, international treaties approved by the Republic of Latvia, regulations issued by the Cabinet of Ministers and port regulations).

As a body governed by public law, the FRA performs port management with regards to port dues and tariffs, navigation and maritime safety, compliance with security and environmental protection requirements, as well as drafting and approving inner regulatory documents and controlling their fulfilment. As a body governed by private law the FRA signs contracts with commercial companies on business activities within the port territory, plans and implements port infrastructure development, as well as other management functions laid down in the Law on Ports.

The organising structure of the FRA consists of the board with a subordinated executive body. The Board is the highest decision-making body that consists of eight Board Members: 4 delegates from the Riga city local government, who are appointed and removed by a relevant decision of Riga City Council, and four delegates nominated by the Minister for Economics, Minister for Finance, Minister for Transport and Minister for Environmental Protection and Regional Development, who are appointed and removed by the Cabinet of Ministers. Execution of the decisions of the Board is ensured by an executive body, managed by the CEO of the port.

The FRA has been certified according to the quality management standard ISO 9001:2009 and according to the environmental management standard ISO 14001:2005. The foreseen measures and procedures for the quality management and environmental management are directed towards improvement of the performance efficiency of the FRA, satisfaction of customers and achievement of the objectives and policy of the Freeport of Riga, thus improving the competitiveness of the Freeport of Riga.

3.4.2. Property Rights and Management of Real Estate Objects in the Freeport of Riga

Land properties of the state, municipality, as well as private legal entities and individuals are located in the territory of the Freeport of Riga; regardless of their possession, these properties according to the laws and regulations serve to ensure operations of the Freeport of Riga. The FRA has the right of first refusal to the land and other real estate in the territory of the Freeport of Riga, furthermore, the FRA has the right to use the land located in the Freeport of Riga and owned by individuals and legal entities for the needs of port, as well as lease it to merchants, which perform economic activity in the territory of the Freeport of Riga.

The basin of the Freeport of Riga is a state-owned property, transferred to the possession of the FRA. Common-use hydrotechnical structures (breakwaters, stream adjustment dams, breakwaters, coast reinforcements), navigation equipment, navigation devices and shipping ways are owned by the state or municipality in the possession of the FRA. Berths are owned by the state, municipality, FRA, as well as legal entities or individuals.

Buildings, structures, as well as surface and underground engineering communications are owned by the FRA, individuals and legal entities. Construction at the port may be performed only with the coordination of the FRA and according to the requirements of the laws and regulations of the Republic of Latvia.

3.4.3 Licensed Commercial Activity in the Freeport of Riga

Companies of the Freeport of Riga may sign a contract with the FRA on licensed commercial activity with or without application of the free zone regime. According to the procedures laid down in the Law on the Application of Taxes in Free Ports and Special Economic Zones, status of a licensed commercial company enables the company to apply for direct tax relief, licensed commercial companies of the free zone may additionally receive also indirect tax relief. The total amount of direct tax relief may reach 35%–55% of the amount of the investments made in the port territory. Aforementioned conditions of the state support will be applicable to those investments of licensed commercial companies in the port infrastructure, which will be made before 31 December 2035.

During the period of the *FRDP 2009–2018, the number of companies, which have signed contracts on licensed commercial activity, has grown. In 2009, 16 companies performed licensed commercial activity, but, in 2018, permits for licensed commercial activity were issued to 23 companies, including 18 companies which had signed contracts on operations in the free zone regime. Licensed commercial companies include 15 stevedore companies, four warehouse companies, two* tugboat service providers, one bunkering company and one company providing support activities for transportation.

During the period of the *FRDP 2009–2018, licensed commercial companies have invested more than a half (57% or ~*284 million EUR) of the total investments of the port companies. The status of 'licensed commercial company' has been obtained by companies who have built new terminals in the Freeport of Riga during the period of the *FRDP 2009–2018 (LLC (SIA) "Riga fertilizer terminal", LLC (SIA) "Riga Bulk terminal" and LLC (SIA) "TFS Trans").*

3.4.4. LLC (SIA) "Rīgas brīvostas flote"

RBF is a 100% subsidiary of the FRA. It was established in 2010 and is a port service provided in the Freeport of Riga. In accordance with the strategic objectives set by the FRA as a shareholder, RBF performs the following functions:

- Ensures navigation in the basin of the Freeport of Riga during the winter period (ice-breaker services);
- Eliminates consequences of pollution in the basin of the Freeport of Riga, participates in the elimination of consequences in the sea;
- Ensures uninterrupted availability of tugboat services in the Freeport of Riga by leasing its tugboats to the relevant service providers;
- Manages the properties and infrastructure transferred in the ownership and possession of the Freeport of Riga Authority.

The vision of RBF is to become the highest quality technical and economic port service provider in the Baltic States and, through services provided, contribute to the capacity of the Freeport of Riga to take the position of the leading port of the Baltic States. In order to implement the vision, RBF works on the improvement of the quality and efficiency of current services, as well as plans to expand its business model by new services in accordance with the development trends of European-level ports.

Part of the RBP property, which is related to the execution of functions transferred to the FRA, has been invested in the fixed capital of the FRA, and the most significant fixed assets are formed by the technical fleet of the Freeport of Riga – ice-breakers, tugboats, pilot boats, hydrographic ships and other units. Along with taking over of new functions, relevant equipment is also transferred to RBF.

3.5. Financial Management and Tariff Policy

Financial means at the disposal of the FRA may only be used for the management and development of the port and infrastructure, as well as for the implementation of functions of the FRA laid down in the Law on Ports. The FRA manages assets related to the port operation to the amount of 426 million euro. The FRA does not receive state and municipal budget funds (apart from public financing from EU funds for the implementation of infrastructure investment projects).

3.5.1. Operating Income of the Freeport of Riga Authority

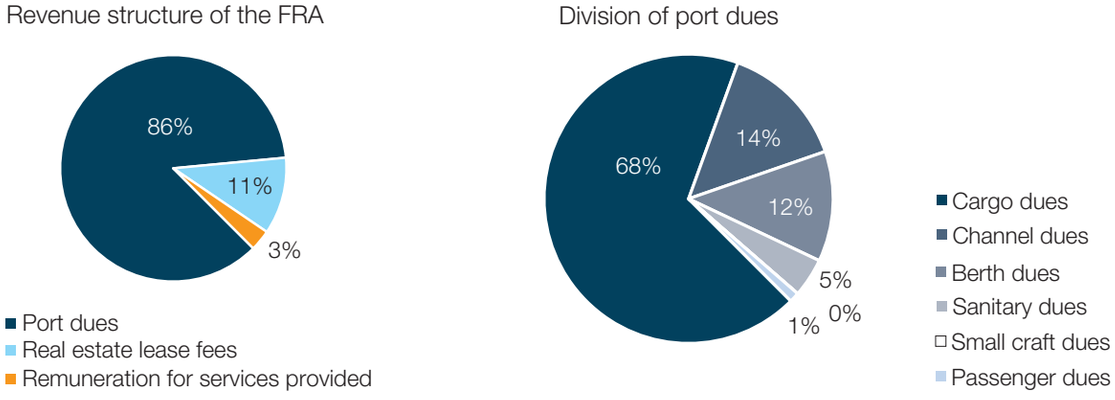
The FRA's revenue (net turnover) is generated by port dues, lease of land and other real estate owned and possessed by the FRA, as well as other services provided by the FRA. The net turnover of the FRA in 2017 reached 44 million EUR.

In 2017, the majority (86%) of income of the FRA was provided by port dues (see Figure 9). Real estate rentals accounted for ~11 % of the total income, whereas, revenue for services provided by the FRA – ~3 % (see Figure 9). The revenue structure of the FRA is stable and has not significantly changed over the years.

The following port dues are applied to ships in the Freeport of Riga: cargo dues, channel dues, berth dues, sanitary dues, small craft dues and passenger dues. The application procedure for port dues is specified in the document "Dues of the Port of Riga". The majority of revenue from port dues (68% in 2017) consists of revenue from cargo dues paid by entering bulk carriers and tankers, which transport mainly energy resource cargoes.

Figure No 9

Revenue structure of the economic activity of the FRA and detailed division of port dues in 2017.



Source: FRA

Revenue from port dues depends directly on the number of ships handled in the Freeport of Riga and gross tonnage (GT), which in turn is related to the total volume of cargoes handled in the Freeport of Riga. Since 2015, cargo turnover in the Freeport of Riga has decreased, and so has the revenue of the FRA from port dues and the total revenue of the FRA.

The FRA monitors port dues on the eastern coast of the Baltic Sea to assess the competitiveness of the dues of the Freeport of Riga. During the period of the *FRDP 2009–2018,* port due tariffs of the Freeport of Riga were raised just once (in 2015), leading to an average increase in the total amount of port dues applied to a ship in Riga by 4–6% depending on the type of ship.

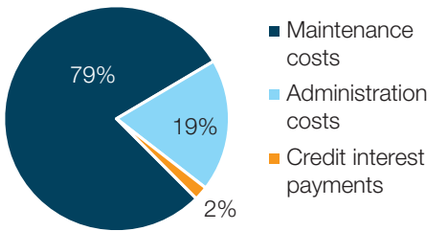
3.5.2. Operating Costs of the Freeport of Riga Authority

Three main components should be separated in the structure of costs of the FRA – costs of maintenance or purchase of provided services, administration costs and credit interest payments (see Figure 10) Maintenance costs (including depreciation of fixed assets) account for the majority (~80%) of all costs of the FRA. This can be explained by the high balance value of assets and the corresponding necessity to accumulate funds for the renovation of fixed assets, as well as the significant port infrastructure operational and maintenance costs. The costs of purchase of services provided by the FRA in 2017 accounted FOR 28.8 million EUR, administration costs were 7.7 million EUR, interest payments and similar costs were 0.9 million EUR.

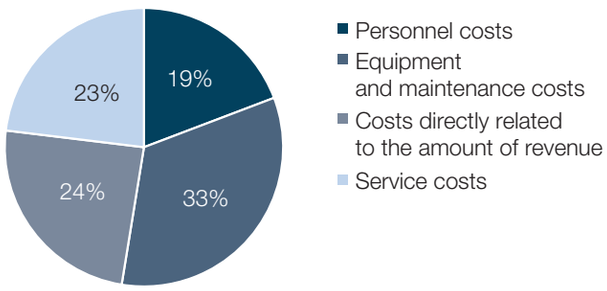
Figure No 10

Cost structure of the economic activity of the FRA and detailed division of maintenance costs in 2017.

Cost structure of the FRA



Division of maintenance costs



Source: FRA

The maintenance of the port infrastructure is capital intensive, therefore a significant part of the revenue of the FRA is directed for the maintenance of existing assets. For the purposes of the implementation of new investment projects, the FRA attracts external funding (mainly from credit and EU funds).

The most important investment project implemented by the FRA during the period of the *FRDP 2009–2018* is the "Development of Infrastructure on Krievu Island for the Transfer of Port Activities from the City Centre". The total cost of the project was ~171 million EUR. The source of the project finances were: financing of the Cohesion Fund to the amount of 76 million EUR, credit funds 77 million EUR and own funds 18 million EUR.

Other important investment projects have also been implemented, for example, dredging of the shipping channel and reconstruction of the access channel; reconstruction of the railway park "Kundziņsala" etc., various sources of financing were used for these projects (see Chapter "Implementation of the *FRDP 2009–2018* " above). The total investment costs of the FRA in 2009–2017 are shown in table 7.

Table No 7

Division of the investments of the FRA by types of investment objects in 2009–2017, thousand EUR

Type of investment objects	Total investment, thousand EUR
Shipping ways	64,245
Berths, breakwaters, coast reinforcements	10,810
Railway	34,854
Krievu Island	136,567
Other infrastructure facilities	8,660
Floating structures	13,121
Other technological equipment	3,987
Total	**272,244**

Source: FRA

The total amount of investments made during the period of the *FRDP 2009–2018* (up to the end of 2017) was 272 million EUR.

3.6. Environmental Protection

Activities of the FRA have been certified according to the requirements of ISO 14001 standard. The FRA has identified and assessed the port's interaction with the environment, as well as the significant environmental aspects, compiled documents and appointed responsible institutions, which organise and control compliance with all the aspects related to environmental protection. The environmental policy implemented by the FRA is purposefully aimed at further improvements in the area of environmental management.

In order to ensure the protection of the territory of the Freeport of Riga against pollution, groundwater monitoring is conducted in the territories leased for commercial activities and unused territories. During the period of the *FRDP 2009–2018*, 20 new territories were included in the groundwater monitoring network. The main task of the monitoring is to control the emission of pollutants into the environment, including groundwater quality control and protection against pollution of economic and industrial nature.

Pollution control in the port basin is ensured by the Port Police through regular surveys. In case of leakage of pollutants, the FRA organises collection works in accordance with the procedures laid down in the internal regulations.

Four PM_{10} particles (dust) monitoring stations and three volatile organic compound measurement stations have been installed in the territory of the Freeport of Riga for the purposes of air quality control. Information on the conducted measurements is published on the FRA website and is available to the public. At the same time, measurements of air quality in their respective territories are performed by the commercial companies, which operate in the area of handling bulk (coal), oil and chemical products.

The FRA also monitors sea bed sediments and water birds.

The FRA has developed a "Plan for the Management of Ship Generated Waste in the Freeport of Riga". This plan stipulates a single procedure, by which ships entering the port and representatives thereof, public institutions and merchants, provide management of ship generated waste and cargo residues.

In addition to regular monitoring, during the period of the *FRDP 2009–2018*, the FRA as a partner, supported the implementation of the project of the Latvian-Swiss cooperation programme "Remediation of Historically Polluted Areas in the Sarkandaugava Territory", which contributed to the improvement of soil, ground, underground and surface water quality in the Sarkandaugava territory.

The implementation of the project "Development of Infrastructure on Krievu Island for the Transfer of Port Activities from the City Centre" has resulted in a significantly reduced burden on the environment on the right bank of the River Daugava (including the historic centre of Riga and its protection zone). The port infrastructure on Krievu Island has been built using the best technical solutions and most up-to-date technologies, which reduce environmental impact. Cargo handling in the new terminals will be performed by using environmentally-friendly technologies that will be installed by stevedore companies (including covered conveyor belts in one of the terminals, partially closed storage process – and a dust fence around the storage areas) . Berths in the new terminals of Krievu Island are equipped with shore side electricity, enabling ships not to run their engines, while berthed, thus reducing the quantity of emissions and noise.

In order to retain biodiversity, the FRA implements biotechnical measures for the improvement of the habitat capacity on Žurku Island, the natural park "Piejūra" in the nature reserve area "Mīlestības saliņa" and in the nature reserve "Krēmeri".

3.7. Port security and protection

The field of security and protection includes three performance areas – maritime safety, port terminal security and provision of public order. Each of these areas is the responsibility of separate structural units of the FRA according to the respective competence – the Freeport Harbour Master Service, Security Service and Port Police.

3.7.1. Maritime safety

The internal procedures of the Freeport of Riga and shipping operation is governed by the Binding Regulations of Riga City Council No 255 of 2 May 2017 "Regulations of the Freeport of Riga". Maritime safety in the port is ensured by the Freeport Harbour Master Service, which includes the maritime traffic control centre (operates 24/7/365). Coordination between the ship pilots and maritime traffic control operators, as well as a proper waterway infrastructure, ensures the safe service of the ships calling at the port.

The main functions of the Freeport Harbour Master Service are: ensuring accessibility of the port, control of the navigation equipment of shipping ways (including also coastal lighthouses of the Gulf of Riga from Ainaži to Kolka and the floating navigation equipment of the Irbe Strait), organisation, management and control of maritime traffic, provision of pilot services, operative management of the ice-breaker during the period of ice navigation.

Tugboat services in the Freeport of Riga are provided by commercial companies, who have signed a contract with the FRA. Depth control of the port basin is performed by the LLC (SIA) "Rīgas brīvostas flote".

3.7.2. Port Terminal Safety

The planning and implementation of safety measures of the Freeport of Riga, as well as the drawing up and implementation of the protection plan of the entire port is the responsibility of the FRA Security Service. The implementation of the protection plans developed by the port companies is supervised by the Maritime Administration of Latvia, but coordination of the protection plans of port and terminals is provided by the FRA Security Service.

Safety measures in port companies are organised in accordance with the *International Ship and Port Facility Security (ISPS) Code*, as well as the requirements of the laws and regulations of the EU and the Republic of Latvia. Port companies are responsible for the implementation and ensuring the requirements defined in the protection plan.

Stevedore companies of the Freeport of Riga, performing transshipment and storage of dangerous cargo, operate in accordance with the requirements of the *International Maritime Dangerous Goods Code (IMDG)* and according to the requirements of the laws and regulations of the Republic of Latvia. Supervision and control over these companies with regard to compliance with the requirements of the aforementioned code and Cabinet Regulations, is performed by the FRA and the Maritime Administration of Latvia.

Stevedore companies handling dangerous cargoes undergo annual certification at the State Fire and Rescue Service in regard to compliance of port equipment with the fire safety requirements.

3.7.3. Public order and Security

Perimeter security of the Freeport of Riga, control of persons and movement of cargoes, as well as public order in the territory of the Freeport of Riga (including on the water in the port basin of the Freeport of Riga) is ensured by the Port Police. In addition to the aforementioned tasks, the Port Police perform video surveillance in the entire territory of the Freeport of Riga, ensure or organises maintenance of technical safety systems and fire safety systems, as well as pollution control.

For the purposes of performance of public order and security functions, the Port Police use control points, patrols, video surveillance system, pass system, perimeter fencing and alarms, water pollution detectors, fire safety alarms etc. The port Police is the largest structural unit of the FRA in terms of personnel.

3.8. Information Technology Systems

In order to ensure the operation of the Freeport of Riga, the FRA increases the use of information systems, in addition updating the existing systems to expand their functionality. Maritime traffic management and control is performed by using the vessel traffic control system (VTS-*vessel traffic system*) and information system "Velkonis". For the purposes of safe manoeuvring of ships, the port uses portable pilot units, furthermore, for the purpose of modelling of ship movement, real-time ship traffic simulator (*NAVIS Trainer 5000*) is applied. In 2018, work on the implementation of the River Daugava stream modelling system was started, which will help to assess the impact of currents on ships.

Various IT solutions are used to ensure administrative functions and process management of the FRA: record keeping management system (ELDIS), personnel management process system (HOP), finance and accountancy system (HORIZON), Quality Management System, Port of Riga information system ROIS (accumulation of berth survey data, map of vacant port territories)

etc. The aforementioned IT solutions ensure the efficient exchange of information among the structural units of the FRA. For the purposes of information exchange with the companies of the Freeport of Riga, the FRA uses the interactive platform created on the port's website (badge clearance, submission of reports etc.).

