



DEVELOPMENT PROGRAMME

The Freeport of Riga
2019-2028

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List of terms and acronyms

AER - renewables

airBaltiC - JSC “Air Baltic Corporation”

AS - Joint-stock company (akciju sabiedrība)

Baltic Sea Passage – one of the four main sea cargo passages, servicing import and export flows from/to Eurasian inland territories, the servicing of which the Freeport of Riga is also catering

CSP - Central Statistical Bureau of Latvia

DWT - deadweight tonnage

EBITDA - earnings before interest, taxes, depreciation and amortization

EK - The European Commission

ES - The European Union

GT - gross tonnage

Interested parties – natural persons and legal entities, as well as state and municipal institutions, interested in performing particular activities (including the options to influence or control activities, to participate in implementation of the activities, or to influence the result of activities or the side effect of the activity)

GDP - gross domestic product

IMDG - International Maritime Dangerous Goods Code

ISPS - International Ships and Port Facilities Security Code

VTSC - Vessel Traffic Service Centre

Riga Airport - SJSC “Riga” International Airport”

LDz - SJSC “Latvijas Dzelzceļš”

MK - Cabinet of Ministers

Port surroundings – Surrounding of Riga, partly located at the territory of the Freeport of Riga or sharing borders with the Freeport of Riga territory, or are located in close proximity to the Freeport of Riga and which could affect the work of the Freeport of Riga

POR - Port of Rotterdam International

PPP - public and private partnership

FRDP 2019-2028 – the Freeport of Riga development programme for 2019-2028
FRDP 2009-2018 - the Freeport of Riga development programme for 2009-2018

RBF - LLC “Rīgas brīvostas flote”

FRA - the Freeport of Riga Authority

Ro-Pax - Roll on – Passenger

Ro-Ro - Roll on - Roll off

RTP 2006-2018 – the Riga Territory Plan for 2006-2018

RTP 2030 - the Riga Territory Plan until 2030

LLC - limited liability company

Stevedoring company – the legal entity performing ship cargo loading/unloading

SWOT – strengths, weaknesses, opportunities and threats

CNG - compressed natural gas

LPG - liquefied petroleum gas

TEN-T - Trans-European Transport Network

Terminal – is being used as a synonym for “stevedoring company”

TEU - twenty foot equivalent unit (container carriage)

~ - approximately

SUMMARY

The Freeport of Riga development programme for 2019-2028 preparation framework

In accordance with Section 7 Part Three Paragraph One of the Law on Ports, the Freeport of Riga Authority (FRA) has prepared the Freeport of Riga development programme for 2019-2028 (*FRDP 2019-2028*). The FRA has approved the *FRDP 2019-2028* in accordance with subclause 33.3 of Cabinet regulations No. 378, adopted on 29 May 2012 "By-Laws of the Freeport of Riga Authority".

FRDP 2019-2028 is drafted in accordance with the framework, specified in the European Union (EU), the Republic of Latvia, Riga local government policy plan and territorial development plan documents. Amendments to the aforementioned plan documents could provide the necessity to specify several strategic goals or activities to achieve them within the frames of *FRDP 2019-2028*.

Description of the Freeport of Riga

Riga is a multi-functional port where all types of cargo are being transhipped. The biggest amount of cargo for the last 10 years as to the amount are as follows: coal, oil products, container carriage, various timber, chemical bulk cargo, metals, agricultural products, construction materials and Ro-Ro cargo. For the period of time from 2009 until 2014 the amount of load transhipped in the port was constantly increasing, reaching 41.1 mil. tons in 2014 (the biggest cargo turnover in history of the Freeport of Riga). Since 2015 transit of energy commodities has decreased, so the total amount of cargo being transhipped in the port has decreased also.

The structure of cargo being transhipped in the Freeport of Riga has changed over the last ten years – the proportion of coal and oil products has decreased, but the proportion of container carriage, agricultural and metal cargo has increased. Within this period the transit cargo was ~75-80 % of total amount of cargo of the Freeport of Riga, moreover ~85-90 % of total cargo turnover was cargo transferred by marine transport.

Total number of passengers served by the Freeport of Riga in 2017 was 830,4 thousands and 90 % of them were ferry passengers. In 2017 the port was visited by 86 cruise ships, bringing 87,4 cruise tourists to Riga, which was the biggest number of cruise passengers through the last ten years.

Total transhipping capacity of terminals of the Freeport of Riga is 63 mil. tons per year and free transhipping capacity is available for all cargo segments. There are 122 wharfs for the transhipping of cargo in the Freeport of Riga 18,17 km of total length. Port is able to service ships 300-320 m of length, maximum draught of a ship near the wharf is 15 m. There is one specialized maritime passenger terminal in the Freeport of Riga on the right bank of Daugava – *Andrejsala*, near the city centre.

Cluster of enterprises of the Freeport of Riga contains of ~200 various companies activities of which are related to the port services: 35 stevedoring companies, nine cargo storage companies, 31 ship's agency service company, eight towing and bunkering service providers, six manufacturing companies, three ship construction and repair companies, as well as ~90 companies providing other services related to the processing of cargo and ships.

The majority of stevedoring companies working at the Freeport of Riga are multifunctional cargo terminals processing different types of cargo. Nine liquid cargo terminals, one specialized container carriage terminal and specialized chemical bulk cargo terminal are being considered specialized terminals. Seven stevedoring companies provided the cargo turnover of more than 1 mil. tons in 2017.

Description of the Freeport of Riga Authority

In accordance with regulatory enactments administration of the Freeport of Riga is being provided by the FRA - derived public law legal entity. FRA functions are as follows: port administration in the area of payments and tariffs, navigations and maritime traffic safety, as well as environmental protection requirements observance, drafting of internal legal provisions and control of execution thereof, conclusion of contracts with commercial companies regarding the activities within the port territory, port infrastructure development planning and supervision, etc. Port authority functions are specified in the Law on Ports.

It is allowed to use financial resources at disposal of the FRA for administration and development of infrastructure only as well as for the execution of FRA functions specified in the Law on Ports. FRA administrates assets related to the operation of the port in amount of 426 mil. EUR. FRA receives no state or municipal budget funds (excluding public financing of infrastructural investment projects from the EU foundations). The majority

of FRA income is being ensured by the income from port charges. But the biggest cost items of the FRA are fixed costs – depreciation, maintenance of fixed assets, staffing expenses and service costs.

The Freeport of Riga is servicing a wide range of Eurasian continent part, mostly Russian, also Belarus, Ukraine, Kazakhstan, Uzbekistan and other countries inland of the continent not having access to the sea. Market area of the Freeport of Riga has ~282 mil. inhabitants and its GDP reaches 2,5 trillion US dollars. Ports servicing this territory are transshipping approx. 1,2 billion tons of sea cargo per annum. It is being transported by four main passages: the Baltic Sea passage, Black-Azov Seas passage, the Arctic passage and the Far East passage. Baltic passage is biggest regarding the amount of processed cargo.

The Freeport of Riga is the part of Baltic Sea passage. Total cargo turnover of the Baltic Sea passage ports is ~500 mil. tons per year, or 42 % of total amount of cargo turnover of the aforementioned transport passage ports. The Freeport of Riga is the fifth biggest port of the Baltic Sea passage, processing 7 % of the Baltic Sea passage cargo.

There is a significant competition between the Baltic Sea passage ports. This is due to a fact that the ports has similar working profile, they are targeting the same inland territory servicing and the capacity ports of the region in total are exceeding the total amount of cargo flow. Competition is being intensified by Russia's purposeful activities to redirect the Russian and even Middle Asian cargo to its own ports.

The Freeport of Riga is markedly a transit port – mostly transit cargo is being transhipped in the port (75-80 % from total cargo turnover), the origin and destination port of which are outside Latvia (Russia or Belarus in most cases).

The biggest part of transit cargo being services at the Freeport of Riga are energy commodities, the biggest proportion of which is containing of export of Russian fossil fuels – coal and oil products. Taking into account the geopolitical situation and Russian transport development policy, as well as global tendencies in the energy area, such dependency is causing significant risks to the further development of the Freeport of Riga.

Coal contains ~35 % of the Freeport of Riga cargo turnover and has ensured the significant contribution to the port growth through the last 20 years. When market condition has changed, coal cargo became the most risky segment for the Freeport of Riga, taking into account geopolitical situation, Russian port development plans and changes of coal consumption and geography in the World market. Oil products was containing 17 % of the cargo turnover of the Freeport of Riga, but as for the long-term forecasts, the turnover of oil products will decrease, affected by the aforementioned factors related to the market conditions.

Within the frames of research performed during the FRDP 2019-2028 drafting process, agricultural and forest industry cargo was identified as perspective cargo segments for the Freeport of Riga. Development potential was identified also for the passenger traffic.

Container carriage was the fastest growing cargo segment in Latvia. Within the last 10 years the amount of them has doubled, growing for 10 % per annum at the average, reaching 450 thousand TEU. The Freeport of Riga is providing 99 % of total container carriage turnover of Latvian. Development perspective for the next years regarding this segment is positive.

Agricultural cargo (incl. cereals and cereal products) development potential at the Freeport of Riga is being determined by two factors: increase of amount of Latvian grain and the opportunity to attract transit cargo from the neighbouring countries (Estonia, Lithuania, Belarus and Ukraine). Forest industry cargo turnover of the Freeport of Riga mainly contains of Latvian export and it is expected that the amount of forest industry cargo at the Freeport of Riga will be constant.

Cargo turnover expectations

During the drafting of FRDP 2019-2028 transport area Port of Rotterdam International (POR) has prepared the forecasts of cargo turnover of the Freeport of Riga until 2037, drafting two scenarios – Minimal and Optimistic. Minimal scenario forecasts situation, when several market conditions unfavourable for the Freeport of Riga has happened simultaneously, but the Optimistic scenario describes situation when maritime cargo transportation market is developing in a way favourable for the Freeport of Riga.

Description of market

In Minimal scenario the turnover of cargo at the Freeport of Riga will decrease from 34 mil. Tons in 2017 to 29 mil. tons in 2027 and ~18 mil. tons in 2037. The main reasons of decrease of cargo turnover are the decrease of amount of coal and liquid cargo. Opposite to the total amount of cargo, the turnover of the container cargo will increase from 446 thousand TEU in 2017 to 610 thousand TEU in 2027 and up to 690 thousand TEU in 2037. The biggest part of container cargo amount will be ensured by the transit carriage. The number of serviced passengers will decrease a little bit, due to the decrease of population in Latvia.

In Optimistic scenario the total turnover of the Freeport of Riga until 2027 will reach 41 mil. tons once again and 42 mil. tons before 2037. Comparatively constant turnover of cargo on a long-term horizon will be affected by the decrease of coal and liquid cargo transshipping amount. Simultaneously, the amount of container carriage will increase to 720 thousand TEU in 2027 and 1 mil. TEU in 2037, containing the biggest proportion of the transit cargo. Passenger flow will also increase: from 830 thousand in 2017 up to 1 mil. in 2027 and 1.4 mil. in 2037, due to a growth of both ferry and cruise ships passengers number.

Development strategy

The Freeport of Riga development strategy includes the mission, vision, strategic objectives and Strategic action plan of the port for the next 10 years.

Mission of the Freeport of Riga:

The purpose of the Freeport of Riga as the global cargo transportation intersection point is to satisfy the market demand for high quality transshipping of all types of cargo, by adapting to the needs of customers, global market fluctuations and providing attractive terms for the development of business related to the port activities.

By implementing socially responsible policy, the Freeport of Riga is ensuring the sustainability of environment and social dialogue between the port and the society.

Undertaking of the Freeport of Riga is to ensure the attractive investment attraction environment for the development of port cargo transshipping, cargo processing and manufacturing, to provide constantly increasing investments in Latvian economy.

Vision of the Freeport of Riga:

The Freeport of Riga is multi-functional, modern and long-term development oriented port at the intersection point of transport passages with growing significance in global cargo and passenger transportation chain, providing safe and reliable high-quality port services to the customers for the competitive process and in accordance with good practices of European ports.

The Freeport of Riga is sustainable Baltic volume business, manufacturing and investment attraction centre with significant contribution to the national economy.

Growth of the Freeport of Riga is grounding on implementation of socially responsible policy, use of sustainable resources, care of the environment and long-term cooperation with state and municipal institutions and society for the development of pervasive and integrated transport infrastructure development.

In accordance with the mission and vision of the Freeport of Riga, strategic objectives of the port development are defined and Strategic action plan to reach them is created. Strategic objectives are formulated and structured in accordance with four general FRA working areas: cargo transshipping and passenger traffic; added value, industrialization and territorial development; infrastructural development and innovations; port administration.

FRA strategic objectives (SO) map is shown on the 1st image. Within the frames of *Strategic action plan* grounding of each SA is provided, main activities to reach the objective are defined and the link with other strategic objectives specified.

Detailed activities to reach the strategic objectives as well as costs thereof, financing sources and economic feasibility are specified in the following Activity plans, incl. the first Activity plan for 2019-2022, but the next – for three-year period each.

Within the frames of *FRDP 2019-2028* the Strategic financial plan is prepared by calculation of FRA income and operation costs, as well as investments and financial flows related thereto. *Strategic financial plan* is drafted for the shortened period of five years (until 2023) to ensure the reasonable level of trustworthiness of calculations. Financial plan is prepared grounding on forecast of cargo flow and earnings forecast, prepared by POR advisers.

Strategic financial plan is grounding FRA financial opportunities to implement carry out activities specified in *FRDP 2019-2028*, calculating the amount of own resources for financing the investment projects and appraising possible risks and affects thereof to the financial conditions of FRA within the planning period. It was considered that the risk of changes of volume of cargo has significant influence to the FRA financial flows and financial health, moreover the biggest risk is related to the changes of coal transshipping amount fluctuations. This risk is being increased by the market risks, related to the further transit of energy commodities transit through the Baltic States ports. Other types of cargo each separately are not containing very significant part of total cargo portfolio being transhipped at the Freeport of Riga, so the decrease of each type cargo transshipping amount will not cause very significant affect to the FRA financial results.

Image No. 1

Map of the Strategic objectives for 2019-2028

Activity area of the Freeport of Riga Authority

Cargo transshipping and passenger traffic	Added value, industrialization and development of territory	Infrastructural development and innovations	Port administration
SO 1: To support the constant increase of the cargo amount on a long-term horizon	SO 3: To stimulate more effective use of the port territory and support investment projects for port territories, stimulating the increase of sea cargo turnover	SO 6: To support safe and sustainable ship maintenance infrastructure	SO 9: To strengthen good governance and corporate culture principles in FRA
SO 2: To make Riga the significant cruise and passenger ferry port in the Baltic Sea region	SO 4: To stimulate development of manufacturing and increase the development of added value services at the Freeport of Riga	SO 7: To support and develop ground infrastructure intended for cargo and passenger traffic servicing	SO 10: To implement sustainable financial policy
SO 5: To stimulate the recognition of the Freeport of Riga and to reach new customers		SO 8: To provide effective port security and protection systems meeting all the modern and future requirements	SO 11: To strengthen the Freeport of Riga as socially conscious entity open to the public
SO 12: To create the “cluster” of companies of the Freeport of Riga, ensuring the accessibility and synergy of services			
SO 13: To develop the Freeport of Riga in accordance with the “smart port” operation principles			
SO 14: To decrease the negative effect of the Freeport of Riga on the environment			

Strategic Objectives (SO)

Introduction

The Freeport of Riga development programme for 2019-2028 (*FRDP 2019-2028*) is drafted at the moment when transportation area is facing meaningful changes influenced by economic and political issues as well as technological progress.

Global products and services trading in 2017 has indicated the fastest increase within the last six years, even despite of trading restrictions applied in some places. Increase of trading amounts is exceeding the Global gross domestic product (GDP) increase, indicating further globalisation of economy. Forecasts for 2018 are also positive, but the implementation of such expectations could be seriously influenced by the expansion of trading restrictions and Chinese economy structural changes (transition from the investment phase to the consumption phase, providing the lower amount of import), in aggregate meaning the unclear future development with both great opportunities and significant risks.

Similar tendencies are being indicated in global maritime traffic area – the amount of carried cargo in 2017 has increased for 4% and keeps the similar increase forecast for 2018. In the middle term up to 2023 the increase of area in amount of 3,8% per annum is being forecasted, but in container carriage area – even up to 6-7% per year. However, such expectations are being significantly endangered by applied trading restrictions between USA, China, European Union (EU) and other countries and regions of the world, which could increase in the future.

Transport and storage area are containing the important part of Latvian economy constantly providing -15% of total amount of manufactured goods and services. Total amount of cargo carriage (in tons) in Latvian transport network has increased within the last 20 years, but since 2015 until the change of geopolitical situation the decrease of cargo amount was established. -55% of total turnover of cargo in Latvia were received or sent through sea ports of Latvia, but the Freeport of Riga has processed more than a half (54 % in 2017) from all the cargo transhipped in Latvian ports.

The Freeport of Riga is a part of Baltic Sea passage and is servicing the wide area of Eurasia where main origin states are Russia and other countries of the Commonwealth of Independent States. The Freeport of Riga area has -282 million inhabitants, GDP of 2,5 trillion US dollars and the flow of sea cargo carriage of ~1,2 billion tons per year (including 0,5 billion tons per year through the Baltic Sea passage). Servicing of these flows (or cargo transit) provides -75-80 % of cargo turnover of the Freeport of Riga. Therefore, the Freeport of Riga is independent from market social-economic development tendencies of countries within its market area, as well as from fluctuations of logistic chains. Export and import cargo flows of the market area countries are being significantly affected by the Russian ports development strategy. One of the political priorities of Russian transport is redirection of export cargo and transit cargo from other Eurasian states to its own ports and it is obvious that such policy will go on in the future.

The Baltic Sea passage includes several similar specialized ports, servicing the same market area, providing the similar amount and quality of services. Mainly they are multifunctional ports with good road and railroad connections, developed ship maintenance and cargo transshipping infrastructure. Russian protectionism policy resulted in significant increase of competition between ports in the Baltic Sea region.

The Freeport of Riga holds sustainable resistant and significant position at Latvian and Baltic Sea region market – cargo turnover of the Freeport of Riga is the biggest among Latvian ports and second biggest among Baltic state ports and fifth biggest among ports of the Eastern coast of the Baltic Sea. The Freeport of Riga has development potential, but during the following years FRA and port companies should be able to use the existing strong points and invest assets for the decrease of negative effect of the weak points to continue the successful competition in labile market conditions.

1. The Freeport of Riga development programme for 2019 – 2028 preparation framework

1.1. Legal Framework

In accordance with Section 7 Part Three Paragraph One of the Law on Ports, FRA has prepared the development programme draft in accordance with Latvian ports developments concept (programme) as well as Riga self-government development programme and territorial plan. In accordance with subclause 33.3 of Cabinet regulations No. 378, adopted on 29 May 2012 "By-Laws of the Freeport of Riga Authority", the development programme has to be approved by the Freeport of Riga Board. In accordance with Section 11 Paragraph One of the Law on Ports, the opinion about the development programme shall be provided by the Latvian Port, Transit and Logistics Council. In 2018 the period of operation of *FRDP 2009-2018* has expired, so the FRA has prepared a development programme for the next 10 years

FRDP 2019-2028 is drafted in observance with local and regional level territory development plan documents. It is significant that at the moment of preparation of *FRDP 2019-2028* Riga Territory Plan for 2006-2018 (*RTP 2006-2018*) is still applicable, but Riga territory plan for 2030 (*RTP 2030*) is still being drafted and the final version will be approved in 2019. *RTP 2030* could establish different regulation of use of territory of Riga, therefore it could be necessary to clarify *FRDP 2019-2028* regarding the Freeport of Riga territory use issues. All the local plans regarding *Kundziņšala*, *Krievu sala* and *Eksportosta*, have entered into force. New detailed planning is not available within the frames of *RTP 2030*.

FRDP 2019-2028 is being developed grounding on several regulatory enactments of the Republic of Latvia, regulating the work of FRA and port companies. List of the most significant European Union (EU), Republic of Latvia and Riga City Council regulatory enactments is provided in Supplement No. 1 to *FRDP 2019-2028*. The most important of them are listed below:

General issues on the preparation 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) Cabinet Regulations No. 378, adopted on 29 May 2012 "By-Laws of the Freeport of Riga Authority".
- 8) Riga City Council Binding Regulations No.255, adopted on 2 May 2017 "Freeport of Riga Regulations".
- 9) Spatial Development Planning Law.
- 10) Attīstības plānošanas sistēmas likums.

Activities of the Freeport of Riga with real estate objects:

- 1) Law on Alienation of Immovable Property Necessary for Public Needs.
- 2) Construction Law.
- 3) Law "On Property Rights on State and Municipal Land and Corroboration Thereof".
- 4) Law "On Privatization of State and Municipal Property Objects".
- 5) Cabinet Regulations No. 1250, adopted on 27 October 2009 „Regulation Regarding State Fee for Registering Ownership rights and Pledge Rights in the Land Register”.
- 6) Riga City Council Binding Regulations No. 146, adopted on 28 April 2015 "Binding Regulations on Maintenance of Territory of Riga and Upkeep of Buildings”.
- 7) Cabinet Regulations No. 240, adopted on 30 April 2013 "General Regulations for the Planning, Use and Building of the Territory”.

- 8) Cabinet Regulations No. 198, adopted on 18 December 2012 “Procedure of Granting the Real Estate Tax Preferences in Riga”.
- 9) Cabinet Regulations No. 164, adopted on 9 March 2016 “On Transfer of State Real Estate Objects to the Proprietorship of Municipality”.
- 10) Cabinet Regulations No. 204, adopted on 15 March 2011 “Procedure to Determine a Fair Compensation for the Real Estate Objects Being Alienated for the Public Needs”.
- 11) Cabinet Regulations No. 1191, adopted on 29 October 2013 “Procedure How A Public Person Shall Rent the Real Estate from a Private Person or Capital Company and Publish Information Regarding the Rented Real Estate and Real Estate Planned to Be Rented”.
- 12) Riga City Council Binding Regulations No. 34, adopted on 20 December 2005 “Riga Territory Use and Building Regulations”.

Environmental protection at the Freeport of Riga territory:

- 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) Cabinet Regulations No. 18, adopted on 13 January 2015 “Procedure to Assess the Environmental Impact of the Planned Activities and Accept the Planned Activity”.
- 9) Cabinet Regulations No. 264, adopted on 16 March 2010 „General Regulations on Protection and Use of Specially Protected Nature Territories”.
- 10) Cabinet Regulations No. 1060, adopted on September 15, 2009 “Regulations Regarding the Handling and Control of Dangerous and Polluting Cargoes in Ports”.
- 11) Cabinet Regulations No. 1082, adopted on 30 November 2010 “Procedure 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 Regulations No. 970, adopted on 25 August 2009 „ Procedures for the Public Participation in the Development Planning Process”.

EU regulatory enactments regulating the ports and administration 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.

The aforementioned list of regulatory enactments includes only most significant regulatory enactments of the EU, the Republic of Latvia and Riga City Council, regulating the work of FRA.

1.2. Planning documents framework

Table No. 1 and No. 2 provides summarized review of the main EU and Republic of Latvia policy planning documents regarding the development of big ports (the Freeport of Riga, the Freeport of Ventspils, Liepāja Port), stressing the development of the Freeport of Riga.

Table No. 1
Summarization of EU main policy planning documents

Document	Planning period	Purposes, tasks and activities related to the port
EC White Paper “Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system”	2011 - 2050	<p>EU long-term transport policy planning document. EU transport policy purpose is to create competitive and sustainable transport system by 2050.</p> <p>The following criteria are related to the ports:</p> <ol style="list-style-type: none"> 1. Optimizing the performance of multimodal logistic chains, including by making greater use of more energy-efficient modes. Several planned activities are related to the maritime transport: <ul style="list-style-type: none"> • by 2050 50 % of road haulage over 300 km shall be shifted to the rail or waterborne transport with simultaneous development of appropriate infrastructure; • by 2030 a fully functional TEN-T core network (the Freeport of Riga is a part of TEN-T core network); • by 2050 all core seaports shall be sufficiently connected to the rail freight system (Railroad section Daugavpils, Rezekne-Riga used in the Republic of Latvia is a part of TEN-T core network) and, where possible, with inland waterway system. <p>Increase of effective use of transport and infrastructure by implementation of information systems and initiatives based on the market (implementation of airborne, land and waterborne transport management systems, e.g. long-range identification and tracking of ships (LRIT)).</p>
European Union Strategy for the Baltic Sea Region 2030	2009 - 2030	<p>3 core strategic purposes:</p> <ul style="list-style-type: none"> • to save the sea; • To connect the region (the subgoal related to the transport area is “Good transport connections”); • To increase welfare. <p>Most significant cooperation avenues of cooperation (in accordance with Latvian national position approved by the Cabinet on 18.08.2009), related to the ports:</p> <ul style="list-style-type: none"> • Coordinated development of TEN-T network and connections thereof to the EU neighbouring states; • Improvement of logistic services competitiveness; • Assurance of EU external border capacity. <p>Baltic Sea region sustainable development assuring strategy provides to implement the “green corridors” concept, being a significant part of this strategy transport policy area.</p>
Communication from the Commission “Ports: an engine for growth” (EU Port strategy)	2013 - 2030	<p>Document includes six tasks and the following two of them are most significant:</p> <ol style="list-style-type: none"> 1. Connect ports to the trans-European network Modernization of state support until the end of 2013. Note: on 17 June 2014 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 has entered into force. This Regulation establishes significant preferences for the construction of ports infrastructure, providing that granted financing (state support) is related to the EU internal market, so it is not obligate to notify the European Commission (EC). 2. Attract investments to ports EU financing is provided for the investment projects related to the transport corridors development plans, specifying guidelines of TEN-T development. Intermodal projects stimulating unified administration and development of ports, rail and inland waterway system infrastructure has priority.