The IT system of the FRA has been created in compliance with required safety measures, including separated data storage on various sites, UPS for servers, doubled communication between servers and user stations, network protection (for example, firewall, safety solutions of internal network, safety of business systems) and other measures.

3.9. Port Marketing and Communication

3.9.1. Marketing

Within the context of macroeconomic and geopolitical processes, an increase in competition can be observed in the Baltic Sea region. Therefore, the FRA and port companies must implement marketing activities to ensure successful port operation in the transit cargo market. Cooperation with the current customers of the Freeport of Riga, as well as attraction of new customers are significant preconditions for the further development of the port.

The FRA has drawn up the *Freeport of Riga Marketing Strategy*, which defines marketing goals, marketing messages and tasks with regard to each of the target groups. Entirety of marketing activities promotes recognition of the Freeport of Riga, enables the maintenance of a positive image of the FRA and the Freeport of Riga and awareness-raising on the port products and services providing updated information on the Freeport of Riga to all target groups. Marketing activities of the FRA are used in close cooperation with the port companies, Ministry of Transport, Investment and Development Agency of Latvia, Riga local government, as well as other cooperation partners. The FRA participates annually in ~10 freight, logistic and cruise industry exhibitions providing up-to-date information on the port services. The FRA participates in forums in a single, united stand with the port companies and/or single stand of the transport sector of Latvia to provide the maximum efficiency in promoting both the port capabilities and Latvia as a cargo transit country in general.

3.9.2. Communication and Social Responsibility

The FRA Corporate Social Responsibility Policy, Communication Policy and Social Media Strategy, which defines the direction of communication, structure of content and messages on the activities implemented by the FRA, have been developed within the framework of the marketing strategy.

The development of these documents has contributed to more proactive and systematic FRA communication with the target audience, paying special attention to environmental protection, port development performance indicators of the port companies, implementation of new technologies, international representation, including the cruise segment.

The FRA implements regular cooperation with the port neighbourhoods (Vecmīlgrāvis, Sarkandaugava, Mangaļsala, Kundziņsala) and non-governmental organisations. Every year, the FRA supports significant social, educational, cultural and sports events (Pride of Latvia" ["Latvijas lepnums"], "Port Celebration" ["Ostas svētki"], competition for students "Port for the City" ["Osta pilsētai"] etc.).

In implementing a socially responsible policy, the FRA co-participates in the major cultural events of Riga and on a national scale (*Riga City Festival , Staro Rīga, Pride of Latvia" ["Latvijas lepnums"]*, etc.). This provides an opportunity to address a very broad, multilingual and cultural Latvian society. Participation in such events promotes recognition of the image of the Freeport of Riga, improves prestige of the FRA, as well as draws the attention of society to the operation of the port and its role in the economy of Latvia, at the same time, it is an opportunity to address international society and media.

The FRA also participates in the organisation of environmental events in the capital and on a national scale (The *Big Clean Up* etc.). In cooperation with the residents of Riga neighbourhoods, the FRA continues working on improvements in the port and in the adjacent neighbourhoods. This ensures the strengthening of the Freeport of Riga brand values, furthermore, the port is positioned as a socially responsible port, which takes care of the environment and the quality of life of the port neighbourhoods residents. The FRA periodically performs surveys on the image of the port to assess public opinion and also changes in the recognition of the Freeport of Riga and public perception.

3.9.3. International co-operation

The FRA is involved in the work of several major international port and logistics organisations to ensure representation of the Freeport of Riga and to promote recognition. The FRA is a member of the International Association of Ports and Harbours (IAPH), European Sea Ports Organisation (ESPO), Baltic Ports Organization (BPO), International Association of Cities

and Ports (IACP), International Cruise Operators Association (CLIA), International Harbour Masters' Association (IHMA), International Port Community System Association (IPCSA) and World Free Zone Organization (WFZO).

The FRA participates in the work of the German-Baltic Chamber of Commerce, Belgian-Latvian Business Club, China Business Council, as well as the Coordinating Council on Trans-Siberian Transportation. Through the participation in these organisations, the FRA has the opportunity to represent the interests of the port, express opinion, achieve good quality representation, ensure information exchange between the FRA and the relevant institutions and organisations, and to acquire experience. Representatives of the FRA participate in the work of the technical committees of ESPO and IAPH.

3.10. Companies Operating in the Freeport of Riga

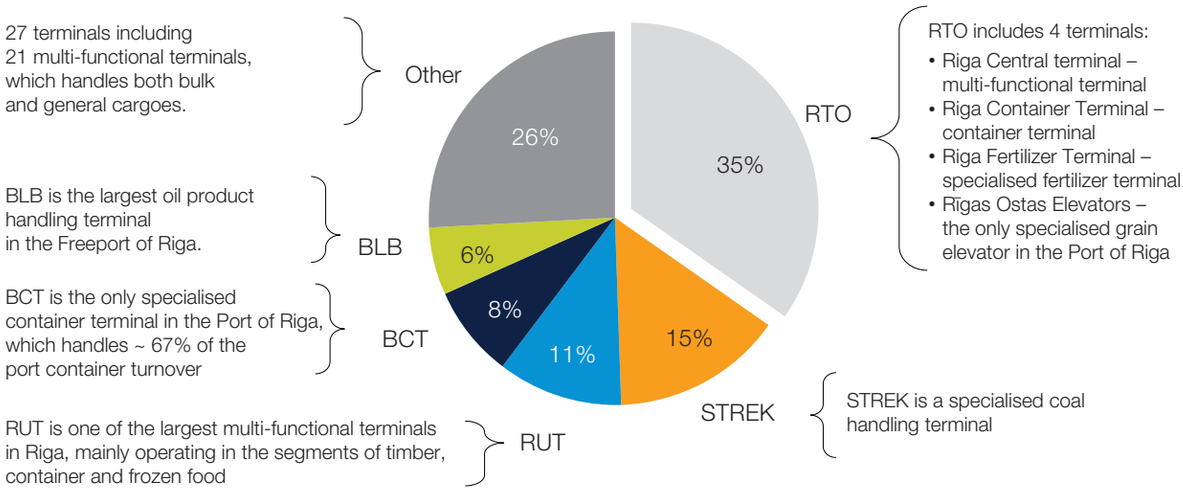
The 'cluster' of companies of the Freeport of Riga consists of ~200 various companies, whose activities are related to port services and have signed contracts with the FRA on commercial activities in the port, i.e., lease of land and/or berths. A wide range of port services is available to the port customers: In 2018, 34 stevedore companies, nine cargo storage companies, 31 ship agent companies, eight tugboat and bunkering service providers, six manufacturing companies, three ship building and repair companies, as well as ~90 companies providing services related to handling of cargoes and ships, operated in the port.

The majority of the stevedore companies operating in the Freeport of Riga are multi-functional cargo terminals, which handle cargoes of various types. Specialized terminals include nine port's liquid bulk terminals, one specialised container terminal, as well as a specialised chemical bulk terminal.

Terminals of the Freeport of Riga vary in terms of the handled cargoes volumes. Several large terminals and a number of small multi-functional terminals operate in the port. In 2017, cargo turnover exceeding 1 million tons was reached by seven port's stevedore companies (LLC (SIA) "Rīgas Tirdzniecības osta" and companies thereof, LLC (SIA) "STREK", LLC (SIA) "Baltic Container Terminal", LLC (SIA) "Rīgas universālais terminmāls", JSC (AS) "BLB Baltijas Terminmāls", LLC (SIA) "KS Terminal" and LLC (SIA) "PARS Termināls"). See Figure 11 for additional information.

Figure No 11

Cargo turnover of the Freeport of Riga by stevedore companies.



* RTO – LLC (SIA) "Rīgas Tirdzniecības osta"; RUT – LLC (SIA) "Rīgas universālais terminmāls", BCT – LLC (SIA) "Baltic Container Terminal", BLB – JSC (AS) "BLB Baltijas Termināls". STREK – LLC (SIA) "STREK".
Source: FRA

During the period of the *FRDP 2009–2018,* two new maritime cargo terminals commenced operation in the port (projects were implemented by the LLC (SIA) "Riga fertilizer terminal" and the LLC (SIA) "Riga Bulk terminal", respectively), as well as one new warehouse/logistics company LLC (SIA) "TFS Trans".

4. Market Analysis

This chapter provides a summary of the market analysis conducted on behalf of the FRA by advisers of the transport sector – the structural unit of the Port of Rotterdam, *Port of Rotterdam International*. A detailed survey of the external environment, where the Freeport of Riga operates and which determines the operational perspectives and challenges of the Freeport of Riga, was carried out in the market analysis. Three main market characterising elements are briefly described in the chapter: Market area of the Freeport of Riga (served territory), Baltic Sea corridor, which includes the Freeport of Riga, and the main served cargo segments and their development prospects. The Freeport of Riga is part of the TEN-T core network in one of nine corridors of the EU transport core network: in the North Sea-Baltic transport corridor. For the purposes of definition of the competitive environment of the Freeport of Riga, the phrase "Baltic Sea Corridor" is used hereinafter in the text, as it describes the direction of the cargo flow from the countries of origin of cargo to destinations.

4.1. Market area of the Freeport of Riga

The Freeport of Riga serves a wide area of Eurasia – mainly Russia, as well as Belarus, Ukraine, Kazakhstan, Uzbekistan and other countries located in the continent and other land locked countries, and which are the markets of origin and consumption of the cargo sent through the Freeport of Riga. Within the context of the *FRDP 2019–2028* these countries will be hereinafter referred to as the *Market area of the Freeport of Riga*.

There are ~282 million residents in the countries of market area of the Freeport of Riga, and the GPD of these countries reach 2.5 trillion US dollars. The served territory in economic and demographic terms is comparable to the USA, Brazil or Indonesia. Ports serving this territory handle approximately 1.2 billion tons of maritime cargoes annually. These cargoes are transported through the four main corridors: Baltic Sea Corridor, Black-Azov Corridor, Arctic Corridor and Far East Corridor. The Baltic Sea Corridor is the largest one in terms of served cargo. Despite the fact that market areas of separate transport corridors collide, mutual competition between them is not expressed.

4.2. Baltic Sea Corridor

The Freeport of Riga, as well as other major Latvian ports (the Freeport of Ventspils and Port of Liepaja, which is part of Liepaja special economic zone), is part of the Baltic Sea Corridor. The total turnover of the Baltic Sea Corridor ports is ~500 million tons annually or 42% of the total port turnover in the aforementioned four transport corridors. The served territory of the Baltic Sea Corridor is depicted in Figure 12.

Figure No 12

Countries of origin of the Baltic Sea Corridor cargoes.

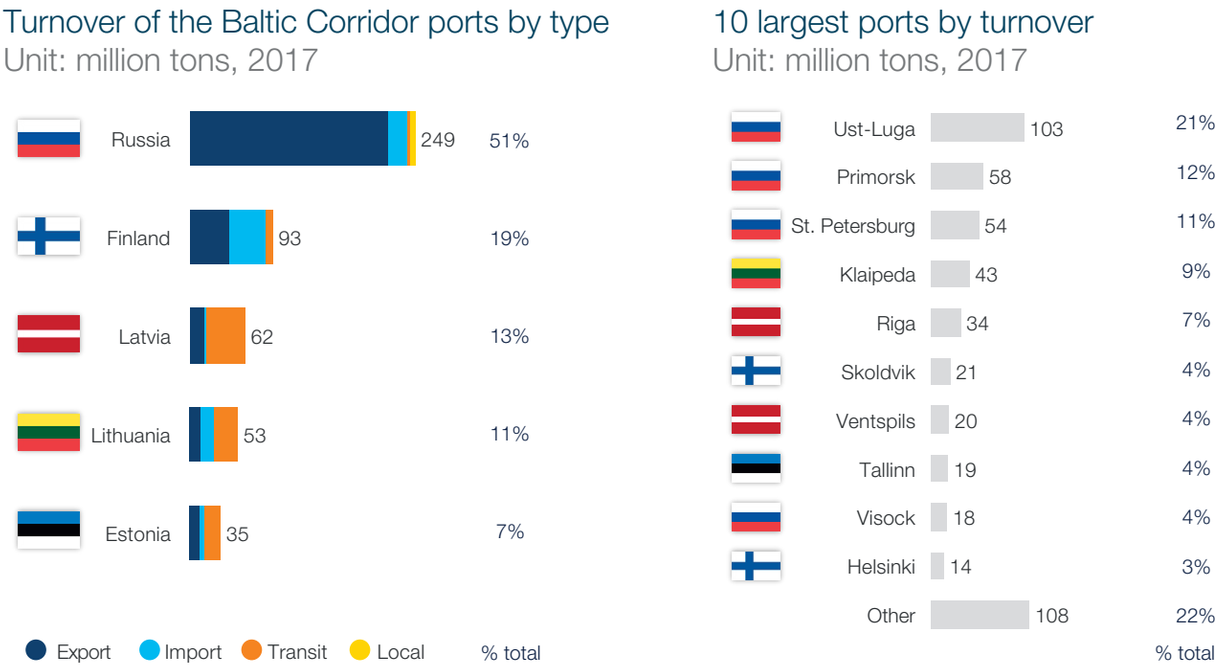
Source: POR

There are ~60 ports in the Baltic Sea Corridor, but not all of them serve transit cargoes. Thus, not all of them are competitors of the Freeport of Riga. The following ports are to be considered as market competitors of the Freeport of Riga are: Ust-Luga, Primorsk, St. Petersburg, Visock, Hamina-Kotka, Helsinki, Tallinn, Sillamae, Ventspils, Liepaja and Klaipeda, since they serve the same territories and types of cargoes.

Russian ports handle ~50 % of all cargoes transported through the Baltic Sea Corridor, furthermore, Ust-Luga, Primorsk and St. Petersburg are the largest ports of the corridor. In total, Latvian ports handle approximately 65 million tons of cargoes annually or ~13% of the total volume of the corridor cargoes. Approximately 70% of the cargo flow of Latvian ports is transit cargoes. The Freeport of Riga is the fifth largest port of the corridor, which serves 7% of the cargoes at the Baltic Sea Corridor. Russia and Finland generates a significant flow of import and export cargoes, whereas, the Baltic States mainly serve the transit cargo flow. See Figure 13 for additional information.

Figure No 13

Cargo turnover in the Baltic Sea Corridor ports in 2017.



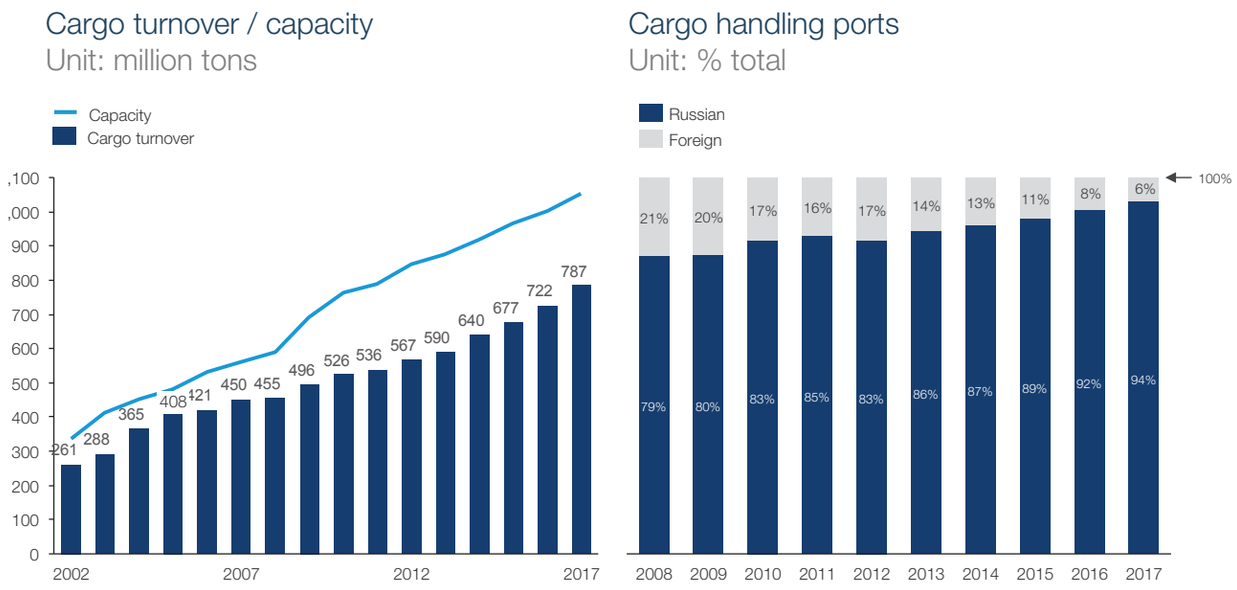
Source: POR

There is fierce competition among the Baltic Sea Corridor ports. This can be explained by the fact that the ports have similar operational profiles and focus on servicing identical domestic territories, and by the fact that port capacities exceed the total cargo flows in the region in general.

Competition within the framework of the Baltic Sea Corridor is significantly enhanced by purposeful activities of Russia aimed at diversion of the cargoes of Russia and even Central Asian countries to its own ports, not only by administrative means, but also its control over the Eurasian railway system. Russia primarily re-orients transportation of strategically important energy resources, for example, crude oil, oil products and coal. From 2002 to 2017, Russia increased total capacity of all four transport corridor ports from ~300 million tons to 1 billion tons annually. This has resulted in an increase in cargo turnover of Russian ports from 261 million tons in 2002 to 787 million tons in 2017 or on average by 8% annually. Thus, a significant part of the export cargoes of Russia is diverted to local ports, and the proportion of Russian export cargo handled in foreign ports has decreased from 20% to 6%.

Figure No 14

Cargo turnover and capacity of the ports of Russia and proportion in service of Russian cargoes, 2002–2017 (million t)



Source: POR

The Russian government forecasts that the cargo turnover of Russian ports will increase from 787 million tons to 1.5 billion tons in 2035. In order to be able to ensure handling of cargoes of such volume, an increase in capacity of ports is planned.

The Baltic States are largely dependent on transit cargoes, however, Latvia's dependence on this cargo is the highest. The proportion of transit cargoes in the ports of Latvia is ~70%, while in Estonia – 51 %, and in Lithuania – 48%.

4.3. Cargo Segments

Latvian ports handle cargoes of wide nomenclature, the four largest groups of which are energy resources, agricultural and forestry cargoes, general cargoes (containers) and Ro-Ro (ferry, as well as passenger transport). A brief description of the segments is given in Table 8.

Table No 8

Main segments or maritime cargoes in the major Latvian ports in 2018.