Table No. 2
Summarization of core Latvian policy planning documents

Document	Planning period	Purposes, tasks and activities related to the port
Sustainable Development Strategy of Latvia until 2030	2010-2030	<p>Core state long-term policy planning document, including all the national economy areas.</p> <p>The following two priorities are applicable to the port activities: 4th priority “Innovative and eco-efficient economy”; 6th priority “Spatial development perspective”.</p> <p>In the context of ports development Latvia by 2030 is planning development of transport infrastructure for use of environmental-friendly transport, but the key emphasis is made on the spatial development perspective, improving the external accessibility of Latvia. Development of TEN-T infrastructure has significant meaning for the improvement of external accessibility. Development of such infrastructure provides possibilities to Latvia to develop as significant transit state between ASIA, Russia and EU, as well as to participate in EU internal trading Between Northern Europe and Eastern Europe.</p>
National Development Plan of Latvia for 2014-2020 (NDP2020)	2014-2020	<p>Core middle-term planning document of Latvia.</p> <p>Development of ports is included in 2nd strategic objective “Outstanding Business Environment” of the 1st priority “Growth of National Economy”. Purpose of the 1st priority is sustainable growth of Latvian economy with improving competitiveness at international markets. One of purposes of 2nd strategic objectives is to ensure international accessibility of Latvia. Indicator of purpose achievement regarding the 2nd strategic objective related to the ports is increase of cargo turnover in the major ports of Latvia (Riga, Ventspils and Liepāja).</p> <ul style="list-style-type: none"> • 67,4 mil. tons (base value, 2011); • 80 mil. tons (2014); • 98 mil. tons (2017); • 116 mil. tons (2020).
Transport Development Guidelines for 2014-2020	2014-2020	<p>Middle-term transport policy planning document. The purpose of Latvian transport policy is competitive, sustainable, co-modal transport system, ensuring the high-quality mobility by the effective use of resources, including the EU foundations.</p> <p>Priority of guidelines until 2020 in port development area: Latvian transport corridor competitiveness support and improvement by keeping the Latvian transit area role in Eastern-Western transport corridor area, by involving in unified transcontinental multi-modal transport corridors, by providing services with high added value, by increasing the amounts of processed cargo and attracting new cargo flows, including cargo with high added value, by preserving sustainable costs for use of public-use infrastructure in labile conditions of cargo carriage volumes, by using the multiannual contract mechanism, provided by the Railroad Law.</p>



<p>Latvian Port Development Programme for 2014-2020</p>	<p>2014-2020</p>	<p>Middle-term development planning document, where Latvian port development purposes, core activity areas and priorities for the achievement of above purposes are set. The purpose of the programme is to keep highly developed Latvian ports meeting international standards, while ports by its successful work were included in unified transcontinental multi-modal transport corridors, providing services with high added value and ensuring high-quality service for the passengers. Seven activity areas were established to achieve the programme goal, as well as eight results to achieve, including the provision that the amount of cargo being transhipped at Latvian ports shall be the biggest among Baltic states. The following activity areas for the achievement of programme purpose directly related to the Freeport of Riga development:</p> <ul style="list-style-type: none"> • To stimulate the provision of high added value services and employment generation, as well as creation of favourable conditions for the manufacturing development within the port industrial zones; • To continue development of modern port complexes and cargo terminals as well as to develop the surrounding infrastructure at Latvian ports, allowing to provide high-quality and competitive cargo manufacturing, processing, storing and transshipping conditions; • To ensure the development of Latvian ports in accordance with modern safety and environmental protection requirements, as well as to make it as friendly as possible for the city inhabitants residing within the territories merging borders with ports; • To stimulate development of passenger and Ro-Ro traffic line by investing in necessary port infrastructure and creating favourable payment policy. <p>Purposes and activity areas of the Freeport of Riga, mentioned in Latvian Port Development Programme are meeting the Freeport of Riga Development Programme for 2009-2018. Purpose of the Freeport of Riga is to be the leading port in Baltic states and significant source of Latvian economy well-being.</p>
<p>Sustainable Development Strategy of Riga until 2030</p>	<p>2014-2030</p>	<p>Riga City Council long-term territory development planning documents, including long-term municipality development vision, strategic purposes, spatial development perspective and development priorities.</p> <p>Development of the Freeport of Riga is included in LO4 “Riga – Internationally recognisable, important, and competitive Northern European metropolis”.</p> <p>To achieve Riga long-term development purposes, there are 19 Action Directions, including 17th action direction AD17 “Growing a multi-profile port”. Detailed review of the action directions is specified in Development Programme of Riga for 2014-2020.</p>
<p>Development Programme of Riga for 2014-2020</p>	<p>2014-2020</p>	<p>Riga City Council middle-term development planning document, where middle-term priorities and totality of activities are specified to achieve the goals set within the Sustainable Development Strategy of Riga until 2030. Values expected within the fourth long-term purpose by 2020, related to work of the Freeport of Riga:</p> <ul style="list-style-type: none"> • Passenger turnover at the Freeport of Riga – 1.5. mil. per annum; • Cargo turnover at the Freeport of Riga – 49 mil. tons per annum. <p>17th action direction priorities:</p> <ul style="list-style-type: none"> • development of port infrastructure; • promotion of the port image; • covered loading of coal; • international cooperation to develop the port and promote employment <p>The following purposes were set to achieve the above priorities:</p> <ul style="list-style-type: none"> • Increase the capacity of ship channels and related infrastructure; • Promote the development of port enterprises; • Facilitate the development of industry and logistics centres in the territory of the Freeport; • Promote the opportunities of the Freeport of Riga internationally; <p>Cooperate with localities near the port.</p>

1.3. The Freeport of Riga Development Programme for 2019-2028 implementation and actualization procedure

FRDP 2019-2028 is prepared for the ten-year period and, grounding on *the description of the Freeport of Riga, Market analysis, Cargo turnover forecasts, and SWOT analysis*, it has established the Freeport of Riga development strategy by setting strategic purposes and creating the *Strategic Activity Plan*.

Strategic Activity Plan provides the core activities, which shall be performed for the top-priority purpose achievement. For detailed determination of activities to be carried out, to set the schedule of fulfilment and to determine the necessary resources, FRA will create separate long-term *Activity plans*.

First *Activity plan* will be prepared for the four-year period (2019-2022). *FRDP 2019-2028* is determining several new FRA activity areas, so a preparation period for the planning of activities will be required. Moreover, in 2019 new *RTP 2030* will enter into force, and it could amend the aspects related to the use of the Freeport of Riga territory, and the *FRDP 2019-2028* will have to be coordinated with *RTP 2030*. Next two *Activity plans* will be prepared for 3-year periods, covering all the *FRDP 2019-2028* operation period in total.

Image No. 2

FRDP 2019-2028 implementation procedure

Preparation of the Activity plan for 2019-2022	Coordination with RTP 2030	Coordination with policy planning documents for the next planning period	Preparation of 2023-2025 activity plan	Preparation of 2026-2028 activity plan	RFDP 2029-2038
2019	2020	2022	2025	2028	
* Coordination with national development plan, Transport development guidelines, Latvian Port Development Programme, Development Programme of Riga					

Within the frames of each Activity plan the particular Financing plan will be prepared, establishing activity costs, sources of funds and information about economic justification of investments. In 2022 and 2025 during the preparation of Activity plans for the next period, assessment of *FRDP 2019-2028* implementation course will be performed and actualization of *FRDP 2019-2028* will be made if necessary.

During the preparation of the Activity plan, FRA will assess other state and municipal planning documents, which are directly applicable to the Freeport of Riga and which will be actualized or prepared anew within the course of *FRDP 2019-2028*, including *National Development Plan of Latvia for 2014-2020* (current document is in force from 2014 until 2020), *Latvian Transport Development Guidelines (2014-2020)*, *Latvian Port Development Programme (2014-2020)*, and *Development Programme of Riga (2014-2020)*. The above planning documents for the next operational periods could include conditions causing the necessity to update separate *FRDP 2019-2028* strategic purposes or activity areas. Shall such necessity be established, particular amendments in *FRDP 2019-2028* will be made.

1.4. The Freeport of Riga development programme for 2019 – 2028 elaboration procedure

FRDP 2019-2028 is prepared in 2018. *FRDP 2019-2028* was prepared by FRA workgroup in cooperation with experts and advisers, incl.:

- Transport area experts *Port of Rotterdam International* (Port of Rotterdam Consulting Structural Division) has performed the market analysis and has created the prediction of cargo turnover for the next 10 years (with long-term perspective vision for 20 years);
- Consultants LLC “Grant Thornton Baltic” in cooperation with FRA workgroup has prepared *FRDP 2019-2028*, and attracted local experts: LLC “Ardenis”, ZAB “Nordic Legal”, LLC “Firma L4”, coordinated and directed their work within the frames of preparation of *FRDP 2019-2028*.

During the preparation of *FRDP 2019-2028* exhaustive analysis of FRA and the Freeport of Riga was performed together with summarization of performance indicators, interviews with responsible experts of FRA and representatives of FRA workgroup were performed, review of regulatory enactments applicable to the work of the Freeport of Riga and EU, and the Republic of Latvia, Riga City Council policy planning documents was performed, *FRDP 2009-2018* performance indicators achievements were summarized, market analysis was performed, and prediction of cargo flows for the next 10 years was prepared, mission, vision, strategic objectives of FRA were defined, Strategic activity plan to achieve them was prepared, as well as Strategic financial plan .

During the preparation of *FRDP 2019-2028* the following researches were performed, conclusions and recommendations thereof are grounding the *FRDP 2019-2028*:

- Riga Development Plan Update. Market Analysis and Scenario Forecasts (POR, 2018);
- Review of the environment condition and environmental protection measures at the Freeport of Riga territory related to the Freeport of Riga Development Programme preparation (LLC “Firma L4”, 2018).



**Port of
Rotterdam**

Port of Rotterdam International
advisers

O
**Grant
Thornton**

LLC “Grant Thornton Baltic” advisers
together with LLC “Ardenis”,
ZAB “Nordic Legal”, LLC “Firma L4”

2. Fulfilment of the Freeport of Riga Development Programme for 2009-2018

FRDP 2009-2018 was approved on 19 May 2009. Strategic purposes of the programme, core performance indicators and main results achieved for the period from 2009 to 2017 are summarized in table No. 3.

Table No. 3

FRDP 2009-2018 strategic objections fulfilment review for the period from 2009 to 2017

Strategic Objective	Core Performance Indicators	Main Results Achieved
<p>SO1: To arrange the work of the port in accordance with regulatory enactments of the Republic of Latvia</p>	<ul style="list-style-type: none"> • Legal framework of the Freeport of Riga was created. • Work of the Freeport of Riga is meeting the quality and environmental management standard requirements 	<ul style="list-style-type: none"> • The Freeport of Riga Authority was certified in accordance with quality management standard ISO 9001 and in accordance with environmental management standard ISO 14001. • Electronic systems of document flow and administration procedures were implemented at the Freeport of Riga Authority (ELDIS, OCEM, HORIZON, unified pass entry system, etc.). • Solutions for the exchange of information with port companies were implemented (annual questionnaire, monthly statistic reports, etc.).
<p>SA2: To ensure competitive and transparent tariff policy, gain maximum income keeping the tariff competitive at the market</p>	<ul style="list-style-type: none"> • Benchmark assessment of the Freeport of Riga charges in comparison with other Baltic Sea East coast ports. • Proportional land and real estate rental income increase in comparison with port charges income amount 	<ul style="list-style-type: none"> • Port charges being applied at the Freeport of Riga are competitive with other Eastern coast ports of the Baltic Sea; within the operational period of the Development Programme, port charge tariffs were increased only once. • Charge evaluation methods for all the FRA services were created, guaranteeing the unified principle of application to all the customers.
<p>SA3: To provide road, rail and waterway infrastructure to the customers of the Freeport of Riga</p>	<ul style="list-style-type: none"> • Parameters of the navigable waterway are ensuring the safe maintenance of ships arriving to the port of Riga. • Capacity of the port infrastructure is meeting the needs of processing the cargo flow. 	<p>The most significant projects implemented within the period of operation of the Freeport of Riga Development Programme for 2009-2018:</p> <ul style="list-style-type: none"> • Improvement of infrastructure at Krievu sala to redirect the port activities from the centre of Riga (territorial maintenance, bank strengthening, four wharfs of 1,2 km, approach roadways of 5,2 km, approach rails of 11,0 km, engineering networks and administrative buildings). • Dredging of port navigable waterway and reconstruction of the access channel for ships to enter the Freeport of Riga (Daugavgrīva-Rīnūži channel was deepened for 16,0 m; Mangāļi region channel was deepened for 15,5 m; Mangāļi-Baltā baznīca channel up to 14,5 m; Passenger port access region up to 10,5 m). • Modernization of railroad park “Kundziņšala”, motorway and railroad access roads construction to the Kundziņšala terminal territories. • Port eastern and western pier reconstruction technical project development . • 11 new wharfs constructed (FRA and stevedores) 2,5 km of total length.