Main segments	Main sub-segments	Main served territories	Main contributing factors	Market position of the Freeport of Riga
Energy Resources cargoes 	Oil products (incl. SPG) Crude oil	Russia (export) Belarus (export) Latvia (import)	Sourcing and manufacture of raw materials in the countries of market area Geopolitics Railway connections with the countries of market area. Demand for fuel in the local market	Segment has been divided between the ports of Riga and Ventspils, furthermore, the Freeport of Riga dominates in the coal segment, whereas Ventspils – in the oil product segment
Agricultu-ral and forestry cargoes 	Grain / products Fertilizer Fodder Timber / products	Latvia Russia Belarus Estonia Lithuania	Agricultural and timber production in the served territory Geopolitics Global demand for food. Railway connections	Main market participants are the ports of Riga and Liepaja. Riga holds a stronger position in the area of fertilizer and timber, Liepaja – in handling grain
Container cargo 	Fresh and frozen products Machines and equipment Consumer household goods Timber Chemical goods etc.	Latvia Russia Central Asia countries Belarus	Consumption and production in the served territory Geopolitics Transport connections with the countries of market area Competition of ports	The Freeport of Riga dominates in this segment compared to the ports of Ventspils and Liepaja, competing ports are located abroad (Klaipeda, St. Petersburg Gdynia)
Ferry and passenger transport 	Ro-Ro Ro-Pax Cruise ships Ferries	Latvia	Local consumption and production Increase in income	Liepaja and Ventspils dominate in the Ro-Ro segment, whereas, the Freeport of Riga is the only port providing passenger ferry traffic

Source: CSP, POR

Each of these segments has different future perspectives given that they are affected by various factors (see Figure 15, as well as further sub-chapters).

Figure No 15

Perspectives of maritime cargo segments in the Freeport of Riga

Segment	Perspective	Justification
Energy resources 		• The main fossil fuel importing countries in Europe (Germany, the Netherlands, Great Britain etc.) implement an energy policy, which is aimed at the reduction in use of fossil fuel and the use of renewable energy resources. Thus, during the next 20 years, consumption of fossil fuel in the Western Europe will, most likely, decrease. • Considering the geopolitical conflict between Russia and the EU and the USA, Russia has purposefully re-oriented cargo handling of energy resources from the ports of the Baltic States to Russian ports, and, in the next 20 yearsmost likely, such a transport policy implementation will continue. • Considering the growing demand for coal in the Eastern and Southern Asia (China, South Korea, Japan, India etc.), • Russia will increase the volume of coal export using the Far East Corridor. It is expected that up to 2030, China and India will be the largest coal consumers globally.
Agriculture / forestry 		• During the last 10 years, grain production on average has grown in Latvia by 7% annually, and 80% of this volume is exported. • The world population is continuously growing, and demand for food increases accordingly. Thus, an increase in the cargo turnover in the segments of agricultural products is expected, given the potential of Latvia to increase the volume of grain production. • A significant increase in the cargo turnover in the forestry sector is not expected.
Containers 		• According to the forecasts of the International Monetary Fund and HSBC (one of the largest banks worldwide), the average increase in turnover of container cargo is 3% annually. This increase should be mainly applied to the Freeport of Riga, since turnover of container cargo in the ports of Ventspils and Liepaja is comparatively low. • The majority (80%) of the turnover of container cargo in the Freeport of Riga is formed by transit, therefore, in this cargo segment ports competition in other countries is expected (mainly ports of St. Petersburg and Klaipeda)
Ferry and passenger transport 		• Growth is expected in the Ro-Ro and passenger transport segment, which largely depends on the economic growth of Latvia (including the development of manufacturing). • Although Latvia has the possibility to improve connectivity of Ro-Ro traffic with the ports of Western Europe and Scandinavia, a key role in the development of this segment is played by the ports of Ventspils and Liepaja (shorter seaway to the ports of destination compared to the Freeport of Riga). • The segment of passenger transport is positively affected by the tourism potential of Riga city and increasing recognition.

Source: POR

4.3.1. Energy resource cargoes

For 20 years, the segment of energy resource cargoes has been the main factor affecting growth of cargo turnover in Latvian ports and especially in the Freeport of Riga. However, a decrease in the volume of energy resource cargoes observed during the last years, as well as the forecasts related to demand in the future, show that significant increase in cargo turnover is not expected in this cargo segment.

Coal

In terms of the handled volume, coal is the largest type of cargo in the Freeport of Riga (35% of the cargo turnover in the Freeport of Riga in 2017). Latvian ports handle mainly coal imported from Russia, which is the largest coal producer and exporter in Eurasia. Russia produces ~410 million tons of coal annually.

In recent years, significant changes have taken place in the structure of Russian coal exports. During previous years, Russia sent the majority (~60%) of coal production to European countries, then, in 2018, more than a half of Russian coal was exported to the Far East (Asia-Pacific) region. South Korea, China and Japan are gradually increasing their consumption of Russian coal.

96% of Russian coal exports are transported by sea, including 60 million tons through the Baltic Sea ports (39 million tons – through Russian ports and 21 million tons – through the ports of the Baltic States). Ust-Luga, Riga and Visock are the major coal export ports. The share of the Freeport of Riga in the Russian coal export market is approximately 6%. The competitive advantages of Riga are: better navigation conditions in winter compared to the ports of Russia in the Baltic Sea, additional services (for example, magnetic coking coal cleaning), and cargo handling speed. Freight flow to Riga is guaranteed by coal delivery contracts with customers, usually signed for a term of five to seven years. At the same time, Russia has announced the implementation of several coal terminal projects, which will further boost competition among the ports of the Baltic Sea region.

At the same time reduction of the global growth rate of coal consumption is forecast in the long term, which will affect the volume of Russian coal exports. A maximum volume of coal mining in Russia is forecast to be reached in ~2030, followed by a reduction. According to the forecasts of the International Energy Agency, the volume of Russian coal exports in 2035 could reduce to the levels of 2010.

Coal accounts for 35% of the cargo turnover of the Freeport of Riga and has provided a significant contribution in the growth of the port for the last 20 years. Along with the change of the market situation, coal cargo forms the highest risk cargo segment for the Freeport of Riga, considering the geopolitical situation, Russian plans regarding the development of ports, as well as changes in volumes of coal consumption and geography in the world market. Therefore, it is important for the Freeport of Riga to diversify its cargo basis to reduce sensitivity of cargo turnover with the possible reduction in volumes of coal cargo.

Oil products and liquefied propane gas

In 2017, 17 million tons of crude oil and oil products (including LPG) were handled in Latvian ports which is 27% of the total cargo turnover of Latvian ports. The oil product market in Latvia has three key components:

- **Import:** ~1.8 million tons annually, mainly distilled fuel, which is used as vehicle fuel;
- **Export:** re-exports, amounting to less than 1 million tons annually;
- **Transit:** Latvian ports provide oil product export for Russia and Belarus, ~ 14 million tons annually.

According to EU forecasts, in upcoming years, the volume of consumption in Latvia will remain stable ~1–1.2 million tons annually (import of up to 1.9 million tons annually, the difference is equal to oil product re-export). Despite an increase in automation levels, a significant increase in demand for oil products is not expected due to the decline in population.

The volume of transit oil products handled in Latvian ports will still depend on the export volumes of Russian and Belarusian oil products. In 2017, Belarus and Russia combined exported 174 million tons of oil products, and more than 90% of this volume was provided

by Russia. 90% of Russian oil products are exported by sea, and the Baltic Sea Corridor is the main export corridor of Russian oil products. In 2017, the volume of oil products in this transport corridor reached 73 million tons, including ~10 million tons through the ports of the Baltic Sea region other than the ports of Russia. The majority of this volume (5% of total Russian exports) was handled by Latvian ports. The market share of Latvian ports in the oil product market is unstable in regards to the forecasted further re-orientation of export of Russian energy resource cargoes to its own ports. Possibly, Belarusian export cargoes could become more available to Latvia, however, a significant increase is not expected.

In 2017, OIL PRODUCTS ACCOUNTED FOR 17% of the cargo turnover of the Freeport of Riga, but, in the long term, a reduction in turnover of oil products is expected.

4.3.2. Agricultural and Forestry Cargoes

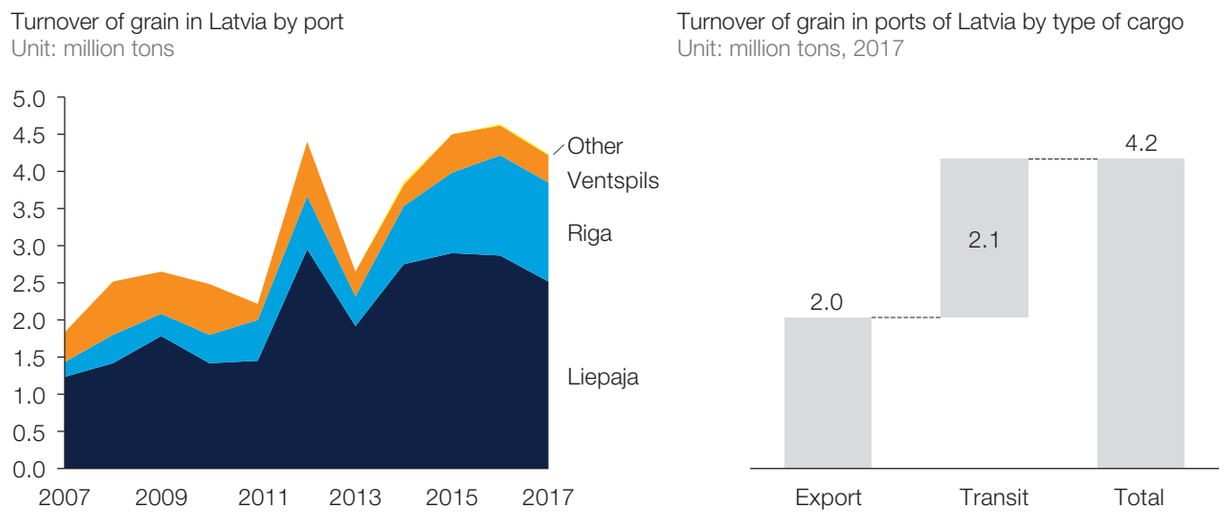
The agricultural and forestry cargoes segment includes various types of cargoes, and turnover is impacted by different factors. This segment includes grain, grain products and other agricultural cargoes, fertilizer, as well as forestry cargoes – timber. Part of these cargoes are raw materials, transported as bulk or general cargoes, whereas the other part – s are transported as bulk, general cargoes or in containers.

Grain and grain products

The main agricultural cargo handled in Latvian ports is grain and grain products. In 2017, 4.2 million tons of grain were handled by Latvian ports, consisting in approximately equal shares by Latvian exports and transit of cargoes of other countries. During the last decade, the volume of grain handled in Latvian ports has doubled from two to four million tons (see Figure 16).

Figure No 16

Turnover of grain products in Latvian ports (million tons) in 2017.



Source: POR

One of the main factors contributing to grain handling is grain production in Latvia, which has doubled during the last decade reaching 3 million tons annually; furthermore, approximately 10% of the agricultural land used in the country is used for its cultivation. Approximately 70% of the grain produced in Latvia is exported. The main grain export markets of Latvia are North Africa, as well as the Middle East countries.

Grain and grain products is a potential segment of development for the Freeport of Riga. This is determined by two factors: Growth in the volume of Latvian grain exports, as well as the possibility to attract transit cargoes from the neighbouring countries (Estonia, Lithuania, Belarus and Ukraine).

Forest industry

Forestry cargoes account for ~10% of the total annual turnover of the ports of Latvia, and nomenclature thereof includes woodchips, wood pellets, logs, sawn timber, as well as other products. Timber handled in the ports of Latvia is mainly provided by Latvian exports, but ports are used also for, for example, Belarusian timber transit. Although reduction in the

export volume of logs has been observed in the recent years, export of wood pellets is growing. Part of the forestry export cargoes is containerised, and this kind of timber transportation shows a growing trend.

Every year, on average 4 million tons of various forestry cargoes are handled in the Freeport of Riga. During recent years, the volume of handling timber has remained stable. It is hard to make accurate forecasts for the dynamics of the timber market for the upcoming years, since forestry cargo turnover may be affected by weather conditions unsuitable for logging or a decrease in demand in the consumer markets, caused by an excess of local raw materials. Despite the aforementioned, a stable volume of forestry cargoes is expected in the Freeport of Riga.

4.3.3. Container Cargo

Container cargo is the fastest growing cargo segment in Latvia. Over the last 10 years, the volume has doubled reaching 450 thousand TEU. The Freeport of Riga provides 99% of the total container cargo turnover of Latvian ports, and, during the last decade, it has increased on average by 10% annually.

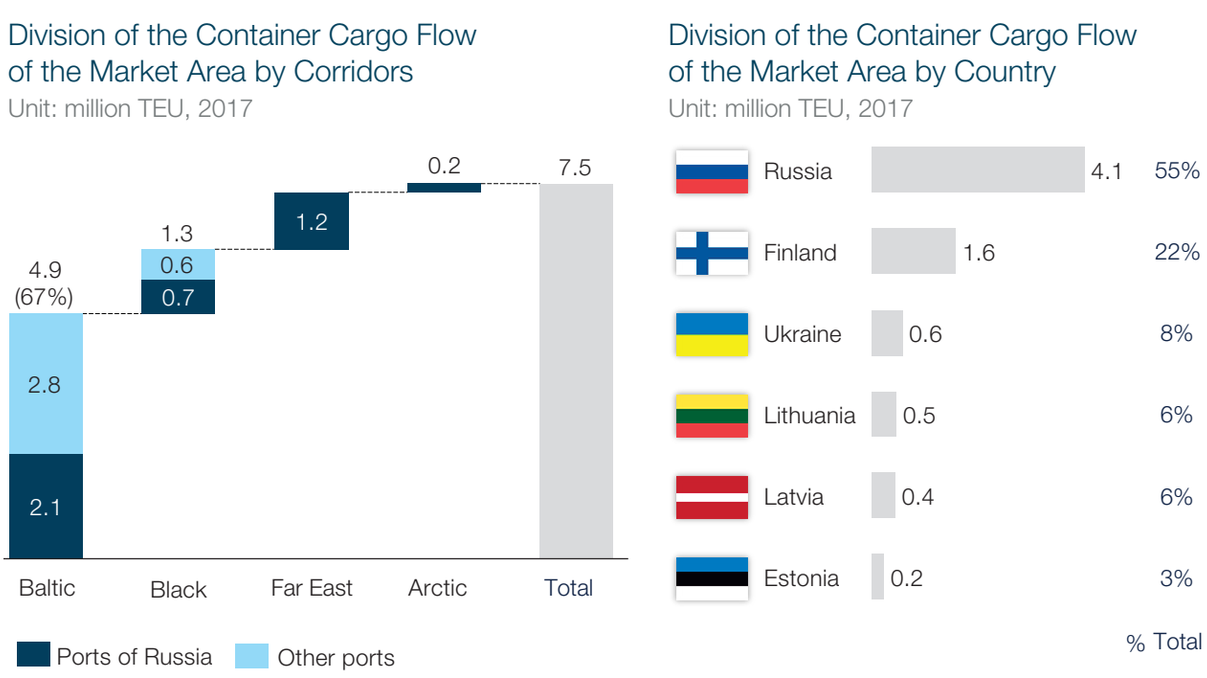
Cargo Turnover of the Ports Located in the Market Area of the Freeport of Riga

In 2017, the volume of container cargo in the aforementioned four transport corridors serving the market area of the Freeport of Riga accounted for 7.5 million TEU. Considering the fact that regions with equal economic and demographic indicators (for example, Indonesia or Brazil) generate a larger volume of container cargo, there is reason to believe that the market area of the Freeport of Riga has the potential to generate an additional volume of container cargo, which will promote an increase in container cargo turnover in ports (which may be facilitated, for example, by industrialisation of the Russian market area and other countries, which necessitates the import of equipment, increase of goods with higher added value in the structure of export etc.).

The Baltic Sea Corridor serves the majority (4.9 million TEU or 67%) of all container cargo of the market area of the Freeport of Riga, furthermore, more than a half (57%) of the container cargo of the Baltic Sea Corridor is handled in the regional ports located outside Russia. Riga with the turnover of 446 thousand TEU is the fifth largest container port of the Baltic Sea Corridor with the market share of ~10% (see Figure 17).

Figure No 17

Container cargo flow of the market area of the Freeport of Riga in 2017.



Source: POR

Transit Cargoes

Approximately one third of all container shipments of the Baltic Sea Corridor are transit cargoes, however, the structure of container cargo differs from port to port – regional ports of Russia serve mainly export/import cargo, the volume of transit container cargo in Finnish ports is ~40%, but transit container cargo in the Freeport of Riga forms the majority (70–80%) of the total flow of container cargo. Although no accurate data on the origin of transit container cargo is available, every year approximately 10% of the total volume of Russian export/import container cargo is transported through ports located outside Russia. In 2017, countries of the market area of the Freeport of Riga, which do not have their own external seaports (Belarus, Kazakhstan, Uzbekistan, Tajikistan and Kirghizia) generated nearly 800 thousand TEU. This volume forms a flow of potential container transit cargoes for the ports serving the market area, including the ports of the Baltic Sea Corridor.

Latvian Exports and Imports

No accurate information on the volumes of Latvian exports/imports of container cargo is registered, furthermore, summarization of data is hampered by the fact that major proportion of the external trade of Latvia is provided by trade with other Member States of the EU and these transactions are not registered.

In 2017, Latvia exported ~100 thousand TEU. Since 2000, the export of container goods has grown on average by 10% annually. The major proportion of container cargo exports in Latvia is provided by raw materials (various timber 42%, peat 28%), but the major export destinations are China (15%), Korea (14%), Egypt (11%) and the USA (10%).

Volumes of container cargo imports are comparatively lower (~34 thousand TEU IN 2017). The goods mostly imported in containers were car tyres, which accounted for 11% of the volume; the major country of origin of container cargo was China (34%), followed by the USA, India and Turkey.

4.3.4. Ferry and Passenger Transport

This transport segment includes cargo and passenger transport provided by Ro-Ro and Ro-Pax ships.

Cargo Traffic by Ferries (Ro-Ro and Ro-Pax)

The volume of Ro-Ro cargo served by Latvian ports has annually increased by 9% on average since 2000 reaching 3.2 million tons in 2017. Increase in Ro-Ro cargo turnover has been enhanced by the commencement of a new regular ferry line operation in the Freeport of Ventspils, where the majority (66% in 2017) of Latvian Ro-Ro cargoes are served.