<p>SA4: To increase the cargo turnover and the number of passengers in the port by increasing the market share of the port in total cargo turnover of the Baltic Sea region eastern part ports</p>	<ul style="list-style-type: none"> • Transhipping capacity increase for different types of cargo. • Increase of cargo and passenger turnover 	<ul style="list-style-type: none"> • Total transhipping capacity of port terminals has increased from 45. mil. tons in 2009 until 63. mil. tons in 2018. • Port cargo turnover since 2019 has increased for 1,8 % per year on average (taking into account the cargo turnover prediction for 2018) and has exceeded the prediction included in conservative prediction for FRDP 2009-2018. • Number of passengers being serviced by the port has increased since 2009 for 6,5% per year on average. • The Freeport of Riga in 2017 is the second biggest Baltic states port with 24% of the market share after the Klaipeda Port. • The Freeport of Riga is holding status of fifth biggest port in the region (Eastern coast of the Baltic Sea) with 8,1 % of market share in 2017. • Riga is the second biggest bulk freight port after Ustyug Port of Russia. • In container carriage segment the proportion of the Freeport of Riga in the Baltic Sea Eastern coast region has increased from 6,4% (in 2009) to 9,8% (2017).
<p>SA5: Safe entrance/departure of ships (incl. Panamax type and bigger) from the Freeport of Riga is guaranteed decreasing the number of accidents related to maritime traffic.</p>	<ul style="list-style-type: none"> • Proper maritime security for the protection of people and environment was created in harbourage are separated for activities with floatation equipment. • Number and proportion of Panamax and bigger ships entering the port. • Number of accidents related to maritime traffic. 	<ul style="list-style-type: none"> • Navigation equipment of the port is meeting international requirements and could be used for safe maintenance of ships. • Modernization of Vessel Traffic Service Centre (VTSC) equipment was performed during the covered period (movable equipment for ship pilots, IT solutions for maritime traffic simulation and hydrodynamic modelling of stream, etc.). • Proportion of Panamax and bigger cargo ships (DWT>60 000 t) entering the port has increased from 2,8% (2009) up to 5,6% in 2017. • During 2015-2017 period one accident related to maritime traffic has been registered on average, however, the reason thereof was not related to the non-conformity of port infrastructure of services.
<p>SA6: To create safe environment at the port, to strengthen customer belief in port safety, to ensure the protection of port infrastructure and high-quality service provision at the port and harbourage area there of</p>	<ul style="list-style-type: none"> • Security systems installed. • Inspections of hazardous and environmentally unfriendly cargo terminals and private wharfs. • Observance of fire-protection and civil defence regulations at the port is being ensured 	<ul style="list-style-type: none"> • Port police was founded in 2011, being considered as the Freeport of Riga Authority Protection institution in accordance with prescriptions of the Directive 2005/65/EC of the European Parliament and of the Council of 26 October 2005 “On enhancing port security”. • Port internal security service was founded in 2018, supervising the observance of the International Ship and Port Facility Security (ISPS) Code at the port. • Structural subdivisions of the Freeport of Riga Authority are ensuring constant supervision of territory, control of person and transport facility movement, monitoring of hazardous cargo turnover, waterborne traffic control, terminal and wharf compliance control, etc.



<p>SA7: To decrease the negative environmental impact of port activities and new development projects</p>	<ul style="list-style-type: none"> • Number of risk control and monitoring at the port territory. • Biodiversity and compensation of damages is being ensured. 	<ul style="list-style-type: none"> • Four dust (PM10 particles) monitoring stations are operating at the port territory, including two on the Krievu sala, and three organic compounds monitoring stations. • Groundwater monitoring network includes 20 new territories. • Seven harbourage area pollution detectors are installed. • Port police accident consequences liquidation division of the port police was founded in 2011, controlling and supervising pollution consequences liquidation works. • Project “Relining of Historically Polluted Locations at Sarkaundaugava Territory”, implemented within the frames of cooperation programme between Latvia and Switzerland, was completed in 2017. • Development of Kundziņsala residential area drainage project. • Noise-control wall between the Kundziņsala residential area and the railroad was put into operation in 2015. • Systematic monitoring of nesting waterbirds in “Krēmeri”, “Mīlestības saliņa” and Žurku salā restricted areas, as well as biotope improvement activities in “Krēmeri” were performed.
<p>SA8: To strengthen the port as socially conscious institution</p>	<ul style="list-style-type: none"> • Number of events for the inhabitants of Riga arranged and supported by the Freeport of Riga Authority. • Number of educational activities arranged and supported by the Freeport of Riga. 	<ul style="list-style-type: none"> • Within the frames of The Freeport of Riga Marketing Strategy for 2017-2019 in 2017 the Freeport of Riga Authority Corporative Socially Conscious Policy, Communication Policy and Social Media Strategy was developed, constituting the structure of communicational positioning, directions, content and message for the FRA activities regarding the communication with medias, Latvian society and inhabitants of localities of the Freeport of Riga, non-governmental organizations and other target audience. • The amount of information about FRA and current issues of the port in medias has increased (6100 articles/footages in 2017). • Port profile in online social media Facebook became reliable platform of exchange of information (number of quality followers has reached 1600 during two years since the profile was created). • Communication procedure was improved, regular coordination with port locality (Vecmīlgrāvis, Sarkandaugava, Mangaļsala, Kundziņsala) associations and non-governmental organizations is being performed, including common participation in the “Big Clean-Up” (“Liela Talka”). • Significant social, educational, cultural and sports activities (“Latvijas lepnums”, “Ostas svētki”, contest for pupils and “Osta pilsētai” for students, etc.) were arranged and supported.



SA9: To attract new customers to the Freeport of Riga within all the types of cargo, to keep and create awareness and positive image of the Freeport of Riga

- Improvement of the Freeport of Riga and the Freeport of Riga Authority image, improvement of inhabitants' awareness.
- The Freeport of Riga is being represented at most significant Latvian and international areas events and organizations
- Number of companies at the port of Riga.
- Systematic publications about the work of the Freeport of Riga in international industry medias.
- Up-to-date information about the work of the port is being published on homepage.

- The Freeport of Riga Marketing Strategy was developed in 2013, defining the framework of marketing activities implemented by the Freeport of Riga Authority. Marketing strategy will be actualized every three years, current version in force from 2017 until 2019.
- FRA is implementing external marketing activities in close cooperation with port companies. Representation of the Freeport of Riga in most significant (10-12) cargo carriage, logistics and cruise area exhibitions is being ensured every year, spreading current information about the port services.
- Unified visual identity informative materials of the Freeport of Riga (printable, electronic, audio, video, etc.), accessible for cooperation partners, port companies, embassies, state and municipal institutions and other interested persons are being provided.
- Three new companies has started working at the port:
 - LLC "Riga fertilizer terminal" fertilizers transshipping and short-term storage terminal (2013);
 - LLC "Riga Bulk Terminal" multi-functional bulk cargo (food and non-food products) foundation on Kundziņsala for export and import cargo servicing (2014);
 - LLC "TFS Trans" High-shelf warehouse type cargo storage and segregation logistics centre on Kundziņsala (2017) .
- Positive evaluations were received regarding all the items of the Freeport of Riga image description.

Source: FRA

3. Characteristics of the Freeport of Riga

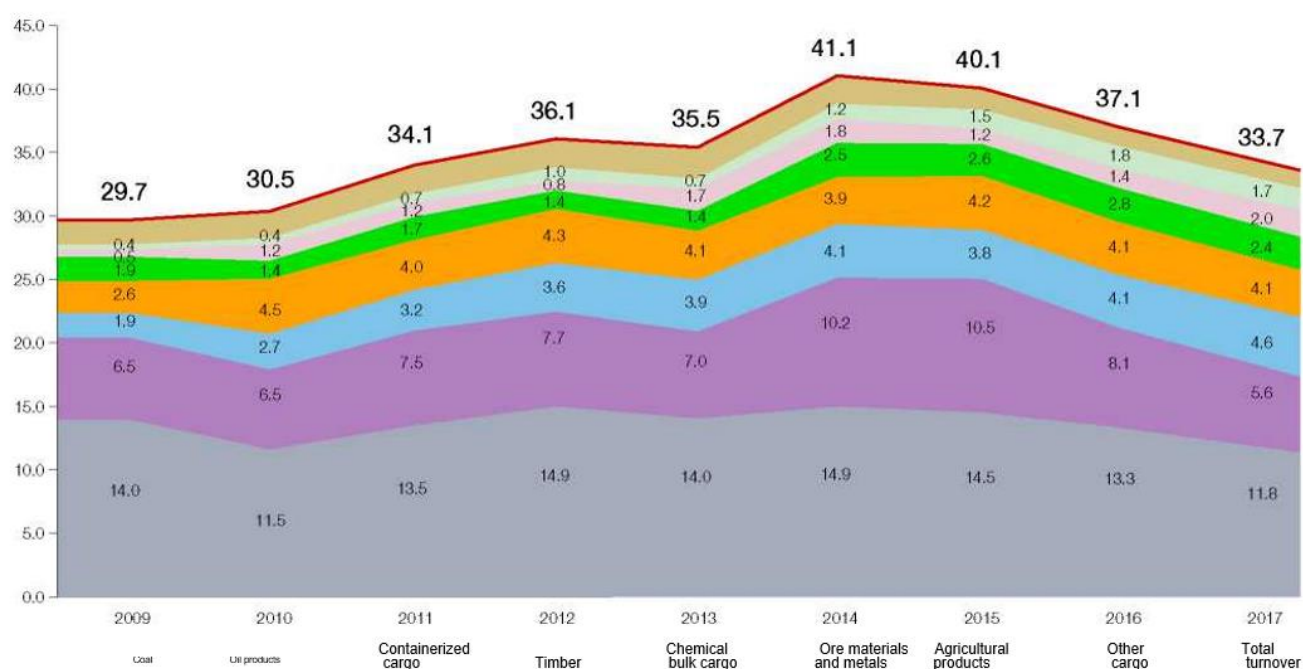
3.1. Review of the economic activities of the Freeport of Riga

3.1.1. Cargo turnover

Riga is a multi-functional port where all types of cargo are being transhipped. The biggest amount of cargo for the last 10 years as to the amount are as follows: coal, oil products, container carriage, various timber, chemical bulk cargo, metals, agricultural products, construction materials and Ro-Ro cargo. During the period of *FRDP 2009-2018* indicators of cargo turnover were various. During the period of time from 2009 until 2014 the amount of load transhipped in the port was constantly increasing, reaching 41.1 mil. tons in 2014 (the biggest cargo turnover in history of the Freeport of Riga). Since 2015 transit of energy commodities has decreased, so the total amount of cargo being transhipped in the port has decreased also (see image No. 3). In total the turnover of cargo increased for 1,5% per year on average, exceeding the minimal cargo turnover prediction for that period.

Image No. 3

The Freeport of Riga cargo turnover (mil. tons) during the operation of *FRDP 2009-2018*



Source: RBk

Structure of cargo being transhipped at the Freeport of Riga has changed during the *FRDP 2009-2018* operation period. Proportion of coal and oil products has decreased and contained a half (52 %) from the total turnover in 2017 (69% in 2009). Simultaneously, proportion of container carriage has increased to 14 % in 2017 (6% in 2009), agricultural product proportion (from no 1,2% in 2009 to 4% in 2017) and the proportion of metal cargo (from 1,7% in 2009 to 6% in 2017) has also increased.

Transit cargo during the *FRDP 2009-2018* operation period contained 75-80 % of total amount of cargo at the Freeport of Riga, but the proportion has decreased over the last years. The Freeport of Riga is generally servicing the cargo being shipped by maritime transport, containing 85%-90% from the total cargo turnover during the period of time from 2009 to 2017.