In the Freeport of Riga, Ro-Ro traffic is provided by using the regular passenger transport line from Riga to Stockholm (operated by the JSC (AS) "Tallink Latvija"), cargo volume has not significantly increased – depending on the number of ferry entries, it is 400–600 thousand tons annually. The market position of the Freeport of Riga in this segment is comparatively worse compared to the other major ports of Latvia – location in the Gulf of Riga in comparison with the remaining ports requires longer duration of entry, furthermore, it causes additional costs, which significantly limit conditions for the maintenance of regular traffic.

Passengers

In 2017, 0.83 million passengers were handled in the Freeport of Riga, and this is the highest number of passengers in the port's history. Passenger transport should be divided in two segments (cruise tourists and ferry passengers) with different operational characteristics.

The cruise market is highly seasonal – cruise ships mostly enter the port between May and September. Furthermore, cruise business is typically subject to cycle – cruise passengers are mostly regular customers of certain shipping lines, and cruise operators change shipping routes after a certain period of time to offer new cruise destinations to their customers. This explains periodic inclusion/exclusion of Riga city from a cruise route and, correspondingly, fluctuations in the numbers of cruise passengers in the Freeport of Riga. In 2017, the highest number of annually accommodated cruise passengers was registered in the Freeport of Riga (87.4 thousand passengers), and they accounted for ~10% of the total number of passengers served in the Freeport of Riga.

Further development of the cruise segment in Riga requires the provision of width and depth of the shipping channel appropriate for the service of larger cruise ships, as well as a higher number of available berths for simultaneous accommodation of a higher number of cruise ships. In addition to the above, passenger service infrastructure must be improved, including connections of the infrastructure with the city.

~90% of the total number of passengers in the Freeport of Riga is attributable to the operation of the passenger ferry line *Tallink*, which provides a regular daily connection with Stockholm (0.74 million passengers in 2017). Unlike cruise passengers, who mainly go for leisure trips, ferry services are used by both tourists and business passengers. Development of the passenger transport segment is possible by attracting a new regular ferry line operating route to other ports of the Baltic Sea region.

4.3.5. Other Cargoes

The Freeport of Riga is a multi-functional port and, in addition to the previously described major cargo groups offers handling and storage of various other cargoes. Other cargoes account for 10–15% of the total cargo turnover, and this group includes ore, various metal cargoes (including scrap metal, ferro-alloys), metal products, broken stones, construction materials, frozen cargoes, as well as other cargoes. Part of these cargoes (ore, broken stones, metal products) are the cargoes received by sea, which enables reduction of the significantly dominant position of the cargoes sent by sea.

4.4. Freeport of Riga, Market Position

The Freeport of Riga is a typical transit port, i.e., the port mainly handles cargoes, whose origin or destination is outside Latvia. The major part of the cargo turnover consists of cargoes of Russian and Belarusian origin. Transit cargoes account for ~80% of the total cargo turnover of the port.

Latvian export and import cargoes account for a comparatively small proportion of the cargo turnover of the Freeport of Riga (~20%). Industrial activities (mechanical engineering and metal processing, chemical industry, electronic industry etc.) in the Freeport of Riga and vicinity (agglomeration of Riga city)

do not provide a significant flow of additional cargoes. So, the local cargo segment consists mostly of agricultural and forestry cargoes of the agglomeration of Riga, of which significant growth is not forecasted in the next 10 years.

Transit cargoes served by the Freeport of Riga are mostly energy resources, the largest proportion of which consists of Russian fossil fuel exports. Considering the geopolitical situation and the Russian transport development policy, as well as global trends in the area of energy, such a dependence causes significant risks for the further development of the Freeport of Riga.

Considering the significant proportion of transit cargoes in the structure of cargo turnover, the market position of the Freeport of Riga is risky, since these cargoes may be potentially diverted to the other ports of Baltic Sea region. Risk is further increased by the structure of transit cargoes: approximately half of the turnover of the port cargo turnover consists of cargoes of energy resources (coal and oil products) making the Freeport of Riga sensitive to the tendencies of the global energy market and geopolitical processes. The Freeport of Riga can partially reduce these risks by promoting the development of manufacturing in the territory (using the advantages of the free zone regime), as well as by attracting additional export and import cargoes of Latvia.

Key factors affecting the cargo turnover of the Freeport of Riga are given in Figure 9.

Table No 9

Key factors affecting the cargo turnover of the Freeport of Riga.

Factor	Description
Geopolitical situation	• The majority of the cargo turnover of the Freeport of Riga is provided by transit cargoes from Russia or other countries through Russia. • Russia consistently implements the policy of development of Russian ports and protectionism by diverting cargoes to its own ports, and continuation of such a policy is expected. • Improvement of relations between Latvia-Russia or EU-Russia may significantly affect capabilities to retain and attract transit cargoes.
Railway connectivity	• 100% of bulk and bulk liquid are transported by railway. • In order to divert cargoes to its own ports, Russia applies restrictions on railway transport to non-Russian ports, including a railway tariff policy favourable to Russian ports.
Tendencies in the area of energy	• Coal accounts for 1/3 of the cargo turnover of the Freeport of Riga, furthermore, the majority of this coal consists of energy coal (coal used as fuel for the production of electricity). • It is expected that, during the upcoming decades, coal consumption will decrease in Europe. The volume of coal mining will decrease in Russia, and countries in Eastern and Southern Asia will be the main coal importers.
Consumption in the countries of the market area	• The Freeport of Riga is the largest container port in Latvia. • Volumes of container cargo are affected by consumption in Latvia and countries of the market area of the Freeport of Riga. • Changes in consumption of energy resources (mainly oil products) in Latvia may negatively impact future prospects of the Freeport of Riga. • The population in Latvia and its neighbouring countries (Russia, Lithuania, Estonia and Belarus) is expected to continue to decline, therefore negatively affecting growth of consumption, despite income growth.
Production in the countries of the market area	• Latvia produces grain, which is f the most handled bulk in the Freeport of Riga, excluding energy resource cargoes. • Grain and other agricultural products are produced in large volumes in the countries of the market area, especially in Russia. • Belarus, which has no sea border, produces oil products and uses the Freeport of Riga as its export port.

Competition of ports	• The Freeport of Riga operates under fierce market competition.
	• Russian ports have ambitious capacity expansion plans, which could further affect the development prospects of the Freeport of Riga.
	• It is not clear, to what extent the Russian ports will succeed in taking over the entire export and import of goods of Russia and countries of Central Asia, but it is expected that:
	• The volume of coal cargo from Russia will decrease, however, coal will still be exported through the Freeport of Riga, since it is important for the owners of the cargoes of Russian energy resources to provide several cargo handling ports for the continuity of coal export (for example, in the winter period, when Russian ports may freeze). Additionally, Latvia has the opportunity to provide lower transport price per tonne from the border of Latvia to the cargo loading point in the Freeport of Riga compared to other cargo transportation
	  • Routes, provided that Russia decreases or cancels railway tariff exemptions for cargo traffic to the ports of Russia;
	  • Russian oil products will continue to be increasingly diverted to Russian ports, but the Freeport of Riga can continue handling and attracting additional cargoes of Belarus;
	  • Diversion of container cargo to Russian ports is more complicated since there is a competitive road haulage market both in Russia and other countries, therefore, most likely, this cargo will be taken to the Freeport of Riga in the future.

Source: POR

Considering the aforementioned market analysis, prospective cargo segments of the Freeport of Riga are: container cargo, agricultural and forestry cargoes and passenger transport.

Table No 10

Key cargo development segments of the Freeport of Riga.

Segment	Justification	Objective(-s)
Container Cargo 	• Growing market segment, where the Freeport of Riga holds a stable position • Location in the capital provides demand for container traffic for the service of local market • Good road and railway connections with Eurasia	• To retain and increase the share of transit market • To promote development of industry in the territory of the Freeport of Riga by determining the sectors to be supported with the highest cargo development potential
Agricultural and Forestry Cargoes 	• Growing volumes of grain production in Latvia provide a stable basis of local cargoes • A large transit market, which includes part of Estonia, Lithuania, Russia and Ukraine • Projected world population increase will increase grain consumption	• To increase local market share by providing handling of export grain and grain products on the left bank of the River Daugava, located closer to the key region of the origin of cargoes (Zemgale) • To increase added value of the cargo traffic, providing the possibility to establish large storage warehouses and provide cargo handling (sorting, pre-packing etc.) in the Freeport of Riga
Ferry and passenger transport 	• There is local demand for ferry transport in Riga, as well as an attractive offer for tourists • Other ports of the region, for example, Stockholm and St. Petersburg, have a larger number of ships calling at ports, which shows that there are opportunities to attract additional ships to Riga; • Passengers of cruise ships directly contribute to the city economy.	• To attract additional cruise operators and ships to the Freeport of Riga, thus increasing the number of passengers • To attract additional cargoes and passenger ferry operators • To cooperate with the city of Riga and travel operators to develop cruise transport

Source: FRA

5. Forecasts of Cargo Turnover

Based on the market analysis, two cargo forecast scenarios have been defined within the framework of the *FRDP 2019–2028*.

Minimum scenario includes the forecast of cargo turnover of the Freeport of Riga in the situation, when several market factors, which are adverse to the Freeport of Riga, occur simultaneously.

Optimistic scenario includes the forecast of cargo turnover of the Freeport of Riga in the situation, when maritime cargo market develops favourably to the Freeport of Riga. Summary of the assumptions used in the analysis is presented in Table 11.

Table No 11

Assumptions of scenarios of cargo turnover of the Freeport of Riga.

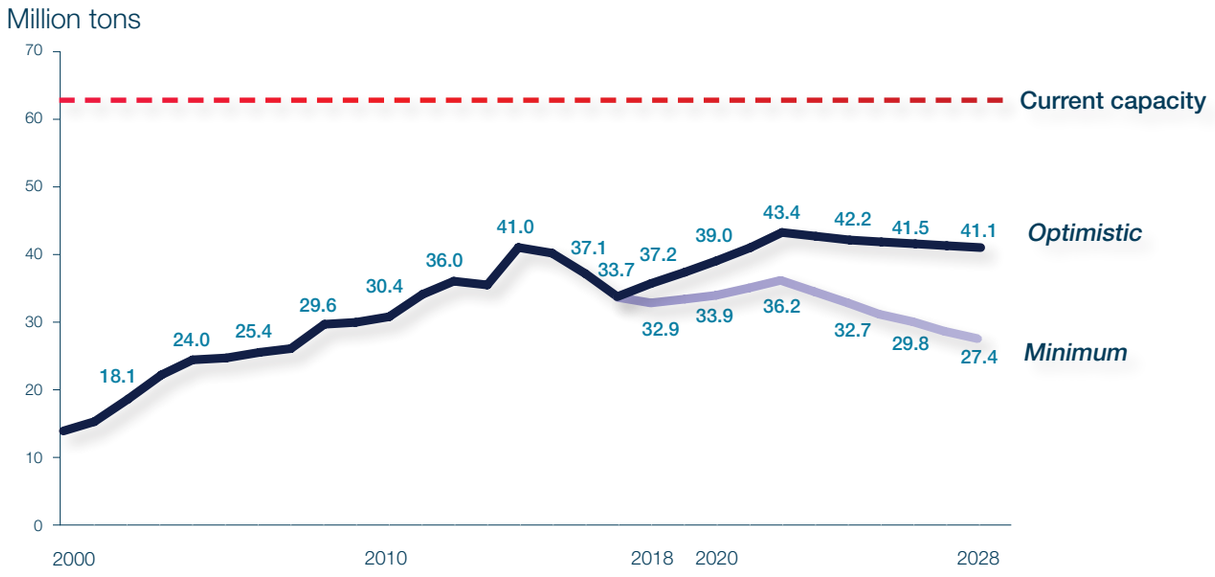
Main assumptions	Minimum scenario	Optimistic scenario
Socio- economic tendencies	• Negative natural population growth in the majority of the market area of the Freeport of Riga • Low global GDP average growth rate • Restriction of innovations	• Negative natural population growth in the majority of the market area of the Freeport of Riga • Significant global average GDP growth rate • Small GDP growth rate in the majority of the market area of the Freeport of Riga • Development of innovations
Geopolitics	• Competition for influence and resources between super powers • Countries fail to reach agreement on globally important matters, for example, reduction in emissions of greenhouse gases	• International cooperation in matters of global importance improves, for example, regarding reduction in emissions of greenhouse gases
Energy	• Low GDP growth lowers prices of energy resources, which decreases competitiveness of RER • Priority for the provision of energy resources in contrast to environmental protection and promotion of sustainable development • Increase in consumption of fossil energy resources in Western European and other countries, which form the export market of the energy resources of Russia	• High GDP growth increases prices of energy resources, which improves competitiveness of RER • RER decreases market share of fossil fuel in the long term • New technologies provide fuel economy by enhancing reduction in consumption of fossil energy resources
Trade	• International trade restrictions increase (cross-border sanctions, market protection measures etc.) • Lower growth rate of external trade due to trade restrictions and accordingly lower GDP growth rate • Lower growth rate of volume of container cargo caused by comparatively low GDP growth rate. Slight increase in the volume of bulk, since countries try to provide food resources and energy resources	• Significant GDP growth, affected by trade liberalisation • Significant increase in the volume of container cargo enhanced by free trade and demand for consumer goods. Lower growth rate of volume of bulk in separate markets, affected by decrease of consumption of fossil energy resources

Source: POR

According to the minimum scenario, cargo turnover of the Freeport of Riga decreases from 34 million tons in 2017 to 27 million tons in 2028 AND ~18 million tons in 2037. The key reason of the reduction in cargo turnover is the decrease in volume of coal and bulk liquid. Whereas, *according to the Optimistic scenario* total cargo turnover of the Freeport of Riga will reach 41 million tons again before 2028, and before 2037 –42 million tons. *According to the Optimistic scenario an* increase in the growth of cargo turnover in the long-term is restricted by the reduction of handled volumes of coal and bulk liquid. Figure 18 provides long-term forecast for the cargo turnover of the Freeport of Riga for both scenarios from 2018 to 2037.

Figure No 18

Scenario forecasts for the cargo turnover of the Freeport of Riga 2018–2028



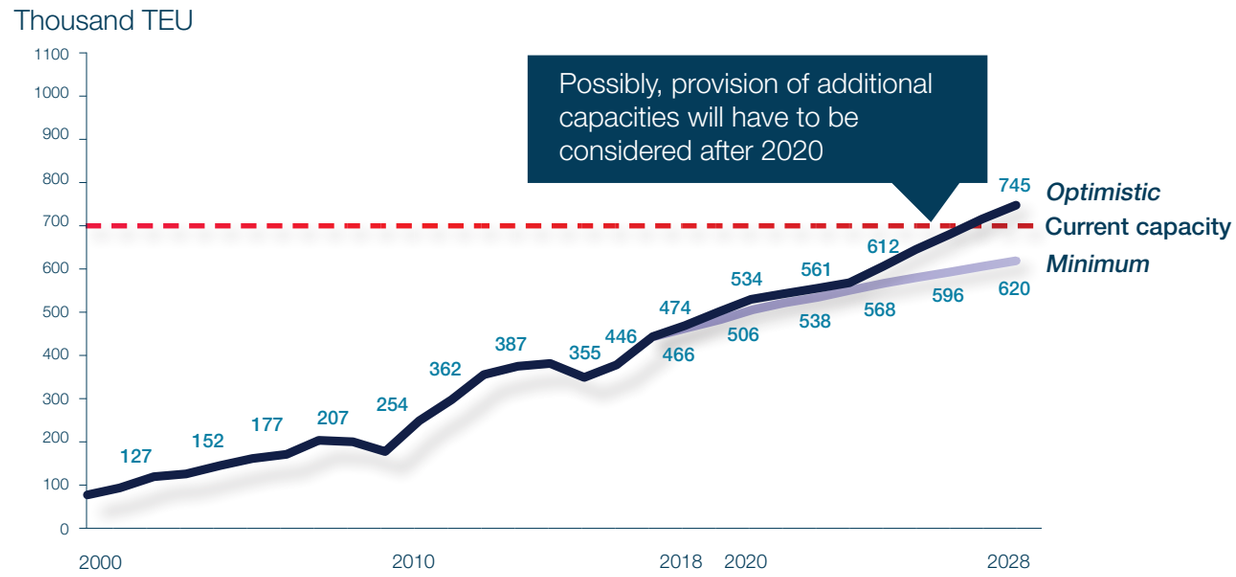
Source: POR

Container cargo turnover in the *Minimum scenario* increases from 446 thousand TEU in 2017 to 621 thousand TEU in 2028 AND to 690 thousand TEU in 2037. *The Optimistic scenario* forecasts growth respectively to 754 thousand TEU in 2028 AND 1 million TEU in 2037. The majority of container cargo turnover in both scenarios will be provided by transit cargoes.

Figure 19 provides a long-term forecast for the container cargo turnover of the Freeport of Riga for both scenarios from 2018 TO 2037.

Figure No 19

Scenario forecasts for the container cargo turnover 2018–2028.

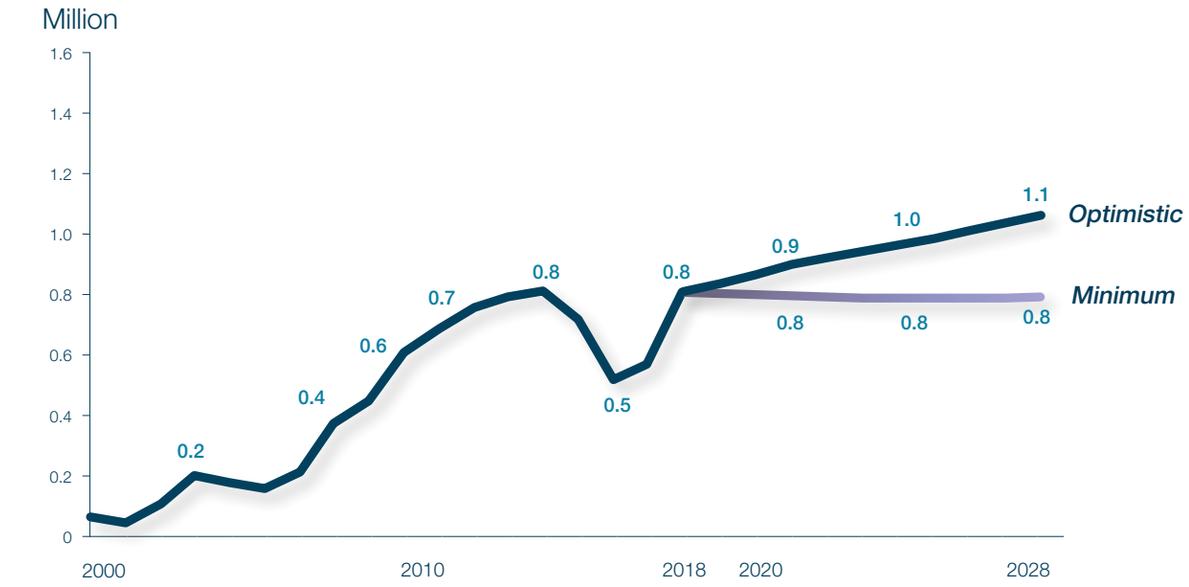


Source: POR

The Minimum scenario forecasts a moderate reduction in the number of served passengers from 839 thousand in 2017 to 813 thousand in 2028 and an increase to 837 thousand (i.e., practically to the level of 2017) in 2037. The *Optimistic scenario* forecasts an increase in the number of passengers from 839 thousand in 2017 to 1.1 million in 2028 and to 1.4 million in 2037 due to an increase in passengers of both the ferries and cruise ships (see Figure 20).

Figure No 20

Scenario forecasts for the number of passengers 2018–2028.



Source: POR

Further layout of the chapter provides explanation of the forecasts by the main cargo groups and passengers served in the Freeport of Riga for the *Minimum* and *Optimistic scenario*.

5.1. *Minimum scenario*

5.1.1. Characterisation of Macroeconomic Assumptions

The following assumptions have been used in the *Minimum scenario*:

- The population of the countries of the market area of the Freeport of Riga remains constant up to 2030 – 282 million, but, during the period up to 2037, it decreases to 276 million;
- GDP of the market area increases from 2.5 trillion US dollars to 3 trillion US dollars in 2027 and 3.7 trillion US dollars in 2037 (on average +2% annually);
- Latvia's population decreases from 1.9 million to 1.6 million by 2037 (on average -1% annually);
- Average GDP growth rate in Latvia +2% annually.

Due to the impact of global factors (see Table 11 at the beginning of Chapter 5), a slower development of the national economy and external trade is forecast.

5.1.2. Energy Cargo Forecast

The Minimum scenario forecasts an average decrease in the volume of cargoes of energy resources by 3% annually, which is largely determined by a drop in the volume of coal from 12 million tons in 2017 to 10 million ton in 2028 and 2 million tons in 2037. A decrease in the volume of cargoes will be mainly determined by the following factors:

- increase in the demand for coal in Eastern and Southern Asia (China and India) and respective re-orientation of Russian coal export to the Far East ports of Russia;
- reaching of peak point of coal mining in Russia in ~2030 and further reduction thereof;
- stabilisation of demand for coal in the countries of Eastern and Southern Asia after 2030 (along with the increase in use of natural gas and RER);
- comparatively constant demand for coal in the internal market of Russia.

At the same time Russia will continue coal export through the Freeport of Riga mainly due to two reasons: Development of the port and railway infrastructure of Russia requires time to reach the capacity required for the service of export cargoes of Russia, furthermore, the coal terminals operating in the Freeport of Riga have established close connections with the Russian coal mining companies.

Meanwhile, oil product handling volumes will decrease from 6 million tons to 2 million tons in 2028 and to 1.9 million tons before 2037. The volume of oil products handled in the Freeport of Riga will be basically provided by the cargoes of Belarus, as well as the oil products imported from Scandinavia for domestic consumption. A complete diversion of Russian oil product exports to the ports of Russia is forecast. The Freeport of Riga will have to compete for the cargoes of Belarus with the ports of Lithuania and Poland.

5.1.3. Agricultural and Forestry Cargo Forecast

According to the *Minimum scenario, the* volume of the agricultural cargoes in the Freeport of Riga will gradually increase from 1.4 million tons to 1.7 million tons in 2028 and reach 1.9 million tons in 2037. Growth in the volume of cargoes will be provided mainly by domestic cargoes, since increase in the transit volume of agricultural cargoes will be insignificant. The volume of fertilizer provided mainly by the Russian and Belarusian export cargoes will decrease from approximately 2.4 million tons in 2017 to ~0.9 million tons in 2028 and to ~0.4 million tons in 2037. It is forecast that Russia will gradually re-orient handling of fertilizer to its own ports.

Certain stability will be retained in the forestry cargo segment, since this cargo flow is mainly provided by Latvian timber exports. Part of the timber – slightly above one half – will be transported as bulk, whereas the remaining volume will be in containers. A slight increase in the total volume of woodchips in all Latvian ports is forecast, however, the *Minimum scenario* does not forecast an increase in the volume of woodchips handled in the Freeport of Riga assuming that an increase in the volumes will be served by the remaining Latvian ports.

5.1.4. Container Cargo Flow Forecast

The volume of containers in the market area of the Freeport of Riga will increase from 7.5 million TEU to 14 million TEU IN 2028 and 23 million TEU in 2037 (average annual growth rate 6%), however, the market share of the Freeport of Riga will reduce from 6% in 2017 to 4% in 2028 AND 3% in 2037. The amount of container cargo handled in the Freeport of Riga will account for 620 thousand TEU in 2028 and ~690 thousand TEU in 2037, ensuring the average annual growth rate 2%. The volume of export and import container cargo of Latvia will grow (on average +3% annually), as well as transit container cargo (average annual +2%).

5.1.5. Forecast of Cargo Volume on Ferries

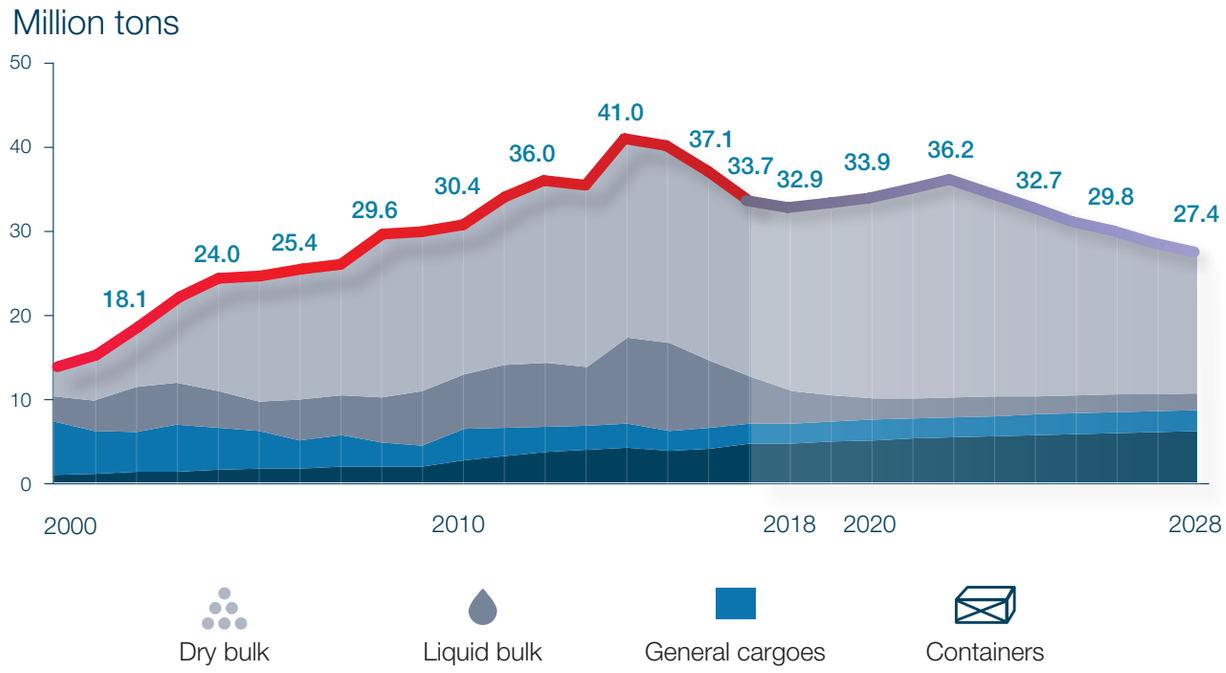
Minimum scenario forecasts that, under conditions of negative natural and mechanical population growth, the number of passengers will decrease, and this situation will not be affected by the marketing activities for the attraction of passengers implemented by the Freeport of Riga. This will result in a decrease in passengers transported by ferries, in addition, new ferry routes will not be opened and additional ferries will not be run on the current Riga–Stockholm route. A decrease in the number of passengers is forecast to be 818 thousand in 2028, with growth up to 837 thousand (i.e., to the level of 2017) in 2037. The volume of Ro-Ro cargoes will be comparatively constant – 438 thousand tons in 2017, 557 thousand tons in 2028 and 560 thousand tons in 2037.

5.1.6. Summary of the *Minimum scenario* by types of cargoes

Summary of forecast of cargo turnover for the *Minimum scenario* is given in Figure 21.

Figure No 21

Forecast of cargo turnover for the *Minimum scenario* by types of cargoes 2018–2028



Source: POR

5.2. *Optimistic scenario*

5.2.1. Characterisation of Macroeconomic Assumptions

The following macroeconomic assumptions have been used in the *Optimistic scenario*:

- The population of the countries of the market area of the Freeport of Riga will increase from 282 million to 287 million in 2027, followed by a decrease to 285 million in 2037;
- The GDP of the market area of the Freeport of Riga will increase from 2.5 trillion US dollars to 3.3 trillion US dollars in 2027 and 4 trillion US dollars in 2037 (on average +3% annually); The population of Latvia will decrease from 1.9 million to 1.8 million in 2037 (on average -0.5% annually); the average GDP growth in Latvia will be +3% annually. The geopolitical situation (political and economic relations of the EU and Latvia with Russia) will improve in the long term. A higher demand for energy resources is forecast, however, there is greater uncertainty in relation to this period, when a reduction in the consumption of fossil energy resources could start.

5.2.2. Energy Cargo Forecast

The Optimistic scenario forecasts a reduction in the turnover of the cargoes of energy resources in the long term, which is mainly determined by the volume of coal handling: growth from 12 million tons in 2017 to 13 million tons in 2028 , then a reduction to 7 million tons in 2037. A decrease in the volume of cargoes is mainly determined by the following factors:

- Diversion of global demand for coal eastwards (China and India) and re-orientation of Russian export to the Far East ports;
- Gradual long-term increase of the volume of coal mining in Russia and competitiveness of Russia in the global coal market;
- Reduction in demand for coal in the countries of Eastern and Southern Asia after 2030 (along with the increase in use of natural gas and RER);
- Slight increase in demand for coal in the domestic market of Russia.

The Freeport of Riga will retain the export cargoes of Russian coal taking into account international relations and the fact that Russian producers will still consider the Freeport of Riga an attractive export channel for a few remaining niche markets in European and American countries. Furthermore, the coal handling stevedore companies operating in the Freeport of Riga have established close connections with Russian coal mining companies.

Conversely, volumes of oil product handling in the Freeport of Riga will remain stable with a volume of 3–3.5 million tons for the next 20 years. This volume will be mainly provided by Belarusian cargoes. It is forecast that Russian cargoes will be completely re-oriented to the ports of Russia. The Freeport of Riga will have to compete for the cargoes of Belarus with the ports of Lithuania and Poland.

5.2.3. Agricultural and Forestry Cargo Forecast

According to the *Optimistic scenario, the* volume of the agricultural cargoes will increase from 1.4 million tons to 3 million tons in 2028 AND reach 5.2 million tons in 2037. An increase in the cargo turnover will be enhanced by the following factors:

- An increase in the volume of grain production in Latvia from 2.6 million tons to 4 million tons in 2028 AND 4.7 million tons in 2037, when up to 15% of the land areas nationwide will be used for cereals (in comparison with the current 11%); the Freeport of Riga will handle 1.6 million tons of Latvian export grain in 2028 AND 2.4 million tons in 2037;
- The Freeport of Riga will continue attracting transit cargoes from Russia, Lithuania, Estonia and, possibly, from North Ukraine with the volumes of transit cargoes exceeding the volume of Latvian export ~2 times;
- The volume of fertilizer will increase from 2.3 million tons in 2017 TO 3.6 million tons in 2028, reaching 5 million tons in 2037, promoted by a growth in Russian and Belarusian exports and close connections between the Freeport of Riga terminals and producers in the countries of the market area.

A slight growth in cargo volume is forecast in the forestry sector. In the long-term the majority

of woodchips will be transported in containers. During the upcoming decades, woodchip cargo turnover in the Freeport of Riga will increase on average by 1% annually, furthermore, the market share of the Freeport of Riga will increase from 44% to 50%. The volume of timber will remain comparatively stable.

5.2.4. Container Cargo Flow Forecast

The volume of containers in the market area of the Freeport of Riga will increase from 7.5 million TEU to 15 million TEU IN 2028 and 27 million TEU in 2037 (average annual growth rate 7%), however, the market share of the Freeport of Riga will decrease from 6% to 5% in 2028 and to 4% in 2037. Container cargo turnover in the Freeport of Riga is estimated at 754 thousand TEU IN 2028 and UP TO 1 million TEU in 2037 (average annual growth rate 5%). An increase in the volume of container cargo will be promoted by both growing Latvian exports and imports (on average +3% annually) and growth in transit container cargoes (on average +5% annually).

5.2.5. Forecast of Cargo Volume on Ferries

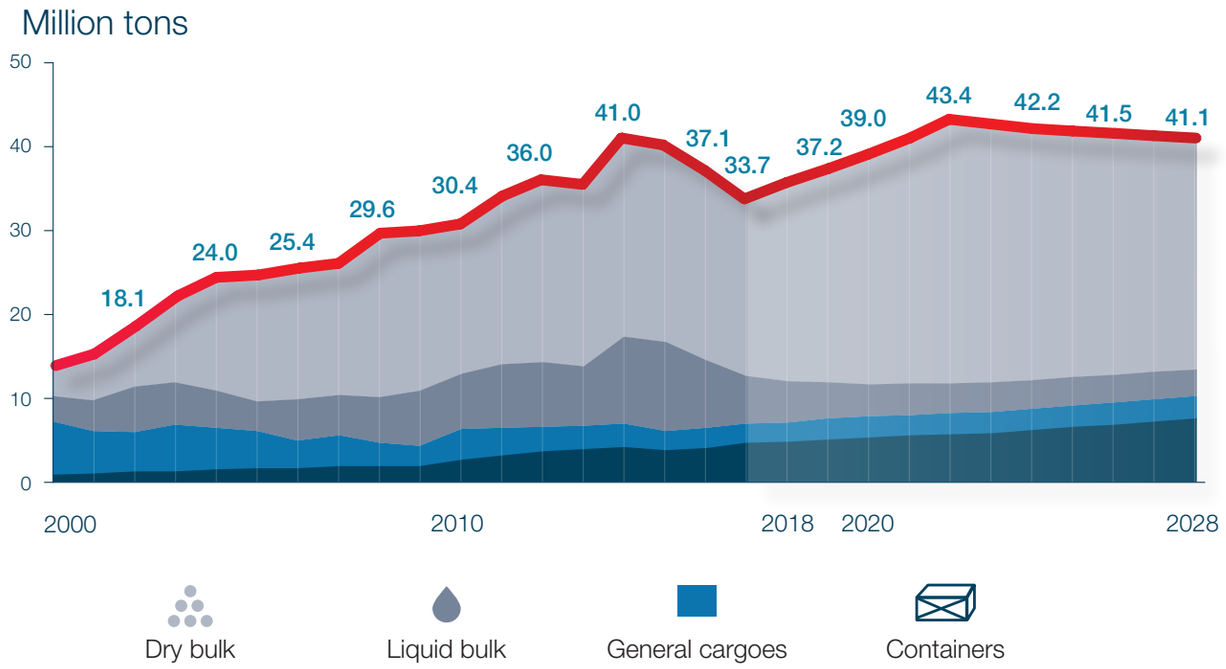
The Optimistic scenario forecasts that Riga local government and the FRA will implement coordinated activities to promote the city of Riga and enhance the development of cruise transport. Furthermore, the FRA will invest in the improvement of the passenger terminal making Riga a more attractive destination for cruise ships. Investments in the infrastructure will also be made to ensure opportunities of the Freeport of Riga to accept more than 120 cruise ships annually, furthermore, cruise routes and schedules will be coordinated between the cruise line operators to avoid congestion. The number of entries of ferries will be stable, but the average number of passengers per ferry will grow. At the same time, volumes of Ro-Ro cargoes will slightly increase in the nearest decades (on average +1% annually). The forecast number of passengers is 1.1 million people in 2028 AND 1.4 million people in 2037, whereas, the volume of Ro-Ro cargoes will increase up to 599 thousand tons in 2028 and 733 thousand tons in 2037.

5.2.6. Forecast of Cargo Turnover for the *Optimistic scenario*

Summary of the forecast of cargo turnover for the *Optimistic scenario* is provided in Figure 22.

Figure No 22

Forecast of cargo turnover for the *Optimistic scenario* by types of cargoes 2018–2028



Source: POR

6. Analysis of Strengths, Weaknesses, Opportunities and Threats of the Freeport of Riga

An analysis of strengths, weaknesses, opportunities and threats (SWOT) has been carried out on the basis of a comprehensive assessment of the internal and external environment of the Freeport of Riga. The SWOT matrix includes the most significant internal and external factors, which may have a positive or negative impact on the operation of the Freeport of Riga in the future (see Table 12). According to the generally accepted approach to SWOT analyses, the strengths and weaknesses describe the Freeport of Riga, while opportunities and threats describe the external environment the port operates in (external factors directly independent to and uncontrolled by the FRA).

Table No 12

Matrix of SWOT analysis of the Freeport of Riga.