Total transshipping capacity of the Freeport of Riga terminals is 63 mil. tons per year and free transshipping capacity is accessible for all segments of cargo (see Table No.4)

Table No. 4

The Freeport of Riga terminals transshipping capacity (mil. tons per year) and workload (%) among the cargo segments in 2017

Cargo segment	Transshipping capacity	Cargo turnover	Workload (%)
Bulk cargo	35	21	60 %
Liquid cargo	14	6	43 %
General cargo	6	2	33 %
Container carriage	8	5	63 %
Total	63	34	54 %

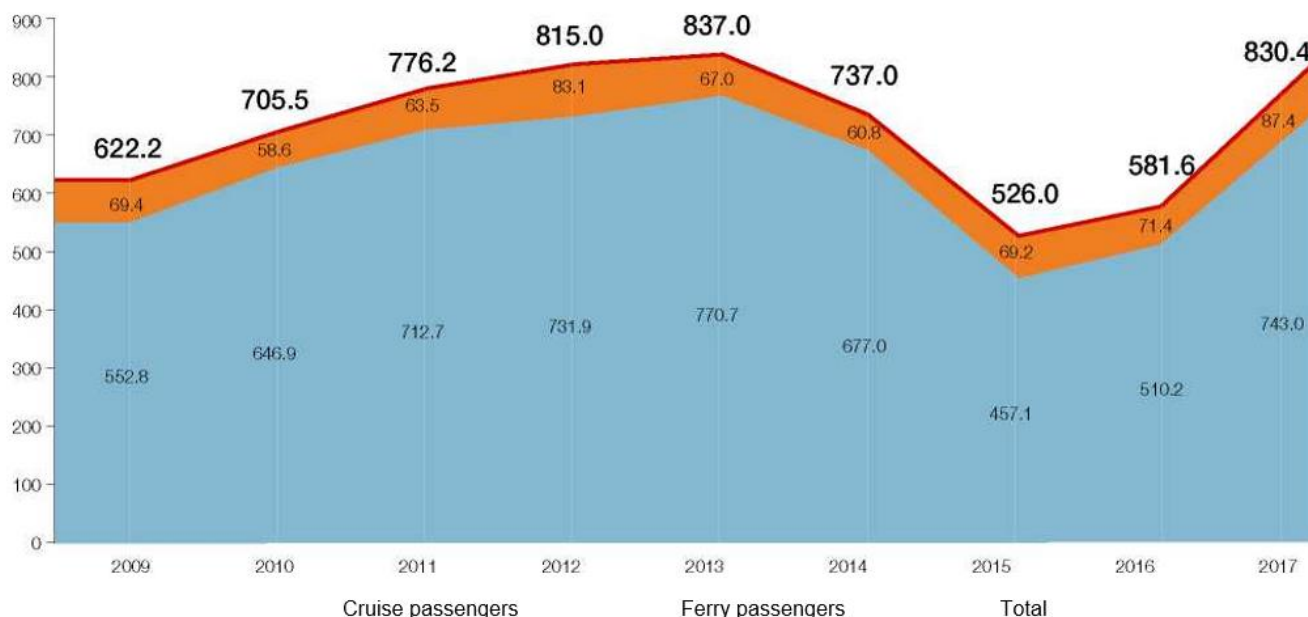
Source: FRA

3.1.2. Passenger traffic

Number of passengers being serviced by the Freeport of Riga in 2017 has reached 830,4 thousands. (see image No.4). 90 % of them were ferry passengers. Since 2011 scheduled traffic at the Freeport of Riga is being offered by one ferry line route Riga - Stockholm, transportation by which in 2018 has been provided by two ferries.

Image No. 4

Number of passengers serviced at the Freeport of Riga (thousands of passengers) in 2009-2017



* Decrease of number of passengers in 2014-2016 was caused by the decrease of number of ferries on the route

Source: FRA

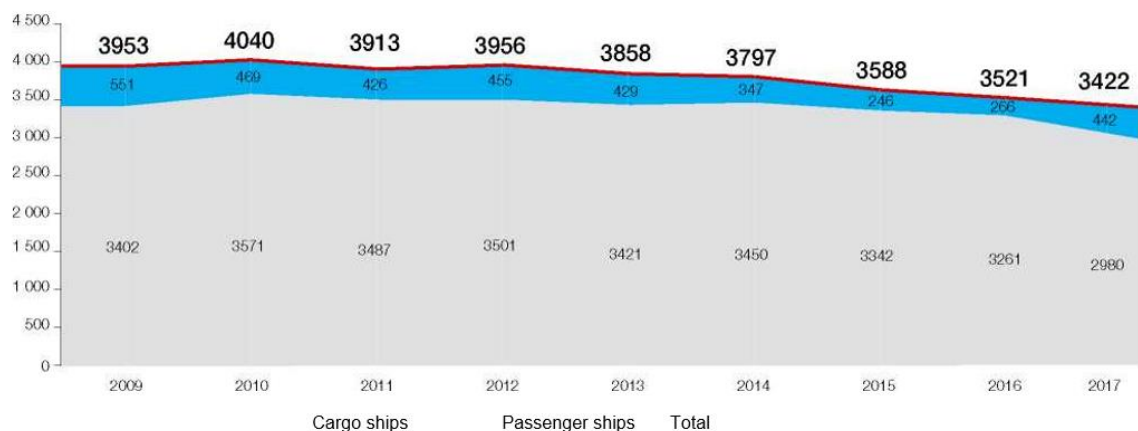
Cruise tourists are arriving to Riga from more than 100 countries of the World. Cruise business is significantly cyclic, affecting the number of passengers at the Freeport of Riga during the period of time from 2009 until 2017. 86 cruise ships entered the port in 2017, bringing 87,4 thousand cruise tourists to Riga. It was the biggest number of cruise passengers for the last 10 years. The Freeport of Riga today is included in cruise routes as one of the stopping points for the Baltic Sea cruise routes, but it is not the departure/destination port for cruise trips.

3.1.3. Maritime traffic

For the period of time from 2009 until 2016 the port was servicing more than 3500 ships every year (see image No. 5), however, the number of merchant ships has decreased (3 422 ships were serviced in 2017). It could be described among other things by the increase of gross tonnage of ships, as long as the number of cargo ships has decreased for 1,1% per year on average for the covered period, simultaneously average tonnage of ships has increased for all groups of ships (except for tank vessels) (GT).

Image No. 5

Number of cargo and passenger ships serviced at the Freeport of Riga in 2009-2017



Source: FRA

Dredging of the navigable canal and construction of two deep-dwelling pile wharfs, at which additional transshipping of ships is being performed, provided the opportunity for bigger ships to enter Riga. Proportion of large-tonnage cargo ships (with GT more than 50 000 tons) has doubled and contained 7,2% of all the cargo ships serviced at the port in 2017.

More than 500 cargo ships enters the port every year within the scheduled container carriage lines. In 2018 7 scheduled container carriage lines are working at the Freeport of Riga (*Containerships, Hapag Lloyd AG, Maersk/Seago Line, Mediterranean Shipping Company (MSC), Unifeeder, Poland Finland Express-2 (COSCO) un X-Press Container Lines*). Linear ship traffic has regional meaning for the Freeport of Riga, as long as cargo are being transferred only within Baltic Sea and Central Europe, creating short maritime distances (short sea traffic) and feeder traffic.

3.2. Freeport territory and use thereof

Territory of the Freeport of Riga is Rīgas 6 348 ha, incl. 1 962 ha (31 %) of land and 4 386 ha (69 %) of harbourage are and outer harbour.

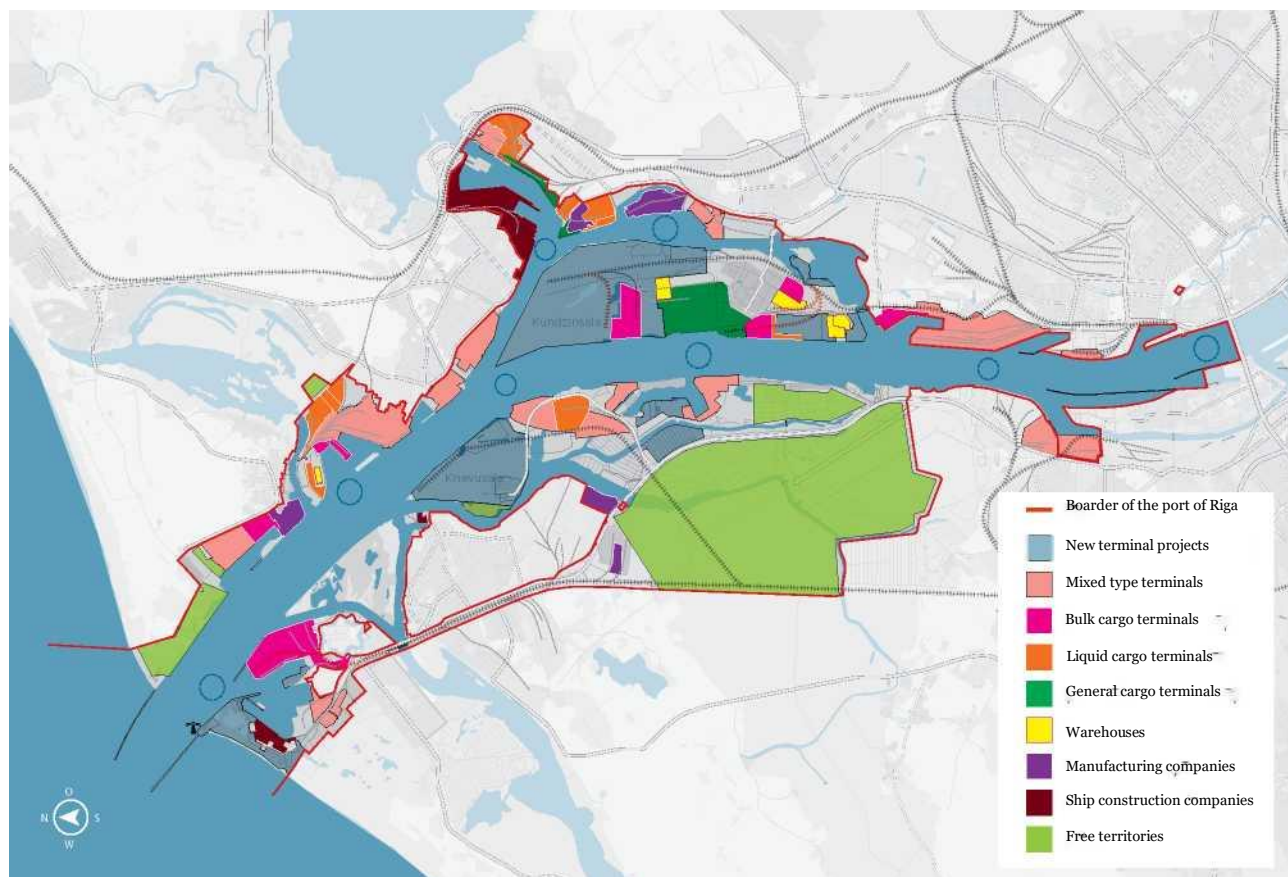
Biggest part of the territory of the Freeport of Riga being actively used today is located on the right bank of Daugava, where transshipping, processing and storage of all types of cargo is being performed, as well as the industrial maintenance (construction and repair of ships, fish processing, etc.). Nearer the centre of Riga 0 at localities of *Ekspostosta* and *Andrejsalas* – transshipping of cargo is being performed outside the borders of the Freeport of Riga: the only specialized passenger ships maintenance terminal is working on *Andrejsala*. Port companies working on the right bank of Daugava are ensuring approx. 90% of total port cargo turnover.

On the left bank of Daugava there is proportionally smaller part of the territory of the Freeport of Riga being actively used today. During the operational period of *FRDP 2009-2018 Krievu sala* was significantly improved – FRA has implemented the investment project “Infrastructural Development of *Krievu Sala* for the Redirection of Port Activities from the City Centre”, by creating multi-functional bulk cargo terminal basic infrastructure. The project in 2019 will result in complete coal transshipping redirection from *Ekspostosta* to the *Krievu sala*, and in termination of cargo transshipping on *Andrejsala*.

There are several manufacturing companies working at the territory of the Freeport of Riga (*Sarkandaugava, Jaunmīlgrāvis, Daudersala, Vecmīlgrāvis, Mangaļi, Bolderāja*), but separate significantly small territories are taken by yacht ports - *Ķīpsala, Andrejsala, Bolderāja and Mangaļsala* (see image No. 6).

Image No.6

Current use of the Freeport of Riga territory
(separation by types of terminals and other possessors)



Source: FRA

The Freeport of Riga has territories where it is impossible to use for the performance of functions – restricted natural territories (“*Krēmeri*” nature reserve and natural park “*Piejūra*” reserve zone “*Mīlestības saliņa*”), as well as historical buildings *Komētforts* at *Mangaļsala* and *Daugavgrīva*. At the port there are also areas not being used for economic activities – small gardens at *Voleri* and *Beķermuiža*, as well as low-height housing residential territories at *Kundziņsala*, *Voleri* and *Mangaļsala*. Nature reserved territories are ~75 ha of area, but residential regions ~45 ha from port firm-land areas. The Freeport of Riga is located in the city, that is why it merges borders with residential regions in many locations. FRA and port companies significant operational aspect is to decrease the negative effect to the locality inhabitants and environment caused by the port activities.

Wide unrented areas (mostly on the left bank of Daugava) are available at the Freeport of Riga (*Spilves pļavas*, *Voleri*, *Beķermuiža* and *Mangaļsala*), however, use of them for performance of economic activities would require massive investments for preparation of territories (incl. engineering-technical preparation of territory and construction of transport and communication infrastructure), as well as the settlement of judicial aspects (small gardens on the part of territory, for example).

Historically the territory rezoning by the type of use – liquid cargo, bulk cargo, general cargo terminals are not built close together, but are separated among different port areas on both banks of Daugava – was not typical for the Freeport of Riga. Moreover, the biggest part of companies are classified as multi-functional port terminals intended for the transshipping of various types of cargo.

3.3. Infrastructure owned and possessed by FRA

3.3.1 Hydro technical structures

At possession of FRA there is a complex of hydro-technical structures (incl. pears, protective dams, coastal strengthening, wharfs, etc.), ensuring the ship servicing at the Freeport of Riga. Dams, wharfs and coastal strengthening of Daugava's aquatic area constitutes unified coastal strengthening system. Requirements for maritime traffic safety are being implemented in accordance with *the Freeport of Riga Regulations*, providing the requirements for hydro-structures of aquatic area within the context of maritime traffic safety and navigation.

Pears

Gates of the Freeport of Riga are being constituted by the Eastern pear and Western pear. Length of the Western pear is 866 m, but the length of the Eastern pear (including the coastal dam) is 2 214 m. Taking into account the age and depreciation of pears, reconstruction of both pears is required. Engineering-technical, geological and topographic research of pears has been performed, technical projects of reconstruction of Eastern and Western pears are developed.

Wharfs

There are 120 wharfs for transshipping of cargo at the Freeport of Riga (incl. 86 wharfs owned or possessed by the Freeport of Riga, and 34 – private wharfs), and six small-size floating facilities and yacht wharfs (incl. two owned and possessed by FRA and 4 – private). In addition, there are 7 wharfs closed for navigation due to bad technical conditions. Total length of wharfs intended for cargo transshipping is 18,17 km, the Port is able to process ships with maximum length of 300-320 m, maximum draught of ship near the wharf is 15 m (wharf ZO-18).

Investments in wharf infrastructure development are being made both by port companies and FRA. 11 new wharfs are constructed during the *FRDP 2009-2018* operation period (2 536 m of total length), including two deep-dwelling pile wharf, used for additional transshipping of ships.

Several wharfs are of bad technical conditions right now requiring capital repair or reconstruction. However, financial endowment at available to FRA for maintenance of wharf infrastructure is not enough.

Navigation channel

Length of the Freeport of Riga main navigation channel from the mooring buoy "B" (at port's outer harbour at the Gulf of Riga) to the *Vanšu Bridge* is 20,85 km and width of channel is 100 m. In the port aquatic area navigation is being performed also in *Sarkandaugava* channel and *Milgrāvis* channel, where channel width is 80 m.

During the operational period of *FRDP 2009-2018* FRA has made investments in dredging of main navigable channel and dredging works at separate wharf access areas: *Daugavgrīva-Rīnūži* channel was deepened for 16,0 m; *Mangaļi* region channel was deepened for 15,5 m; *Mangaļi-Baltā baznīca* channel up to 14,5 m; Passenger port access region up to 10,5 m. Map of depths of the main navigable channel is reflected on the image No. 7.

Image No. 7 Main navigable channel depths



Source: FRA

Draught of ships is different at different port regions depending on the depth of main navigable channel (see image No. 7 and table No. 5).

Table No. 5
Characteristic quantities of the Freeport of Riga navigable channels

Navigable channel region at the port	Maximum ship draught (m)
from the mooring buoy „B” to Rīnūži turning basin	-15.0
from Rīnūži turning basin to the wharf KS-29	-13.2
from the wharf KS-29 to the wharf EO-14	-12.3
from EO-14 to the entry to Eksportosta basin	-10.1
from entry to the Eksportosta basin to MK-4	-8.5
Mīlgrāvis arm	-9.0
Sarkandaugava arm to the wharf SD-3	-9.0

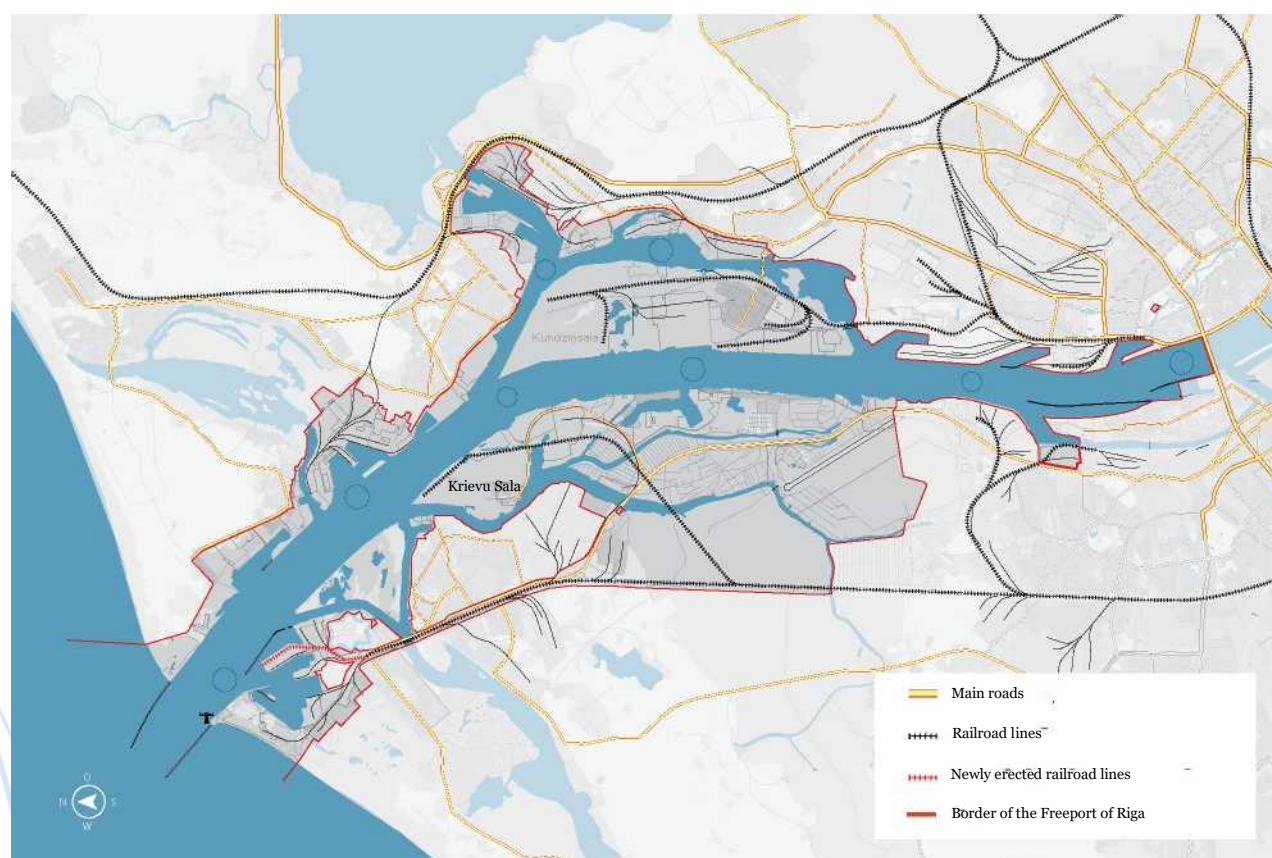
Source: FRA

3.3.2. Overland transport networks and other infrastructure

Port overland infrastructure is as follows: transport networks, engineering-technical networks (electricity supply, water supply and sewage, gas supply infrastructure, communication networks, etc.), as well as safety infrastructure (incl. barriers, access systems infrastructure, video surveillance system, etc.).

Cargo transportation is being ensured by the rail and motor vehicle transport, using the transport network of Riga (see image No. 8). Rail infrastructure is servicing approx. 70% of total turnover of the Freeport of Riga cargo. But the delivery of cargo to the terminals by motor vehicles in several city adjacent-to-the-port regions is being disturbed due to heavy traffic and low traffic capacity of streets.

Image No. 8
Connection of the Freeport of Riga network with city transport infrastructure (chart)



Source: FRA

Railroad

Railroad infrastructure is ensuring cargo carriage to the different regions of the port: On the right bank of Daugava to the *Eksportosta*, *Kundziņšala*, *Sarkandaugava*, *Vecmīlgrāvis* and *Rīnūži* and on the left bank – to *Krievu sala*, *Bolderāja* and *Daugavgrīva*.

During the operational period of *FRDP 2009-2018* FRA has carried out the improvement of railroad infrastructure of *Krievu sala* (rail access of 11 km, *Krievu sala* railroad park and all the related infrastructure was created) and at *Kundziņšala* (new rail access and modified *Kundziņšala* railroad park). Investments to the development of railroad infrastructure during the covered period were also made by port companies.

Capacity of railroad infrastructure divided by the port regions is as follows:

- *Eksportosta* and *Kundziņšala* direction ~20 mil. tons per annum;
- *Mangaļi* and *Ziemeļblāzma* railroad station total capacity is ~18 mil. tons per annum;
- *Bolderāja* railroad stations capacity by the *Daugavgrīva* direction is ~5 mil. tons per annum;
- Newly erected *Krievu sala* railroad stations processing capacity is 20 mil. tons per annum.

Automobile roads

Streets and automobile roads network at the Port territory consists of the city streets and roads possessed by FRA and companies. During the operational period of *FRDP 2009-2018* intensive automobile road infrastructure development in two regions of the Port - *Krievu sala* (*Zilā* Street was reconstructed, access roads to the terminals were constructed) and at *Kundziņšala* (access roads to the terminals), was performed.

FRA is performing implementation of the project of overpass by *Sarkandaugava* from *Tvaika* Street to *Kundziņšala*, providing the construction of transport overpass and related infrastructure (overhead roads, exits, connection to the existing transport infrastructure, engineering-technical communications, etc.). Implementation of the project was initiated in 2017 and it is scheduled to compete it by 2023. New traffic overpass will bring the rapid improvement of transport cargo carriage from/to *Kundziņšala* provided that the local government of Riga will build traffic overpass over *Rīga-Skulte* railroad line and perform reconstruction of *Tvaika* Street.

3.3.3. Cargo transshipping infrastructure

Cargo transshipping and storage services at the Freeport of Riga are being provided by 34 stevedoring companies, and 9 warehousing companies. Summary of core infrastructural indicators will be provided in Table No. 6

Table No. 6

Core characteristic quantities of the Freeport of Riga terminal infrastructure

Terminal infrastructure	Characteristic quantity
Open cargo land area	1 894 278 m ²
Sheltered warehouse area	418 603 m ²
Freezers area	7 800 m ²
Freezers capacity	13,5 thousand t.
Bulk cargo reservoirs capacity	217 800 m ³
Liquid cargo reservoirs capacity	522 391 m ³

Port terminal infrastructure is enough for processing both current and additional cargo amounts. Free transshipping capacity is available for all the cargo segments, but total workload of the Freeport of Riga terminals is 54 %.

Source: FRA

3.3.4. Passenger handling information

There is one specialized sea passenger terminal at the Freeport of Riga, located on the right bank of Daugava on *Andrejsala*, strategic position near the city centre, incl. The Old Town (*Vecrīga*). Terminals are servicing passenger ferries and cruise ships, being able to process ships with draught up to 8,5 m, but cruise ships with bigger draught are being moored to the wharfs of *Krievu sala*, initially intended for the processing of cargo. It is possible to process ships with lonely 1 ship at the moment); the Freeport of Riga could process two ships of such size only by using additional *Krievu sala* wharfs. Capacity of passenger terminal is not enough for simultaneous processing of several big cruise ships.

3.4. Port Management

3.4.1. FRA status and functions

FRA - derived public law legal entity ensuring the port management. FRA functions are defined by the Law on Ports and it is acting grounding on the Law of the Freeport of Riga, By-Laws of the Freeport of Riga Authority and other regulatory enactments (laws, international contracts, accepted by the Republic of Latvia, legislative acts adopted by the Cabinet and port regulations). As the public law subject FRA is performing port administration in the area of payments and tariffs, navigations and maritime traffic safety, as well as environmental protection requirements observance, drafting of internal legal provisions and control of execution thereof. As the private law subject, FRA concludes contracts with commercial companies regarding the activities within the port territory, ensures port infrastructure development planning and supervision, as well as carries out other management functions specified in the Law on Ports.

FRA organizational structure consists of the Board and executive authority subordinated to the Board. The Board is the highest decision-making authority, consisting of eight members of the Boards: four representatives of Riga municipality being nominated and dismissed by the particular decision of Riga City Council and four representatives, proposed by the minister of economy, the minister of finance, the minister of transport and minister of environmental protection and regional development, being nominated and dismissed by the Cabinet. Execution of the Board decisions is being provided by the executive branch directed by the port administrator.

FRA is certified in accordance with quality management standard ISO 9001:2009 and environmental management standard ISO 14001:2005. Events and procedures provided by the quality management and environmental management are aimed to the increase of efficiency of FRA, satisfaction of customers and achievement of goals and policy of the Freeport of Riga, increasing the competitiveness of the Freeport of Riga.

3.4.2. Real estate objects proprietary rights and management at the Freeport of Riga

There are landed property on the territory of the Freeport of Riga owned by the state, municipalities as well as private legal entities and natural persons, servicing for the work of the Freeport of Riga regardless of its possessors in accordance with regulatory enactments. FRA has pre-emptive rights on the land and other real estate objects on the territory of the Freeport of Riga. The Freeport of Riga is also entitled to use the land of the Freeport of Riga possessed by natural persons and legal entities for the needs of the port, to grant it on lease to merchants performing economic activities on the territory of the Freeport of Riga.

Aquatic area of the Freeport of Riga is a state property granted for the possession of FRA. Common hydro-technical buildings (piers, streams, regulation dams, wave breakers, coastal strengthening), navigation equipment and ship lines are state and municipal property being possessed by the FRA. Wharfs are state, municipal, FRA, natural persons' and legal entities' property.