Strengths	Weaknesses
• Stable market position on the eastern coast of the Baltic Sea, including status of an important port of handling bulk and containers; • Riga is an attractive destination for tourists; • Riga is recognised as a multifunctional port; • Developed multi-modal maritime and land connections for cargo traffic to from the countries of the market area; • The capacity of infrastructure of the Freeport of Riga terminals is sufficient for handling additional cargoes in all segments; • The FRA invests in maintenance and development of public infrastructure of the port corresponding to market demand; • The Freeport of Riga is safe – safety requirements of ISPS and IMDG codes have been introduced in the terminals; • Constant environmental monitoring is in progress in the Freeport of Riga; • The FRA is a financially independent and stable institution capable of attracting finance for the implementation of large projects; • ISO 9001 Quality Management and ISO 14001 Environmental Management Systems have been introduced in the FRA; • Purposeful communication on sustainable interaction between the port and the city is provided with the neighbourhoods of Riga that are affected by port operations.	• High proportion of transit cargoes in the port cargo portfolio; high risk of diversion to other ports on the eastern coast of the Baltic Sea; • Location in the Gulf of Riga makes difficult ship navigation in winter conditions, as well as restricts the development of ferry and cruise transport; • The width of the shipping channel is not sufficient for safe entry of heavy tonnage ships (for example, Panamax, large cruise ships) in adverse weather conditions; • Shore-side electricity for ships is unavailable in the port (except for Krievu Island), as well as SDG bunkering services; • Access roads to the port bypassing the centre of the city of Riga and densely populated areas are unavailable; • Large investments are required for the development of the non-leased port territories and implementation of investment projects; • For some time no economic activity related to port functions has been commenced in several leased territories; • There is a high proportion of port dues in the revenue of the FRA and limited capabilities to balance revenue structure (to increase revenue from the lease of land and infrastructure); • Dissatisfaction of the residents of Riga neighbourhoods with port operation in close proximity.
Opportunities	**Threats**
• Increase in exports in Latvia and in the countries of the market area of the Freeport of Riga; • Growing container cargo traffic segment; • Growing cruise segment in Europe and the Baltic Sea Region; • Establishment of 'clusters' of port services and manufacturing industry in the port territory, including in vacant port territories; • Development of "Smart technologies" in cargo traffic, logistics and port sectors; • Access to external financial support ; • Growing support by Latvian society and the residents of Riga neighbourhoods affected by the port operation.	• Reduction of cargo flow due to changes in geopolitical situation; • Reduction of energy resource cargoes; • Implementation of transport policy unfavourable to the transport sector of Latvia by neighbouring countries; • Growing competition among the ports on the eastern coast of the Baltic Sea; • Capacity of transport connections of port access may be limited during the implementation of national and Riga city transport infrastructure projects; • Crossings over the River Daugava, planned by Riga local government, may significantly limit use of the port territories; • Location of the port in the centre of Riga city limits its industrialisation possibilities; • Under the conditions of reduction of cargo flow, specialised port terminals are not able to shift operation; • Market competition may lead to a decrease in the FRA revenue; • Decreasing support by Latvian society and the residents of Riga neighbourhoods affected by the port operation may restrict the port development.

7. Development Strategy of the Freeport of Riga

The development Strategy of the Freeport of Riga includes the port's mission, vision and strategic objectives for the next decade. Strategic objectives are based on the results of the SWOT analysis, to develop strengths and use opportunities of the Freeport of Riga, as well as eliminate the weaknesses and reduce risks.

7.1. Mission and Vision of the Freeport of Riga

7.1.1. Mission

The task of the Freeport of Riga as a global crossroad of cargo transportation is to satisfy the market demand for good quality handling services for all types of cargoes, adapting customer's preferences and global market changes, and offering attractive conditions for the development of entrepreneurship related to the port operation.

By the implementation of a socially responsible policy, the Freeport of Riga ensures environmental sustainability andpromotion of social dialogue between the port and society.

A commitment by the Freeport of Riga is to provide an attractive investment environment for development of port cargo handling operations, cargo processing and manufacture, to contribute consistently to the stable growth of Latvian economy..

7.1.2. Vision

The Freeport of Riga is a multi-functional, modern and long-term development oriented port located on the crossroads of transport corridors with growing importance in the global cargo and passenger transport chain, providing its customers with safe and reliable high-class port services at competitive prices in line with best practice of European ports.

The Freeport of Riga is a sustainable Baltic-scale business, manufacturing company and investment attraction hub which makes a significant contribution to the national economy.

The growth of the Freeport of Riga is based on the implementation of a socially responsible policy, sustainable use of resources, care of the environment and creation of long-term cooperation with public and municipal institutions and society for the development of a comprehensive and integrated transport infrastructure.

7.2. Strategic Objectives of the Freeport of Riga

According to the mission and vision of the Freeport of Riga, strategic objectives of the port have been defined and a *Strategic Action Plan* for the achievement thereof has been drawn up. Strategic objectives have been formulated and structured according to four general performance areas of the FRA:

- Cargo handling and passenger transport;
- Added value, industrialisation and spatial development;
- Infrastructure development and innovations;
- Port management.

A map of the strategic objectives (SO) of the FRA is depicted in Figure 23, followed by the list of performance indicators of the implementation of SO (see Table 13). Performance indicators provide monitoring of the implementation of SO.

Figure No 23

Map of the Strategic Objectives 2019–2028.

Performance Area of the Freeport of Riga Authority	Strategic objectives **(SO)**					
Cargo Handling and Passenger Transport	**SO 1** To Promote Stable Long-Term Increase in Cargo Volumes	**SO 2** To Make Riga a Significant Port for Cruise and Passenger Ferries in the Baltic Sea Region	**SO 5** To Promote the Recognition of the Freeport of Riga and to Attract New Customers	**SO 12** To Create a "Cluster" of the Freeport Companies of Riga By Ensuring Services Availability and Synergy	**SO 13** To Develop the Freeport of Riga According to the Operating Principles of the "Smart Port"	**SO 14** To Reduce Environmental Impact of the Freeport of Riga
Added Value Industrialisation and Spatial Development	**SO 3** Promote More Efficient Use of the Port Territory and to Attract Development Projects Enhancing Increase in Maritime Cargo Turnover to the Vacant Port Territories	**SO 4** To Promote Development of Manufacture and Cargo Added Value Services in the Freeport of Riga				
Infrastructure Development and Innovations	**SO 6** To Maintain a Safe and Sustainable Ship Service Infrastructure	**SO 7** To Maintain and Develop Land Infrastructure Suitable for the Service of Cargo and Passenger Flows	**SO 8** To Ensure Efficient Port Safety and Protection Systems Compatible with Today's and Future Challenges			
Port Management	**SO 9** To Strengthen Good Governance and Corporate Culture Principles at the FRA	**SO 10** To Implement a Sustainable Financial Policy	**SO 11** To Strengthen the Freeport of Riga as a Socially Responsible Body, Open to Society			

Table No 13

Performance indicators and criteria of the implementation of Strategic Objectives 2019–2028

Strategic objective	Performance indicators and criteria of the implementation of SO
SO1: To promote stable long-term increase in cargo volumes	• Increase in cargo volume handled in the Freeport of Riga 2019–2028: - total cargo turnover 45 million tons annually; - including container cargo – 1 million TEU annually; - positive average growth in cargo turnover (1–2% annually) for the period.
SO 2: To make Riga a significant port for cruise and passenger ferries in the Baltic Sea region	• Growth in numbers of cruise ships and passengers: - more than 150 entries of cruise ships annually; - more than 150 thousand cruise ship passengers annually; • Growth in passenger and cargo ferry traffic: at least one regular ferry line commences operation in the port.
SO 3: To promote more efficient use of the port territory and to attract development projects enhancing increase in maritime cargo turnover to vacant port territories	• At least 10 new land lessees in the port performing commercial activity related to port functions; • Growth in the leased port territory (% and ha); • Growth in the intensity of use of port territory (million t/ha divided by key cargo segments); • Cargo turnover generated by new land lessees (million t/annually). • Investments of merchants in the port territory (million EUR/annually and million EUR per period).
SO 4: To promote development of manufacture and cargo added value services in the Freeport of Riga	• Growth in the number of manufacturing and cargo added value service companies. • Growth in nomenclature of added value and manufacturing services provided in the port territory. • Cargo turnover generated by manufacturing units (million t/annually).
SO 5: To promote recognition of the Freeport of Riga and to attract new customers	• Growth in number of port customers – shipping lines, cargo dispatchers etc.Representation of the Freeport of Riga in significant sectoral events and organisations in Latvia and globally ; • International cooperation and takeover of good practice in various aspects related to port operation is promoted; • Representation of the interests of the Freeport of Riga is ensured in international organisations for economic connections, transport and logistics, and the cruise sector.
SO 6: To maintain safe and sustainable ship service infrastructure	• Main navigation way is expanded to 150 m; • Main navigation way dredged from the acceptance buoy to Krievu Island with the depth mark 16–17 m and from Krievu Island to the southern part of Kundziņsala with the depth mark up to 15,5 m; • Ensured sufficient depth by berths for service of the largest cruise ships of the Baltic Sea; • A single berth cordon line has been established thus acquiring new territories for the commercial activities in the port; • Reconstruction of breakwaters of the Freeport of Riga has been performed. • Reconstruction of the FG and CDE dams of the main navigation way coast reinforcement has been performed. • Reconstruction of at least one berth takes place annually. • Continuity of operation of navigation aids is ensured. • Compliance of the technical fleet with vessel traffic intensity is ensured (compliance of average age, capacity and equipment). • Number of shipping related accidents in the port is decreasing; • Number of defects related to the berth equipment (fenders, moorage equipment, lighting etc.) is decreasing. • Maritime Traffic Control Centre (STCC) equipment has been modernised.
SO 7: To maintain and develop land infrastructure suitable for the service of cargo and passenger flows	• Reconstruction of the railway connection in Kudziņsala has been performed; • Traffic overpass from Tvaika Street to Kundziņsala has been built. • Railway bridge has been built to Kundziņsala over Sarkandaugava canal; • Infrastructure on Krievu Island and at Kundziņsala is sufficient for the provision of terminal operation; • Infrastructure has been developed in the western part of Krievu Island; • Railway infrastructure has been modernised in Rīnūži and Daugavgrīva; • Adjustment of Spilve territories for the provision of port operation has been performed, including construction of public infrastructure; • Capacity of engineering communications of the Freeport of Riga has been increased;
SO 8: To ensure efficient port safety and protection systems compatible with today's and future challenges	• Number of safety incidents in the port is decreasing; • Compliance of port terminals with the requirements of ISPS and IMDG code is maintained; • Biometric access control system in the critical infrastructure facilities is in place; • Equipment of port pass control points with the digital port border crossing systems has been provided (Electronic port border crossing system EPBCS); • Linking of the port systems with the safety systems of the state administration (police, customs, border guard) has been performed, and efficient information exchange is in progress; • Linking of the FRA systems with the port terminal systems.

SO 9: **To strengthen good governance and corporate culture principles at the FRA**	• Customers are provided with updated information on the services provided by the FRA, procedures related thereto and fee determination principles; • Efficient communication with port customers is maintained; • A quality management system that meets standards is maintained. • An internal audit system is maintained and its recommendations implemented; • The corporate culture policy of the FRA has been developed and implemented; • A system for assessing employee efficiency and engagement is being developed and implemented;
SO 10: **To implement a sustainable financial policy**	• Excess of the FRA revenue over expenditure exceeds the depreciation of fixed assets; • EBITDA profitability is no less than 25%; • Proportion of equity capital (including financial support instruments) in the balance sheet total is no less than 70%; • Excess of revenue over expenditure after covering the credit obligations of the reporting period is directed for investments in the infrastructure; • EU or other financial support tools are used; • Conditions for the financial indicators set by the crediting institutions are met.
SO 11: **To strengthen the Freeport of Riga as a socially responsible body, open to society**	• Cooperation of the FRA with the port neighbourhoods continues; • Participation in events continues, and events related to the areas of social responsibility of the FRA are organised; • Monitoring of the image of the Freeport of Riga is periodically conducted, and the proportion of positive assessments is growing; • A purposeful communication policy of the FRA is being implemented.
SO 12: **To make a 'cluster' of the Freeport of Riga companies by ensuring availability and synergy of services**	• At least two providers of all commercial services are available in the port; • The number of providers of port services is growing. • The number of services available in the port is growing; • Port companies implement joint activities mutually or through cooperation with the FRA aimed at efficient use of resources.
SO 13: **To develop the Freeport of Riga according to the operating principles of the "smart port"**	• A new record keeping system of the FRA has been introduced. • The Port of Riga information system (ROIS) has been introduced. • New Port of Riga community information systems (ROKIS) have been developed and introduced. • The automation of port passing points has been performed (reduced border crossing time of cargo and vehicles, the possibility to plan time for cargo delivery/removal, the transfer to electronic drawing up of electronic cargo entry/exit documents). • To develop and offer to customers solutions for the support of port processes and increase in efficiency of data flow (IT applications etc.);
SO 14: **To reduce the environmental impact of the Freeport of Riga**	• Environmental quality management system which meets standards is maintained. • The port environmental aspect monitoring programme has been established and introduced; • Remediation of the historically polluted port areas has been completed; • Infrastructure for the acceptance of ship-generated waste compliant with the market demand is provided; • Service for the supply of ships with LNG (liquefied natural gas) is available in the port; • Coastal power supply for ships is available in the port; • Number of pollution incidents related to port operation is decreasing; • Number of complaints from the residents of Riga neighbourhoods affected by the port operation is decreasing. • Port becomes a member of the EU port environmental protection initiative *Green Port* network.

On the basis of the set strategic objectives of the FRA 2019–2028 and performance indicators, the *Strategic Action Plan* has been prepared (see below).

7.3. Strategic Action Plan

The Strategic Action Plan sets out the priority actions for the strategic objectives of the *FRDP 2019–2028*. The plan does not restrict the FRA to the activities it contains, it will be updated on a regular basis according to the changes in the market situation.

The Strategic Action Plan contains reasoning of topicality of each strategic objective (SO), which arises from the sections *Characterisation of the Freeport of Riga and Market Analysis* of the *FRDP 2019–2028,* key actions have been set for the achievement of the objective, as well as linkage of the objective with other strategic objectives has been specified.

7.3.1. **SO1**: To promote stable long-term increase in cargo volumes

Justification

The task of the FRA is to create conditions ensuring a stable long-term increase in cargo volumes – this achievement will ensure continuing operation and development of the Freeport of Riga.

Container cargo and agricultural and forestry cargoes have been identified in the *Market Analysis of the FRDP 2019–2028* as cargoes, that in the long-term will provide the basis for cargo turnover of the Freeport of Riga. Actions which will promote attraction of cargoes and increase in volumes, are to be considered as priorities, furthermore, the environmental impact caused by handling is relatively high. An environmentally-friendly port is part of the vision of the Freeport of Riga.

The FRA will develop the Freeport of Riga as a container port of regional importance (*"containerhub port"),* which serves cargo flows in Eurasia (including the Northern branch of *Silk Road*, *South-North* Corridor*, Trans-Siberian Highway etc.)*. In the future, the Freeport of Riga must become a port of the logistics centre *The Great Stone* for the distribution of cargoes to the Northern Europe.

The growing agricultural market provides the Freeport of Riga with the potential to become the dominant Latvian port in this group of cargoes. The majority of agricultural cargoes are made up of local Latvian exports, and, at the same time, the Freeport of Riga has the capacity to attract new volumes of transit cargoes. In the segment of the forestry cargoes, Riga continues to be the leading Latvian port serving export cargoes both of local and neighbouring origin. In the long term, export of local Latvian agricultural and forestry cargoes will provide the core of cargo turnover of the Freeport of Riga.

Energy resources, bulk chemical, metals and other transit cargoes will continue to be a significant part of the port cargo turnover, therefore the FRA will promote the development of these segments. The handling capacity of the terminals at the Freeport of Riga for this type of cargoes is sufficient for serving current and additional flows. Along with other markets of transit cargoes, in the area of cargo attraction, the FRA defines cooperation with Belarus as a priority; this country does not have direct access to the sea however, there is already stable cooperation between the countries. Belarus has the potential to generate additional transit cargo flow- containers, agricultural and forestry cargoes, as well as chemical bulk, oil product and other cargoes.

Key Actions for the Achievement of SO1

- To promote container handling:
  - To attract new container lines, including deep-sea lines;
  - To attract manufacturing industry and logistics companies to the unused territories of the Freeport of Riga, which perform cargo containerisation and provide cargo added value services (see also SO3 and SO4);
  - To apply such conditions of port dues to container ships, which promote an increase in cargo volumes;
  - To promote attraction of container cargo traffic to the Latvian transit corridor in cooperation with LDz and other involved parties;
- To promote handling of agricultural and forestry cargoes:
  - To attract manufacturing industry and logistics companies to the unused territories of the Freeport of Riga, which handle agricultural and forestry cargoes and provide added value services (see also SO3 and SO4);
  - To promote attraction of agricultural and forestry cargo traffic to the transit corridor of Latvia from Lithuania, Russia, Belarus, Ukraine etc. in cooperation with LDz and other involved parties;
- To support initiatives of the Freeport of Riga companies for the increase of cargo volumes in the current cargo segments (energy resources, bulk chemical, metals etc.), as well as in the attraction of new niche cargoes.

Linking with other SO

Other strategic objectives (except for SO2, which applies to the development of passenger transport) serve as supporting tools for the achievement of SO1.

7.3.2. **SO2**: To make Riga a significant port for cruise and passenger ferries in the Baltic Sea region

Justification

New connections of cargo-passenger (Ro-Pax) ferries with other ports of the Baltic Sea will ensure for Riga not only a better integration in the regional network of cargo and passenger transport, but will also enable an increase in the volume and proportion of Ro-Ro cargoes, diversifying the port cargo turnover.

In line with the growth of global cruise transport, the Baltic Sea region also sees a constantly growing cruise market. Riga as a capital city is more than suitable for the attraction of tourism. Riga has the potential to become a significant regional cruise passenger service port. Synergy with Riga local government and tourism sector companies (Riga International Airport, "AirBaltic", travel operators, Rail Baltica line operators etc.) will contribute to the long-term development of maritime traffic.

Key Actions for the Achievement of SO2

- To develop cruise ship and Ro-Pax ferry service infrastructure (see also SO6 and SO7);
- In cooperation with the tourism organisations and industry merchants of Riga local government:
  - To promote attraction of new cruise lines/operators to Riga;
  - To promote the recognition of Riga as a cruise city, including positioning of the port as a cruise starting and destination port (turnaround port);
  - To provide representation of the FRA and Riga city in the cruise associations sector (see also SO5);
- To attract new Ro-Pax ferry lines;
- To apply to Ro-Pax ferries and cruise ships such port due arrangements, which promote an increase in the number of passengers.

Linking with other SO

SO2 like SO1 is the performance indicator of the FRA, the achievement of which requires implementation of several other SO. The most significant contribution to the achievement of SO2 will be provided by SO5–SO8.

7.3.3. **SO3**: To promote more efficient use of the port territory and to attract development projects to increase maritime cargo turnover in vacant port territories

Justification

The port territory is a limited resource, therefore, efficient use is one of the basic conditions for the long-term development of the Freeport of Riga. The FRA must assess the efficiency of port companies, as well as promote the development of new projects in the port. The following principles are observed in relation to the development of the territory: maritime cargo handling terminals are to be primarily developed in the territories with direct access to the basin, while warehouse, logistics centre, manufacturing unit and similar projects, which would indirectly enhance growth in maritime cargoes or create another kind of synergy with the port companies, should be developed in the remaining territories.

Key Actions for the Achievement of SO3

- To develop and implement new land lease procedures with motivating conditions for the purpose of more efficient use of the port territory and increase in cargo turnover;
- To attract new companies to vacant port territories (see also SO5);
- In cooperation with stakeholders – review boundaries of the Freeport of Riga in separate port territories to promote their more efficient use and business activity;
- To promote the use of licensed commercial activity and free zone benefits (see also SO5);
- To prepare vacant territories for commercial use (engineering and geological investigations, development of transport infrastructure and engineering communication plans etc.);
- Through cooperation with project developers evaluate the efficiency of investments, to construct the port public infrastructure (transport infrastructure and engineering communications). ;
- Evaluate the efficiency of investments – to perform modernisation of the port public infrastructure to enhance increase in capacity of port terminals and efficiency of performance (see also SO6 and SO7).

Linking with other SO

Implementation of SO3 will contribute to the implementation of SO1, as well as the implementation of SO11. Implementation of SO3 should be viewed in context with the implementation of SO4 and SO5, whereas, the most significant contribution to the implementation of SO3 is planned from SO7 and SO12.

7.3.4. **SO4**: To promote the development of manufacturing and added value servicesin the Freeport of Riga

Justification

Development of manufacturing and freight diversification of added value services will provide a significant contribution to the achievement of SO3, therefore the FRA emphasizes it as a separate strategic objective. Along with the directions of activities defined in SO3, additional activities for the achievement of SO3 have also been determined.

Manufacturing units, the operation of which will attract flows of maritime cargoes of raw materials and/or finished products, should be developed in the Freeport of Riga. Availability of logistics and added value services (storage, handling, packing or re-packing, consolidation, containerisation etc.) in the Freeport of Riga provides customers with a wider range of choice, and thus promotes the attraction of cargoes. The aforementioned directions of activities enable the reduction of commercial activity risks related to a high proportion of transit cargoes. The development of added value and manufacturing services in synergy with the current cargo handling and storage services will enhance cargo flow in the Freeport of Riga.

Key Actions for the Achievement of SO4

- To develop and implement new land lease arrangements with motivating conditions for the purpose of the promotion of manufacturing and provision of added value services;
- To support initiatives of the Freeport of Riga for the development of the manufacturing and provision of added value services;
- To promote the attraction of manufacturing unit and new service projects to vacant territories (Spilve).

Linking with other SO

Implementation of SO4 will contribute to the implementation of SO1. Implementation of SO4 should be viewed in context with the implementation of SO3 and SO5, whereas, the most significant contribution to the implementation of SO4 is planned from the achievement of SO5, SO7 and SO12.

7.3.5. **SO5**: To promote recognition of the Freeport of Riga and to attract new customers

Justification

Recognition promotes the attraction of new customers and, under the circumstances of fierce competition, promotes additional cargo flows and passenger transport. This objective is to be achieved by the implementation of marketing activities and international cooperation. Marketing events will enable the active direction of port services to target markets, whereas, participation in various international organisations provides the opportunity to represent the interests of the Port of Riga and attract new customers.

Key Actions for the Achievement of SO5

- To develop and implement a new marketing strategy to promote the achievements of the strategic objectives of the *FRDP 2019–2028*;
- To actively involve the Freeport of Riga companies in the FRA marketing process;
- To cooperate with the Ministry of Transport, Riga local government, LDz, Riga International Airport, IDAL, organisations of the tourism sector, Rail Baltica operators and other organisations and to be incorporated into joint marketing activities of the transport sector of Latvia and to improve the efficiency of these events;
- To ensure participation in the organisations significant to the Freeport of Riga:
  - Representation of the Freeport of Riga interests in the development of the sector policy (International Association of Ports and Harbours (IAPH), European Sea Ports Organisation (ESPO), Baltic Ports Organization (BPO), International Harbour Masters' Association (IHMA), International Association of Cities and Ports (IACP) etc.);
  - For the attraction of cargoes and passengers (Coordinating Council on Trans-Siberian Transportation (ICCTT), World Free Zones Association (WFZA), Association for the Enhancement of Latvian-Belarusian Economic Connections (LBESVB), *Cruise Europe, Cruise Baltic*, Cruising Lines International Association (CLIA), various chambers of commerce and industry etc.);
- To promote the transfer of the international good practice of ports in the FRA and the Freeport of Riga companies;
- To continue cooperation with sister-ports;
- To promote the exchange of experiences of the FRA and other Freeport of Riga specialists.

Linking with other SO

Implementation of SO5 provides a significant contribution to SO1–SO4, as well as the implementation of the remaining SO.

7.3.6. **SO6**: To maintain a safe and sustainable ship service infrastructure

Justification

In sea freight and passenger transport, the average number of ships is increasing furthermore, navigation and ship control technologies are being improved. Under the circumstances of competition, the Freeport of Riga must offer a safe and secure compliant ship service infrastructure (breakwaters, navigation way, berths, navigation equipment etc.). The development of the ship service infrastructure must correspond to the prospective cargo and passenger flow in specific port areas, at the same time, it should be economically justified and promote sustainable development of the Freeport of Riga.

Key Actions for the Achievement of SO6

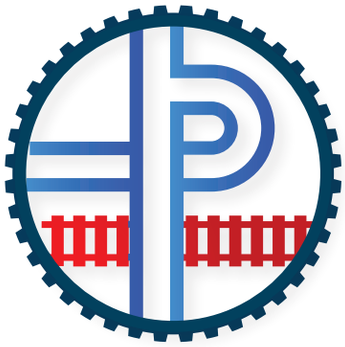
- To develop a medium-term maintenance and modernisation plan for the Freeport of Riga infrastructure;
- To carry out planned modernisation of the berths of the Freeport of Riga ;
- To expand the main navigation way to 150 m, in order to provide entry of heavy tonnage cargo and cruise ships into the port;
- To dredge the main navigation way of the Freeport of Riga from the acceptance buoy to Krievu Island with the depth mark 16–17 m and from Krievu Island to southern part of Kundziņsala with the depth mark to 15.5 m, in order to ensure service of heavy tonnage bulk and container ships;
- To ensure a sufficient depth of berths for the service of the largest cruise ships of the Baltic Sea;
- To assess and develop the sea inlets of the port basin, which are not suitable for the service of heavy tonnage ships to create a single berth cordon line and new territories for commercial activity;
- To restore coast reinforcements, including reconstruction of the FG and CDE dam;
- To reconstruct the Eastern Dam and Western Dam;
- To modernise navigation equipment in cooperation with the LLC (SIA) “Rīgas brīvostas flote” (lighthouses, fire marks etc.);
- To provide renovation of other objects related to safe navigation, and the development of infrastructure:
  - Modernisation of STCC equipment to ensure safe, continuous (24/7) and compliant activity;
  - To assess compliance of the port technical fleet with provision of good quality navigation services in cooperation with the LLC (SIA) “Rīgas brīvostas flote” (ice-breakers, pilot boats etc.);
- To promote the provision of compliant wastewater collection by passenger ship service berths (related to SO14);
- To support the development of a shore side electricity infrastructure compliant with EU requirements in the Freeport of Riga.

Linking with other SO

Implementation of SO6 is a significant precondition to the implementation of SO1 and SO2. SO6 is a comparatively independent goal, which is not directly dependent on the implementation of the other SO, however, it is related to the implementation of SO8, SO10, SO11 and SO14.

7.3.7. **SO7**: To maintain and develop land infrastructure suitable for the service of cargo and passenger flows

Justification



In order to ensure operative cargo flow from and to the Freeport of Riga, port land infrastructure with throughput adjusted to the infrastructure of LDz, national roads and the street network of Riga needs to be maintained and developed. Furthermore, good connections with the public transport system of the city are also crucial for the service of passenger flow. In turn, the development of port engineering communications (power supply, water supply and sewerage, gas supply, communication networks) should be developed and coordinated with service providers (JSC (AS) "Sadales tīkli", JSC (AS) "Augstsprieguma tīkli", JSC (AS) "Gaso", LLC (SIA) "Rīgas ūdens"

etc.). The development of the port land infrastructure must correspond to the prospective cargo and passenger flow in specific port areas, and at the same time, it should be economically justified and promote the sustainable development of the Freeport of Riga.

Key Actions for the Achievement of SO7

- To develop a medium-term maintenance and modernisation plan for the Freeport of Riga infrastructure;
- To evaluate and determine the use of the land infrastructure of the Freeport of Riga – an optimal management model;
- To develop the land infrastructure of Kundziņsala according to the forecasted growth of cargo turnover (containers, agricultural cargoes etc.):
  - Reconstruction of the current railway connection;
  - Construction of a new railway bridge to Kundziņsala and connecting railway tracks – in coordination with LDz;
  - Modernisation of the railway infrastructure by developing a railway station in Kundziņsala;
  - Building of a traffic overpass from Tvaika Street to Kundziņsala providing port connection to the Eastern Highway;
  - Modernisation of road infrastructure by balancing the prospective development of terminals with infrastructure capacity;
- To modernise the railway infrastructure in Rīnūži and Daugavgrīva;
- To continue the development of infrastructure in the western part of Krievu Island (preparation of territory, construction of berths and related infrastructure, reconstruction of Hapaka ditch etc.);
- In cooperation with new project developers – construct public infrastructure (a transport and engineering communication network) in vacant port territories (including Spilve);
- To increase the capacity of engineering communication networks of the Freeport of Riga;
- In cooperation with LDz within the framework of the project "Electrification of the Latvian Railway Network" – address the issues on electrification of the railway network to the Freeport of Riga train stations;
- In cooperation with Riga local government – ensure the infrastructure for passenger and road transport access.

Linking with other SO

Implementation of SO7 will provide a significant contribution to the achievement of SO1 and SO2, as well as SO3–SO4. SO7 is a comparatively independent goal, which is not directly dependent on the implementation of the other SO, however, it is related to the implementation of SO10, SO11 and SO14.

7.3.8. **SO8**: To ensure efficient port safety and protection systems compatible with today's and future challenges

Justification

Complex management and minimisation of safety risks is an important task for the FRA, taking into account security risks related to navigation safety, movement of dangerous goods, as well as overall global security risks. The development of safety and protection systems is aimed at the improvement of the overall safety level of the Freeport of Riga. The implementation of modern technologies will enhance efficiency of safety and protection systems: reduce response time in case of risks, as well as the use of resources. Security systems must be developed in a balanced manner – by simplifying processes as much as possible, but still retaining a high safety level.

Key Actions for the Achievement of SO8

- To develop and implement the FRA Security Concept;
- Monitor compliance of the requirements of ISPS and IMDG codes in port companies to improve the safety of ships and terminal equipment, as well as reduce risks caused by the movement of dangerous goods;
- To implement a single Port perimeter control system for efficient control of movement of people and cargoes:
  - The implementation of a biometric access control system in critical infrastructure objects;
  - The implementation of a port electronic border crossing system at passport control points;
- To connect information systems of the FRA and public authorities (police, customs, border guard etc.), as well as the FRA and port companies to speed up the circulation of information related to safety risks;
- To use up-to-date technologies and equipment for more efficient video surveillance of the port territory and other security systems (including drones, movement sensors, thermal sensors, odour sensors etc.).

Linking with other SO

Implementation of SO8 is necessary for the achievement of SO1 and SO2. SO8 is a comparatively independent goal, which is not directly dependent on the implementation of the other SO, however, it is related to the implementation of SO6 (in the area of navigation safety), SO10 (financial management) and SO12 (implementation of IT systems in the areas of security and protection).

7.3.9. **SO9**: To strengthen good governance and corporate culture principles at the FRA

Justification

Both the coordinated operation of the FRA and port companies and efficient internal management processes of the FRA are significant for the achievement of the strategic objectives of the *FRDP 2019–2028*. Compliance with the principles of good administration enables the implementation of customer- and public interest-oriented FRA operation. Involved and motivated employees of the FRA are a prerequisite for good quality performance of the FRA functions and give a more efficient cooperation with port customers.

Key Actions for the Achievement of SO9

- Simplify administrative procedures to facilitate customer interaction with the FRA;
- To ensure transparency in FRA management decision-making implementation processes;
- To implement principles of e-Management:
  - Implementation of IT solutions (port customer application, electronic submission etc.) to ensure circulation of updated business information and faster communication with port customers (related to SO13);
  - Improvement of IT solutions in the FRA management and record-keeping processes;
- To improve personnel management processes, implement principles of corporate culture in the FRA to motivate employees, improve efficiency of work, increase engagement and feeling of belonging.

Linking with other SO

Implementation of SO9 indirectly enhances the achievement of SO1 and SO2, as well as provides contribution to the achievement of the remaining SO. SO9 does not depend directly on the implementation of the other SO.

7.3.10. **SO10**: To implement a sustainable financial policy

Justification

The FRA must implement a sound and sustainable financial policy to be able to provide long-term financing for the maintenance and development of a capital-consuming infrastructure under changing market conditions. The FRA financial management will be based on the following principles: medium-term financial planning according to three year *Action plans*, revenue and expense control, economically justified investments and efficient attraction of financial support tools.

Key Actions for the Achievement of SO10

- To implement a sustainable FRA financial policy, based on the regular monitoring of financial indicators of economic activity of the Freeport of Riga;
- To maintain a competitive and transparent port service tariff policy;
- To develop a new model of Riga port charges/dues, which will promote the development of a strategically significant cargo segment;
- To develop guidelines for the balancing of the FRA revenue structure to reduce dependence on revenue from port dues;
- To attract available financial support tools (EU structural funds etc.) for the financing of development projects.

Linking with other SO

Implementation of SO10 enhances the achievement of all the remaining SO taking into account that performance of any actions requires the planning of an efficient implementation and maintenance financing model. Achievement of SO10 will be enhanced by the implementation of SO1 and SO2.

7.3.11. **SO11**: To strengthen the Freeport of Riga as a socially responsible body, open to the public

Justification

The Freeport of Riga is a significant body for the growth of the city and state with an integrated and balanced development of port companies, environment and port neighbourhoods. The FRA will support socially responsible entrepreneurship and promote cooperation of all involved parties, public education, improvement of quality of life of the neighbourhood and preservation of cultural and historical heritage. This will change the public's understanding in general on the port's role and contribution, leading to an improvement in attitude and a positive assessment for the operation of the Freeport of Riga in Riga city.

Key Actions for the Achievement of SO11

- To maintain active communication with the port neighbourhoods and society by explaining development strategy and operational aspects of the Freeport of Riga;
- To involve residents of the port neighbourhoods and other interested persons in an exchange of ideas regarding cooperation between the port and the city;
- To promote education in society, preservation of the cultural and historical heritage of the port, science and education, to support culture and sports events to strengthen the image of the port as a socially responsible body;
- To improve public access points to water, cultural, historical and nature sites, as well as rest areas etc., ;
- To perform surveys regarding the role of the Freeport of Riga Authority in the economy of Riga city and Latvia and to inform society on the importance and delivery of the port;
- To perform regular monitoring of the image of the port.

Linking with other SO

Implementation of SO11 indirectly enhances the achievement of all the remaining SO, because society accepts the implementation of the development projects of the port, the Freeport of Riga has a good public image etc. Implementation of SO11 depends on the implementation of SO5, SO9 and SO14.

7.3.12. **SO12**: To make a 'cluster' of the Freeport of Riga companies by ensuring availability and synergy of services

Justification

The availability of a wide range of services will make the Freeport of Riga the most attractive place for cargo traffic and entrepreneurship in the Baltic region, which will significantly contribute to the achievement of the strategic objective SO1. The interaction of all the companies operating in the Freeport of Riga (terminals, ship/cargo agents, shipping line operators, forwarders, tugboat services, bunkering services, ship building and repair and other services) is important, as well as cooperation with the FRA, which will cause synergy and provide mutually complementary services and cost savings for customers.

Key Actions for the Achievement of SO12

- To provide simple procedures for the commencement and performance of commercial activity:
  - To facilitate the entry of such services in the port, complementary to the services offered to the customer;
  - To promote improvement of the existing services according to technology innovations and market demand.
- To promote mutual cooperation of the FRA and port companies by implementing joint activities (external marketing, exchange of experience), to ensure the efficient use of resources.

Linking with other SO

Implementation of SO12 enhances the implementation of SO1–SO5, and may contribute to the implementation of SO10 and SO14. Implementation of SO12 depends on SO6, SO7.

SO6 SO7

7.3.13. **SO13**: To develop the Freeport of Riga according to the operating principles of the "smart port"

Justification

"Smart ports" with efficiency, resource economy and a responsible attitude to the environment as the key operational principles, will be the ones, who will be able to adjust best to the challenges caused by growing competition among ports in the future. This will be supported by the implementation of up-to-date IT solutions and technological achievements. Compatibility of information systems, automated actuators, modern equipment and other solutions will enable the interaction between the port and customers ("port-customer", "customer-customer", "port-involved parties") much more beneficial.

Key Actions for the Achievement of SO13

- To modernise the FRA information systems for the provision of management processes;
- To link the information systems of the FRA and public authorities, as well as the information systems of the FRA and port companies to ensure more efficient information exchange (see also SO8 and SO9);
- To implement IT solutions for automation of various aspects of port operation;
- To use the latest technology and equipment for the performance of the FRA functions in order to ensure economy of resources (ship management systems, safety and environmental protection);
- To develop and offer the customer solutions for the support of port processes and increase of efficiency of data flow (IT applications etc.);
- To work on the *digitalisation* of the transit corridor of Latvia in cooperation with LDz, port companies and other involved parties.

Linking with other SO

Implementation of SO13 in the long term may significantly enhance the achievement of SO1 and SO2, as well as provide contribution to the achievement of the remaining SO. Implementation of SO13 in the long term may be mutually related to the implementation of all the remaining SO (except for SO1 and SO2).

7.3.14. **SO14**: To reduce the environmental impact of the Freeport of Riga

Justification

Reduction of environmental impact of the port is one of the preconditions to sustainable development of the port and also to the improvement of competitiveness. The environmental policy of the FRA is aimed at the reduction of the "*ecological footprint*" of the Freeport of Riga (emissions, noise, pollution etc.) in the daily operation of port. In the future, the FRA will promote the implementation of technologies which will reduce the environmental impact of the port.

Key Actions for the Achievement of SO14

- To develop and implement a single monitoring programme for the control of significant environmental aspects in the Freeport of Riga;
- To increase overall energy efficiency of the Freeport of Riga;
- To apply port dues, which promote the use of environmentally friendly technologies;
- To improve the management system of ship generated waste;
- To continue remediation of the historically polluted port areas;
- To attract financial support tools for a more efficient implementation of environmental projects (see also SO10);
- To use up-to-date technologies and equipment for a more efficient provision of environmental protection measures;
- To clean up degraded port territories and take preventive measures for the protection of publicly available port land territories against pollution with household and industrial waste to decrease the consumption of waste management resources.

Linking with other SO

Implementation of SO14 is necessary for the provision of the operation of the Freeport of Riga, i.e., in the long term, SO14 promotes implementation of SO1 and SO2, as well as the implementation of the remaining SO. Achievement of SO14 is related to the implementation of SO3, SO4, SO6, SO7, SO8, SO9, SO10 and SO11.