Constructions, building, aboveground and underground engineering communications are the property of FRA, natural persons and legal entities. Construction at the port could be performed only if accepted by FRA and in accordance with regulatory enactments of the Republic of Latvia.

3.4.3. Licenced commercial activities at the Freeport of Riga

Companies of the Freeport of Riga are able to conclude contracts with FRA regarding licenced commercial activities with or without application of free zone regime. Status of Licenced commercial company in accordance with the procedure specified by the Law “On the Application of Taxes in Free Ports and Special Economic Zones” allows the company to pretend on direct tax preferences; licenced commercial companies within the free zone are also able to receive indirect tax preferences. Total amount of tax discounts could reach 35 %-55 % from the amount of investments on the port territory. The above conditions of state allowance will be applicable to those licenced commercial company investments to the port infrastructure, which were made before 31 December 2035.

During the operational period of *FRDP 2009-2018*, the number of companies concluded the agreements about licenced commercial activities has increased. In 2009 licenced commercial activities were performed by 16 companies, but in 2018 permissions for licenced commercial activities were received by 23 companies, 18 of which has concluded agreements on the activities within the free zone regime. There are 15 stevedoring companies among licenced commercial companies, as well as four warehousing companies, two towing service companies, one bunkering and one transportation ancillary activity company.

Within the operational period of *FRDP 2009-2018*, commercial companies has invested more than a half (57 % or ~284 mil. EUR) from total port company investments. Status of licenced commercial company was obtained by the companies, which has constructed new terminals during the operational period of *FRDP 2009-2018* (LLC “Riga fertilizer terminal”, LLC “Riga Bulk terminal” un LLC “TFS Trans”).

3.4.4. LLC “Rīgas brīvostas flote”

RBF is 100 % FRA subsidiary company. It was founded in 2010 and is providing port services at the Freeport of Riga. In accordance with strategic purposes set by the FRA shareholder, RBF is performing the following functions:

- Ensure navigation at the Freeport of Riga aquatic area in winter period (icebreaker services);
- Eliminate consequences of pollution of the Freeport of Riga aquatic area, participate in elimination of pollution consequences in the sea;
- Ensure constantly available towing services at the Freeport of Riga by leasing own towing vessels for the providers if these services;
- Manage the property and infrastructure owned and possessed by the Freeport of Riga Authority.

Vision of RBF is to become high-quality technical and economical port service provider in Baltic States and contribute in the capacity of the Freeport of Riga by the list of provided services for the Freeport of Riga to be the leading port of Baltic States. To fulfil the vision RBF is working on improvement of quality and efficiency of current services and is planning to expand its business model with new services in accordance with European level ports development tendencies.

Part of FRA property was invested in fixed assets of RBF, related to the RBF functions execution, the most significant capital assets are the technical fleet of the Freeport of Riga – ice breakers, towing vessels, pilot boats, hydrographic ships, etc. By overtaking new functions, RBF will receive particular equipment.

3.5. Financial Management and Tariff Policy

It is allowed to use financial resources at disposal of the FRA for administration and development of infrastructure only as well as for the execution of FRA functions specified in the Law on Ports. FRA administrates assets related to the operation of the port in amount of 426 mil. EUR. FRA receives no state or municipal budget funds (excluding public financing of infrastructural investment projects from the EU foundations).

3.5.1. The Freeport of Riga Authority Economic Activity Income

FRA income (net turnover) consists of port charges, lease of land and other real estate objects owned or possessed by FRA and other FRA services. FRA net turnover in 2017 has reached 44 mil. EUR.

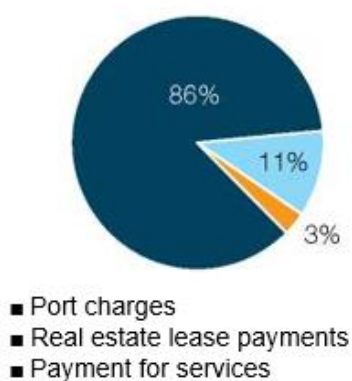
In 2017 the bigger part of FRA income (86 %) was ensured by the port charges (see image No. 9). Lease of the real estate property constituted ~11 % of total income, but the income for services provided by FRA - ~3 % (see image No. 9). Structure of FRA income is persistent and there were no change through the years.

Different port charges are being applied to the ships at the Freeport of Riga Rīgas: cargo charge, channel charge, wharf charge, sanitary charge, small ships charge and passenger charge. Port charges application procedure is specified in the document “Riga Port Charges”. The biggest part of port income (68 % in 2017) was made by cargo charges, paid by bulk ships and tank vessels entering the port, shipping mostly energy commodity cargo.

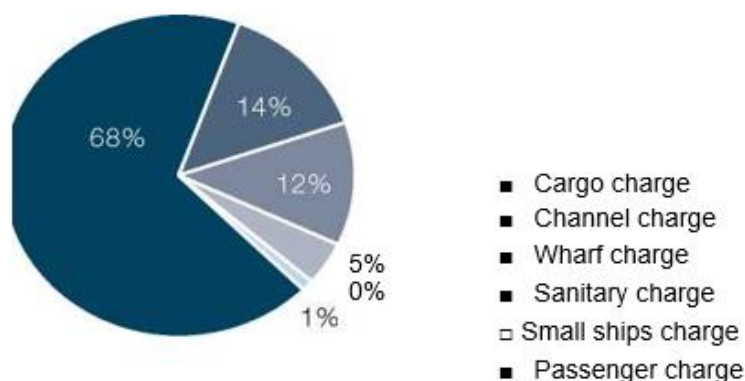
Image No. 9

FRA economic activity income structure and detailed division of port charges in 2017

FRA income structure



Port charges division



Source: FRA

Income from the port charges is directly depending on the number of ships serviced by the Freeport of Riga and its gross tonnage (GT), which is connected with the total amount of cargo being transhipped at the Freeport of Riga. The cargo turnover at the Freeport of Riga has decreased since 2015, so the FRA income from the port charges and total FRA income has also decreased.

RBP performs monitoring of port charges at the Baltic Sea Eastern coast ports to make the Freeport of Riga port charge competitive. During the operational period of *FRDP 2009-2018* tariffs of the Freeport of Riga port charges were raised just once (in 2015), and the total amount of port charges applied to a ship in Riga has increased for 4-6% depending on the type of ship.

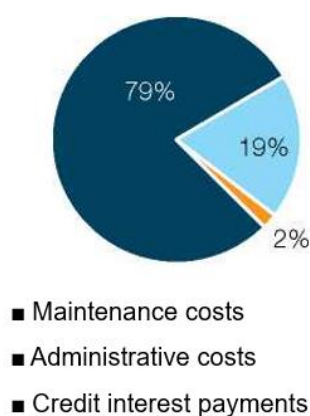
3.5.2. The Freeport of Riga Authority Economic Activity Expenses

FRA expenses structure consists of three core components – maintenance or service purchase costs, administrative costs as well as interest payments (see image No. 10). Maintenance costs (incl. depreciation of capital assets) comprises the biggest part (~80 %) of all FRA costs. It is being described by the big balance value of assets and the necessity to reserve funds for restoration of capital assets and for significant costs of port infrastructure exploitation and maintenance. Costs of purchase of services provided by FRA in 2017 was 28,8 mil. EUR, administrative costs 7,7 mil. EUR, interest and similar payments 0,9 mil. EUR.

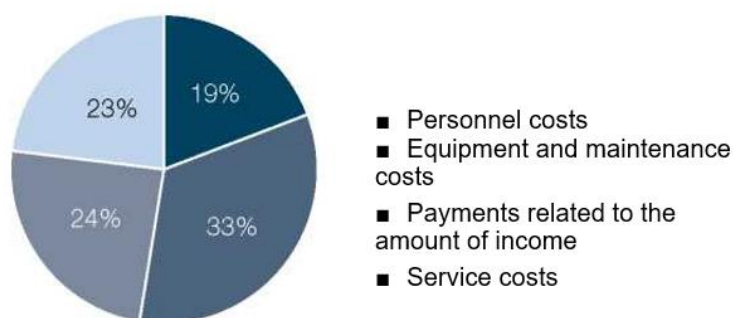
Image No. 10

FRA economic activity expenses structure and detailed division of maintenance costs in 2017

FRA expenses structure



Division of maintenance costs



Source: FRA

Maintenance of port infrastructure is capital-intensive, so the significant amount of FRA income are being directed to the maintenance of current assets. For the implementation of new investment projects FRA is attracting outside financing (mainly credit resources and EU foundation funds).

During the operational period of *FRDP 2009-2018* the most significant investment project implemented by FRA was “Infrastructural Development of *Krievu Sala* for the Redirection of Port Activities from the City Centre”. Total costs of the project are ~171 mil. EUR. Financial source of the project are Cohesion foundation financing in amount of 76 mil. EUR, credit assets in amount of 77 mil. EUR and own means in amount of 18 mil. EUR.

Other significant investment projects were also implemented, e.g. dredging of navigation channel and reconstruction of access channel, reconstruction of “*Kundziņsala*” railroad park, etc., which were funded by various available sources of finance (for detail see “*FRDP 2009-2018* fulfilment” above). Total amount of investments in 2009-2017 are reflected in Table No. 7.

Table No. 7

FRA investment division by investment object types in 2009-2017, thousands EUR

Investment object type	Total investments, thousands EUR
Ship lines	64 245
Wharfs, piers, coast strengthening	10 810
Railroad	34 854
<i>Krievu sala</i>	136 567
Other infrastructural objects	8 660
Floating equipment	13 121
Other technological equipment	3 987
Sum-total	272 244

Total amount of investments made during the *FRDP 2009-2018* operational period (until the end of 2017) was 272 mil. EUR.

Source: FRA

3.6. Environmental Protection

FRA activities are certified in accordance with ISO 14001 standard requirements. FRA is aware and has assessed the interaction of the port with environment, has identified the most significant environmental aspects, prepared documents and nominated responsible structures, arranged and controlled observance of aspects related to the environmental protection. Environmental policy implemented by FRA is targeted at further improvements at environmental protection improvements.

To ensure the protection of the Freeport of Riga against pollution, monitoring of ground waters is being performed both on territories granted and not granted on lease for the commercial activities. During the operational period of *FRDP 2009-2018* 20 new territories were included in ground water monitoring network. Primary objective of monitoring is control of emission of contaminants in the environment, including the control of ground water quality and protection from household and manufacturing pollution.

Control of pollution on the port territory is being provided by the Port police by performing scheduled inspections. In case of leakage of contaminants FRA shall arrange works on treatment of waste in accordance with the procedure prescribed by regulatory enactments.

Four PM₁₀ particles (dust) and three organic compounds monitoring stations are arranged on the territory of the Freeport of Riga. Information about the measurements is being published on the homepage of FRA and is open for public. Commercial companies providing bulk cargo (coal), oil and chemicals transshipping services are also performing air quality measurements on its territory.

FRA is performing monitoring of sediment of sea dump bed and waterbirds monitoring.

FRA has created the “Plan of Processing Waste Caused by ships at the Freeport of Riga”. This plan establishes unified procedure how the ships entering the port and representatives thereof, state institutions and merchants shall provide the processing of ship waste and cargo surplus.

In addition to regular monitoring during the operational period of *FRDP 2009-2018* FRA as cooperation partner has supported the implementation of Latvian-Switzerland cooperation programme project „Relining of Historically Polluted Locations at *Sarkaundaugava* Territory”, and stimulated the improvement of soil, ground, surface and underground water quality on *Sarkandaugava* territory.

As the result of implementation of the project “Infrastructural Development of *Krievu Sala* for the Redirection of Port Activities from the City Centre” impact on the environment of the right bank of Daugava has decreased rapidly (including the historical centre of Riga and protected zone thereof). Port infrastructure on *Krievu sala* is built using best technical solutions and disruptive technologies, decreasing the impact on the environment. Transshipping of cargo at newest terminals is being performed using environment-friendly technologies, installed by stevedoring companies (incl. closed conveyer belts at one of terminals, partially closed storage procedure – dust cover over storage areas at both stevedoring companies). Wharfs at new *Krievu sala* terminals are equipped with ship coast electric

equipment allowing ships not to start their engines when standing, decreasing the level of emission and noise.

To save biodiversity FRA is performing biotechnical measures to improve biotope capacity at *Žurku sala*, and preserved area of nature park „*Piejūra*” „*Mīlestības saliņa*” and „*Krēmeri*” nature reserve.

3.7. Port Security and Protection

Security and Protection are includes three activity areas – provision of navigation safety, port terminals safety and public order. Separate FRA structural subdivisions are responsible for each of these area within the frames of competence – Captain Service of the Freeport of Riga, Security Service and Port Police.

3.7.1. Navigation Safety

Internal security of the Freeport of Riga and navigation security is regulated by 8. Riga City Council Binding Regulations No.255, adopted on 2 May 2017 “Freeport of Riga Regulations”. Navigation security at the port is being provided by Captain Service of the Freeport, consisting of ship traffic administration centre (working 24/7/365). Ship pilot and ship traffic management operators joint and coordinated work and proper navigation lines infrastructure provides the servicing of ships entering the port.