8. Strategic Financial Plan and Socio-economic Impact

The Strategic financial plan has been prepared within the framework of the *FRDP 2019–2028* estimating the planned revenue and operating costs of the FRA, as well as planned investments. Risk analysis has been performed and the possible impact of risks on the financial performance of the FRA has been calculated within the framework of the financial plan. Strategic level socio-economic analysis has also been performed estimating the possible non-monetary gains and costs from the implementation of the *FRDP 2019–2028,* as well as the possible impact of other transport infrastructure development projects on the development of the Freeport of Riga.

The financial plan has been prepared on the basis of the cargo flow and revenue forecast prepared by POR consultants. The FRA financial plan has been prepared for a 5 year period (up to 2023), which is a shorter term than the period of the *FRDP 2019–2028*. The shortened period was selected to provide a sufficient credibility level of the financial plan.

8.1. Methodology and Key Assumptions

The FRA revenue forecast 2019–2023 has been prepared by POR consultants on the basis of the developed cargo flow forecast, as well as the valid dues at the Port of Riga. A limited increase of these dues in the long-term was foreseen, however, the growth rate of port dues (tariffs) is significantly slower than the growth rate of costs (inflation).

Cost estimates have been created by dividing them into the variable (the amount of which is closely related to the volume of the handled cargoes) and fixed costs; the calculation is linked to the cargo flow forecast and changes depending on the selected development scenario. The forecast includes cost indexing with an inflation rate based on the values of macroeconomic assumptions and forecasts published by the Ministry of Finance of the Republic of Latvia.

Financial calculations have been prepared in EUR currency excluding value added tax. The FRA mainly performs transactions in EUR and US dollars based on the principle that the main revenue – port dues – are in the same currency, in which the bank financing has been received and is to be repaid, thus excluding significant fluctuations of profit/losses depending on changes in the currency exchange rate.

The *Strategic financial plan* provides for an "open" investment section. Calculations include the costs of investment projects, which have been initiated during the period of the *FRDP 2009–2018* or the implementation of which is planned in the long-term FRA budget calculations and affects the period of the *FRDP 2019–2028*. Investment costs of these projects and receipt and repayment of financing related thereto have been included in the calculation of cash flow.

In addition, a separate section of the *Strategic financial plan* includes investment projects, implementation of which is planned by the FRA during the period of the *FRDP 2019–2028*, however, at the time of developing the *FRDP 2019–2028*, the year of commencement of the implementation thereof has not been determined, furthermore, a financing model has not been prepared. The FRA will decide on the implementation of these projects taking into account cargo flow dynamics, prospective demand of the port companies and customers for relevant modernisation of infrastructure, expected return of investments, and the availability of required financing.

The calculation of the financing cash flow includes the preparation of loan contracts valid at the time of the preparation of the *FRDP 2019–2028* according to the respective schedules. The implementation of the investment projects planned in the future is possible using various sources of financing, including investment of own funds, EU structural and investment funds, public and private partnership (PPP), loans from credit institutions, as well as investments of the lessees' funds (with subsequent compensation of the investment from the lease fee).

The result of financial forecasting is net cash flow projection, which reflects the sufficiency of the FRA funds for the financing of the operation of the Freeport of Riga, as well as a surplus of available funds for the co-financing of investment projects.

8.2. Financial Forecasts for Development Scenarios

Financial forecasts of scenarios include the forecast for revenue and operational costs, the current forecast of investments and the forecast of financing cash flow. Key performance indicators of the financial plan are summarised in Table 14.

Table No 14

The FRA financial indicators for each scenarios in 2019 and 2023, million EUR

Indicator	***Minimum scenario***		***Optimistic scenario***	
Year	**2019**	**2023**	**2019**	**2023**
Revenue from port dues	38.2	39.7	42.8	49.4
Revenue from lease	6.1	6.3	6.2	6.4
Other revenue	1.5	1.6	1.7	2.1
EBITDA	19.7	19.3	24.2	29.2
Excess of revenue over costs	7.3	5.6	11.7	15.4
Net cash flow*	8.0	12.5	12.4	22.2

* - Net cash flow is the total of cash flow of economic activity, cash flow of investment activity and cash flow of financing activity, and it reflects the annual net financial performance of the FRA (growth or reduction of excess cash)

Source: POR, FRA.

In both scenarios:

- There is a significant dependence of the FRA on the revenue from port dues;
- Within the five year projection, growth of total revenue is planned, including growth in all revenue groups (revenue from port dues, revenue from lease and other revenue);
- EBITDA and net cash flow are increasing, while excess of revenue over expenditure is decreasing.

According to the financial plan, a significant accumulation of funds during the period up to 2023 is forecasted. Taking into account the good financial situation of the FRA (relation of obligations to EBITDA as of 31.12.2017 is 2.96; numerous value of the ration from 3 to 8 is considered as an acceptable indicator in the sector for the ports, which implement voluminous investment projects), the FRA has the possibility to attract additional credit resources for the implementation of investment projects, furthermore, there are also other options of attracting funds (EU structural and investment funds, PPP).

8.3. Investments

The developed financial forecast includes separate investment projects, which have either started during the period of the *FRDP 2009–2018* and will be completed before 2023 or the implementation of which is planned in the prospective five years and is included in the FRA long-term budget calculations up to 2023:

- Investments in the project "Development of Infrastructure on Krievu Island for the Transfer of Port Activities from the City Centre";
- Building of a traffic overpass from Tvaika Street to Kundziņsala;
- Dredging works of the access channel for the entry of ships (annual maintenance of the channel);
- Renovation of hydrotechnical structures;
- Reconstruction of the historical coast reinforcement of the main ship channel;
- Repurchase of land in the territory of the Freeport of Riga;
- Draining of the residential area of Kundziņsala;
- Development of small yacht harbours;
- Renovation of roads;
- Acquisition of intangible assets, equipment and machines;
- Establishment of fixed assets and construction;
- Other minor works.

The list of the remaining investment projects planned by the FRA for the period of the *FRDP 2019–2028* (without the implementation schedule and financing model), which have not been included in the cash flow calculations, is reflected in Table 15.

Table No 15

Estimated amount of necessary investments during the period of the FRDP 2019–2028, by investment areas

Investment objects/activities	Estimated investments, million EUR
Rebuilding of the access channel for the entry of ships in the Port of Riga (dredging and expansion)	60.00
Development of new infrastructure (including reconstruction of Hapaka ditch on the western side of Krievu Island, filling up of various sea inlets in the port basin, straightening of the berth cordon line etc.)	50.00
Reconstruction of the Eastern Dam and Western Dam	40.00
Development of infrastructure in Spilve meadows for the building of a new logistics centre (including land works, basic infrastructure, engineering networks etc.)	42.50
Development of a railway access infrastructure	24.55
Reconstruction of the berths in the ownership and possession of the FRA	10.50
Reconstruction and building of roads and squares	10.00
Measures for the creation of infrastructure of shore side electricity for ships	5.00
Modernisation and development of port security and protection systems	1.50
Modernisation and development of port IT systems (Velkonis, ROKIS etc.)	1.20
Development of water and sewerage infrastructure	0.75
Modernisation of power supply networks	0.18

Source: FRA

Considering the variable market situation, especially within the context of the 10 year development document, there is a chance that part of the projects listed in the table will be postponed to until the next planning period (after 2029) or cancelled at all will be cancelled.

8.4. Analysis of Sensitivity and Risks

The risks of FRA's financial activity have been divided in four categories: economic risks, project implementation risks, operational risks and political risks. The main identified risks are probability and impact. Impact is quantified using the results of the analysis of sensitivity and changing assumptions in the developed financial model and assessing their impact on the FRA's activities at the end of each financial year.

Both the possibility of risk and impact were assessed using a 3 point scale, where 3 means a high possibility/impact, whereas 1 – low possibility/impact.

Sensitivity analysis was conducted for the *Minimum scenario* considering the fact that it reflects a conservative approach to the forecasting of the FRA revenue and cash flow. The *Optimistic scenario* will show a higher resistance to negative changes of external conditions anyway.

The risk assessment and risk matrix are provided in Table 16 and Table 17.

Table No 16

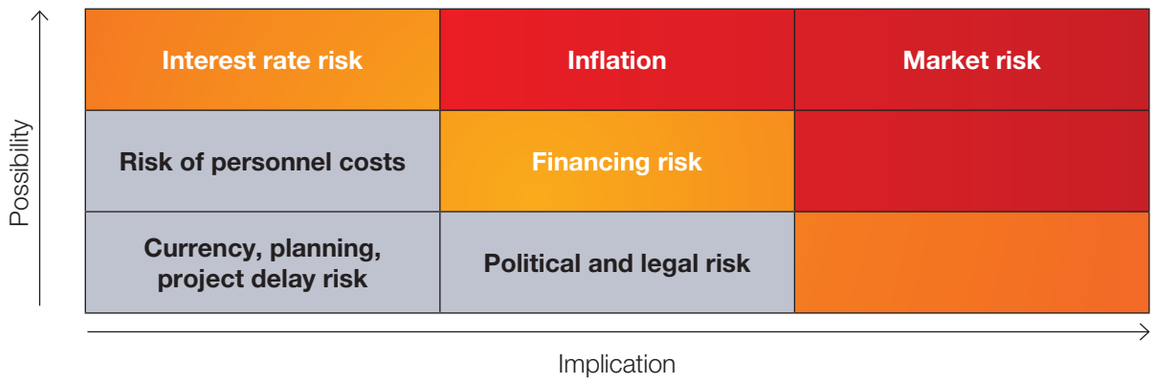
Summary of the FRA risk analysis.

Risk	Possibility of occurrence (1)	Impact (2)	Risk assessment (1) x (2)
Market risk	3	3	9
Inflation risk	3	2	6
Interest rate risk	3	1	3
Currency risk	1	1	1
Financing risk	2	2	4
Planning risk	1	1	1
Project delay risk	1	1	1
Risk of personnel costs	1	2	2
Political risk	1	2	2
Legal risk	1	1	1

Explanation: impact assessment from 1 to 3, where 1 – low, 2 – medium and 3 – high; possibility assessment from 1 to 3, where 1 – low, 2 – medium and 3 – high.

Table No 17

The RBP risk matrix



The main conclusions of the sensitivity and risk analysis and risk characterisation are given below:

- The most significant risk affecting the FRA is the risk of market fluctuation, the impact of which may result in a decrease in the volumes of cargoes handled by the Freeport of Riga. Coal, fertilizer, oil products and container cargo are considered as critical cargo groups. If the volume of all the aforementioned cargoes in the Freeport of Riga decreases by 35% or the volume of coal decreases by 45% (without the decrease in volume of other cargoes), a cash deficit in the FRA is expected during the five year planning period (negative cash balance). At the same time, if the handling of fertilizer, oil products and containers is suspended in the Freeport of Riga (reduction by 100% in all 3 cargo groups), it will not critically affect the net cash flow of the FRA (there will be no cash deficit), however, implementation of the FRA development projects will be jeopardised.
- The inflation risk is taken into account in the financial forecast of the development scenarios, with more intense indexing of cost inflation than indexing of revenue inflation.
- A possible increase of interest rates of current credit obligations of the FRA (increase of EURIBOR) does not critically affect the FRA net cash flow (there will be no cash deficit).
- The rising risk in prices in investment projects could be of higher importance in the first years of the *FRDP 2019–2028*, when a comparatively smaller accumulation of funds is projected, however, a critical impact would be caused if estimates of the investment projects increase at least twice, which is very unlikely. In the long term however, a growing accumulation of cash can be expected for the FRA, thus mitigating the possible consequences of this risk. For the purpose of efficient risk management, the FRA will implement good quality project management and sound financial management by using the most beneficial options for attracting finance, as well as implementing investment projects depending on available finance.
- Political risks should considered in two dimensions: local risks should be assessed as insignificant, while international risks related to changes in the geopolitical situation are relevant in the risk assessment of cargo flow reduction.
- With the exception of the aforementioned risks, no other risks have been identified during the analysis, which are significant within the context of the forecasting of the financial situation of the FRA.

8.5. Socio-economic Impact

The s socio-economic analysis has been prepared within the framework of the *FRDP 2019–2028*, identifying the possible indirect benefits and costs from the implementation of the *FRDP 2019–2028*, without quantification (expression in monetary terms) of the identified impacts.

The Freeport of Riga is a significant infrastructure object, which directly and indirectly affects the economy of Riga and Latvia. The FRA employs ~300 people, but the Freeport of Riga – ~5,000 people. The companies serving the Freeport of Riga employ an additional ~15,000 people. Furthermore, the implementation of investment projects ensures the creation of jobs in other related sectors of the national economy (construction, transport etc.). For example,

~2,000 people were involved in the implementation of the project "Development of Infrastructure on Krievu Island for the Transfer of Port Activities from the City Centre". This suggests that the Freeport of Riga is one of the most significant employers in Riga and a significant nationwide economic operator.

The development of the Freeport of Riga may significantly affect related sectors of the national economy, as well as society in general. The development of the Freeport of Riga has significant importance in the implementation of other projects of the transport sector and vice versa – the implementation of other projects may affect the development of the Freeport of Riga. A summary of the possible direct and indirect socially economic impacts is provided in Table 18.

Table No. 18.

Possible socio-economic impact of the implementation of the FRDAP 2019–2028 on the national economy and society.

Factor	Economic impact	Social impact
Implementation of infrastructure projects (construction), including port infrastructure and terminals	• Additional contribution to the growth of the national economy during the implementation of projects (designing, manufacturing of construction materials, transport etc.)	• Growth in employment (in the short-term, during the construction) • Possible social costs in relation to negative environmental impact (for example, air pollution, noise, higher burden on transport infrastructure – during construction)
Operation of the new infrastructure and terminals	• New contracts on management,supply and other services or additional volumes for the current contracts due to operation of new objects • Benefit to the shipping companies and shippers in relation to a) possibility for larger ships to enter the port, and b) shorter ship entry/exit time (due to modernisation of ship navigation infrastructure) • Growth of transport sector in relation to growth of cargo flows • Additional long-term employment will determine reduction of losses of the national economy due to retaining economically active people in Latvia (choosing to stay and live in Latvia)	• Increase in the living standard in relation to employment • Possible social costs in relation to negative environmental impact (air pollution, noise etc.) • Potential losses of time for residents and time costs in relation to more intensive traffic (increase in truck flow towards the direction of the port)
Development of passenger transport	• Increase in the number of tourists in Riga city (ferry traffic, cruise ships), respective additional revenue in the tourism industry • If the Freeport of Riga starts operating as a port of departure or destination of cruises: a) Additional development impulse for the remaining transport infrastructure (Riga International Airport, national airline "AirBaltic", public city transport, railway) in relation to arrival/departure of large number of tourists to/from Riga to/from cruise ships b) Additional benefits to tourism sector (accommodation, catering etc.) c) Additional development impulse for the sectors related to ship service and supply (ship repair, technical supply, food supply and such like)	• Possible rise in prices in tourism and related industries during the tourist season in relation to increase of solvent demand
Implementation of environmental protection measures	• Support of the related sectors (planning, designing and implementation of environmental measures) • Possible burden of additional costs to related companies (for example, port terminals)	• Improvement of the living standard of society in relation to higher quality urban environment (lower pollution, better access to water , more attractive city landscape and such like)
Implementation / improvement of port safety measures	• Possible burden of additional costs to related companies (for example, port terminals) • Non-monetary benefit for the sector from higher level of safety in the Freeport of Riga (lower accident risk, lower risk of unlawful actions etc.)	• Benefit for society from higher safety level in the Freeport of Riga (lower risk of accidents and relevant negative impact on residential districts, lower public safety risks etc.)
Development of port technologies	• Benefits from reduction in consumption of resources	• Benefit from the reduction of the ecological footprint in the operation of the port

It should be taken into account that the implementation of the planned transport infrastructure development projects may impact also on the development of the Freeport of Riga. A short summary of the possible impacts is provided in Table 19.

Table No 19

Possible impact of the large transport infrastructure projects on the implementation of the FRDP 2019–2028 and on the development of the Freeport of Riga

Project	Positive impact	Negative impact
Rail Baltica	• Possible attraction of additional cargo flow to the terminals of the Freeport of Riga (however, this potential is not clear taking into account the selected track of *Rail Baltica* and lack of connection with the Freeport of Riga) • Possible additional flow of passengers from *Rail Baltica* to ferries and cruise ships, support of *Rail Baltica* to the Port of Riga as a port of departure or destination of cruise ships, ensuring convenient passenger connection with the Nordic countries and Western European countries could be especially significant	• Creation of a possible "bottleneck" during the rebuilding of Riga Central station limiting traffic of cargo trains through the station and the bridge over the River Daugava, thus negatively affecting operation of the port terminals, especially on the left bank of the River Daugava (to be primarily related to the operation of the new coal terminals on Krievu Island) • Possible redistribution of cargo flows from ships to trains taking into account the logistics centre in Salaspils planned within the framework of the *Rail Baltica* project, where the point of intersection of 1,520 mm Eastern-Western railway corridor and 1435 mm Northern-Southern railway corridor will be located
Electrification of the network of Latvian railway	• Possible improvement of the competitiveness of the corridor of Latvian railway by switching to electric traction (however,for the purposes of full functionality, electrification of railway tracks from Šķirotava station to the terminals of the Freeport of Riga, primarily to Krievu Island should be foreseen)	• Possible train traffic limitations and temporary reduction of throughput during construction
Reconstruction of the stretch of railway Sarkandaugava–Mangaļi–Ziemeļblāzma	• Improvement of throughput on the stretch by constructing the second railway track on it.	• Possible train traffic limitations and temporary reduction of throughput during construction
Reconstruction of Tvaika Street and the building of the traffic overpass from to Kundziņsala	• Improvement of truck traffic on the right bank of the River Daugava, in the area of Sarkandaugava, Kundziņsala, Mīlgrāvis, as well as improved connection with the areas of Mangaļi, Vecmīlgrāvis and Mangaļsala • Significantly improved connection with the terminals arranged at Kundziņsalā, as well as improved connection of Kundziņsalas residential district with the transport infrastructure of Riga	• No significant negative impact has been established

The *Strategic action plan* included in the *FRDP 2019–2028* defines actions oriented to the maximisation of the economic benefits from the operation and development of the Freeport of Riga for society and the economy in general, as well as elimination or reduction of a possible negative impact on residents and the environment to a level acceptable to society.

To maximise benefits and minimize negative impacts, the FRA will cooperate with stakeholders and other project developers (for example, Riga local government, social organisations, sectoral ministries, LDz, Riga International Airport etc.).