Core functions of Captain Service of the Freeport of Riga are provision of port accessibility, control of navigation at navigable channels (incl. the coastal lighthouses of the Gulf of Riga from *Ainaži* to *Kolka* and floating navigational equipment of *Irbe* straight), organization, management and control of ship traffic, provision of pilot services, icebreakers operative management during the ice navigation period.

Towing vessels services at the Freeport of Riga are being provided by commercial companies, which has concluded the agreement with FRA. Control of depth of Port aquatic area is being performed by LLC “*Rīgas brīvostas flote*”.

3.7.2. Port Terminal Safety

FRA Security Service is responsible for planning and implementation of security measures, for creation and implementation of port protection plan. Implementation of protection plan created by the port companies is being supervised by the Maritime Administration of Latvia, port and terminal protection plan is being approved by FRA Security Service.

Security measures at port companies are being arranged in accordance with *International Ships and Port Facilities Security Code* (ISPS), and regulations of regulatory enactments of EU and the Republic of Latvia. Port companies are responsible for implementation and execution of requirements defined in the protection plan.

Stevedoring companies of the Freeport of Riga, performing transshipping and storage of hazardous cargo are acting in accordance with *International Maritime Dangerous Goods Code (IMDG)* requirements and in accordance with prescriptions of regulatory enactments of the Republic of Latvia. Supervision and control of these companies in accordance with the aforementioned code and requirements of Cabinet regulations is being performed by FRA and Maritime Administration of Latvia.

Stevedoring companies performing the transshipping of cargo are undergoing annual certification at State Fire and Rescue Service of Latvia for the provision of fire-protection regulations regarding the port equipment.

3.7.3. Public Order and Protection

Port Police is ensuring the protection of port perimeter, persons and cargo traffic as well as public order on the territory of the Freeport of Riga (incl. on waters of aquatic area of the Freeport of Riga). In addition to the aforementioned tasks, the Port Police is performing video surveillance of all the territory of the Freeport of Riga, ensures or arranges technical security system and fire-protection system maintenance as well as pollution control.

Port Police is using check positions, patrols, video surveillance system, gate check system, perimeter fencing and signalization, water pollution detectors, fire-safety alarm system, etc. to ensure public order and protection function. Port Police is the biggest infrastructural subdivision of FRA by the quantity of staff.

3.8. Information Technology Systems

To provide the activities of the Freeport of Riga, FRA is using more and more information systems, but the existing ones are being upgraded by extending its functions. Supervision and control of ship navigation is being performed by using the VTS-vessel traffic system and “*Velkonis*” information system. For safe manoeuvring of ships *Portable Pilot Units* are being used at the port, but for movement modelling – ship traffic simulator (*NAVIS Trainer 5000*). In 2018 works to implement *Daugava* stream modelling system allowing to assess the impact of stream on the ships.

To support FRA administrative functions and management of processes various IR solutions are being used: record-keeping management system (ELDIS), personnel management procedures system (HOP), finance and bookkeeping system (HORIZON), quality management system, Port of Riga information system ROIS (wharf servicing, data collection, map of free port territories), etc. The above IT solutions are providing effective exchange of information between FRA structural subdivisions. For exchange with the Freeport of Riga companies, FRA is using interactive platform created on the homepage of the port (access cards, reports, etc.).

FRA IT system is created with regard to necessary security measures, incl. separated storage of data at different locations, stand-by power supply for servers, duplicated connection channels between servers and user stations, network protection (e.g. firewall, intranet security solutions, business system security) and other measures.

3.9. Port Marketing and Communication

3.9.1. Marketing

Within the framework of macroeconomic and geopolitical events the competitiveness in the Baltic Sea region has increased. Therefore, FRA and port companies shall execute marketing activities for further stimulation of port work at transit cargo carriage market. Cooperation with current Freeport of Riga customers and attraction of new ones is a significant precondition for further development of the port.

FRA has created the *Freeport of Riga Marketing Strategy*, defining marketing purposes, marketing messages and goals regarding each target group. Totality of marketing activities is stimulating the awareness of the Freeport of Riga and helping to keep positive FRA and Freeport of Riga image, creating the understanding about port products and services, providing up-to-date information about the Freeport of Riga for all the target groups. FRA marketing activities are being implemented in close cooperation with port companies, Ministry of Transport, Investment and Development Agency of Latvia, Riga municipality and other cooperation partners. FRA is participating in ~10 cargo carriage, logistics and cruise area exhibitions, providing current information about the port services. FRA participates in forums together with port companies within the frames of common stand and / or within the frames of common stand with Latvian transport sector for the most effective popularization of port opportunities and Latvia as the cargo transit state in general.

3.9.2. Communication and Social Responsibility

Within the frames of marketing strategy *FRA Corporative Social Responsibility Policy*, *Communication Policy* and *Social Media Strategy* are created, defining communication direction, content and message structure for the activities being implemented by FRA.

Development of the above documents is stimulating active and systemic FRA communication with target audience, paying special attention to environmental protection, port development, port company activity results, implementation of new technologies, international representation and cruise segment.

FRA carries out constant cooperation with associations of port localities (*Vecmīlgrāvis*, *Sarkandaugava*, *Mangaļsala*, *Kundziņsala*) and non-governmental organizations. Every year FRA supports the most important social educational, cultural and sports events (*Latvijas leņnums*, *Ostas svētki*, contest for pupils and students “*Osta pilsētai*” etc.).

FRA is implementing socially responsible policy by participating in the most significant Riga and nationwide scale cultural events (*Rīgas svētki*, *Staro Rīga*, *Latvijas leņnums*, etc.). It provides the opportunity to enquire with very wide Latvian society, speaking different languages and representing various cultures. Participation in such events stimulates recognition of the Freeport of Riga image, enhances prestige of FRA and attracts public attention to the port activities and role of the port in Latvian economy, simultaneously there is an opportunity to address to the representatives of international companies and medias.

FRA is participating in arrangement and execution of capital- and nationwide scale events “The Big Clean-up” (*Lielā talka*, etc.). In cooperation with Riga locality inhabitants FRA continues the maintenance and redevelopment of port and surrounding territories. Therefore values of brand of the Freeport of Riga are being strengthened and the port is being recognized as socially responsible, caring of the environmental protection and living standards of inhabitants of port localities. FRA carries out research of port image from time to time to evaluate the public opinion and fluctuations in recognition and public perception of the Freeport of Riga.

3.9.3. International Cooperation

FRA is participating in work of several significant international ports and logistics organizations to ensure the representation of the Freeport of Riga and contribute in awareness thereof. FRA is a member of International Association of Ports and Harbours (IAPH), European Sea Ports Organization (ESPO), Baltic Ports Organization (BPO), International Association of Cities and Ports (IACP), Cruise Lines International Association (CLIA),

International Harbour Masters Association (IHMA), International Port Community System Association (IPCSA), World Free Zones Organization (WFZO).

FRA participates in work of German-Baltic Chamber of Commerce, Belgian-Latvian Business Club, Chinese Business Council, and Coordination Council on Trans-Siberian Transportation. By participating in the above organization, FRA has the opportunity to represent port interests, express opinion, perform quality representation, ensure information exchange between FRA and particular institutions and organizations, to obtain experience. Representatives of FRA are participating in work of technical committees of ESPO and IAPH.

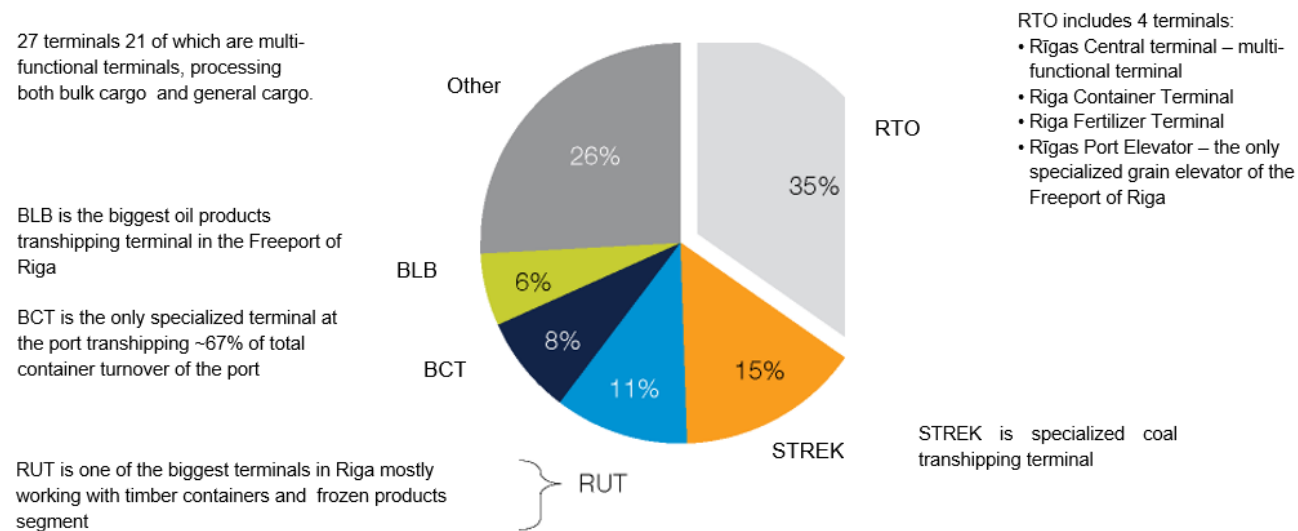
3.10. Companies Working at the Freeport of Riga

Cluster of enterprises of the Freeport of Riga contains of ~200 various companies activities of which are related to the port services and which has concluded the contracts with FRA about the commercial activities at the port, including regarding the lease of land and/or wharfs. Wide range of services is available for the customers: 34 stevedoring companies, nine cargo storage companies, 31 ship's agency service company, eight towing and bunkering service providers, six manufacturing companies, three ship construction and repair companies, as well as ~90 companies providing other services related to the processing of cargo and ships were working at the port in 2018. The majority of stevedoring companies working at the Freeport of Riga are multifunctional cargo terminals processing different types of cargo. Nine liquid cargo terminals, one specialized container carriage terminal and specialized chemical bulk cargo terminal are being considered specialized terminals.

By the amount of transhipped cargo terminals of the Freeport of Riga are different. There are several big terminals and many small multi-functional terminals. In 2017 more than 1 mil. tons of cargo was transhipped by seven port stevedoring companies (LLC "Rīgas Tirdzniecības osta" and companies affiliated with it, LLC "STREK", LLC "Baltic Container Terminal", LLC "Rīgas universālais termināls", JSC "BLB Baltijas Termināls", LLC "KS Terminal" and LLC "PARS Termināls"). For detailed information see Image No.11.

Image No. 11

Cargo turnover of the Freeport of Riga by stevedoring companies



Source: FRA

4. Market Analysis

In this part a summary of market analysis is presented, performed by transport area advisers on the instructions of FRA - *Port of Rotterdam International* structural subdivision. Outside environment where the Freeport of Riga is working and determining the perspectives and challenges for work of the Freeport of Riga, was studied in-depth within the frames of market research. In this section three core elements describing the market are presented: Market area of the Freeport of Riga (maintained territory), Baltic Sea corridor the Freeport of Riga is a part of, main processed cargo segments, and development perspectives thereof. The Freeport of Riga is a port of TEN-T core network, one of nine EU transport core network corridors: North Sea-Baltics transport corridor. Word combination “Baltic Sea Corridor” will be hereinafter used for definition of the Freeport of Riga competitive environment, as long as it describes cargo flow direction from cargo origins to destination points.

4.1. The Freeport of Riga Market Area

The Freeport of Riga is maintaining significant part of Eurasian continent – mostly Russia, but also Belarus, Ukraine, Kazakhstan, Uzbekistan and other countries inland of the continent, landlocked and being cargo origin and consumption markets for cargo being transported through the Freeport of Riga. These countries in context of *FRDP 2019-2028* will be hereinafter defined as *The Freeport of Riga Market Area*.

There are ~282 mil. inhabitants in countries of the Freeport of Riga Market Area and GDP of them is 2,5 trillion US dollars. Economically and demographically maintained territory is equal to USA, Brazil or Indonesia. Ports servicing this territory are transshipping approx. 1,2 billion tons of sea cargo per year. This cargo is being transferred by four main corridors: Baltic Sea corridor, Black-Azov Sea corridor, Arctic corridor and Far East corridor. Baltic corridor is the biggest by the amount of processed cargo. Despite of merging of separate transport corridor market areas, its mutual competition is not very significant.

4.2. Baltic Sea Corridor

The Freeport of Riga just like other Latvian biggest ports (the Freeport of Ventspils and Liepāja Port, being a part of Liepāja Special Economic Zone) is a part of Baltic Sea corridor. Baltic Sea corridor ports total turnover is ~500 mil. tons per annum or 42 % of total port turnover of four mentioned transport corridors. Territory serviced by the Baltic Sea corridor is reflected in image No. 12.

Image No 12

Baltic Sea corridor cargo origin countries



Source: POR

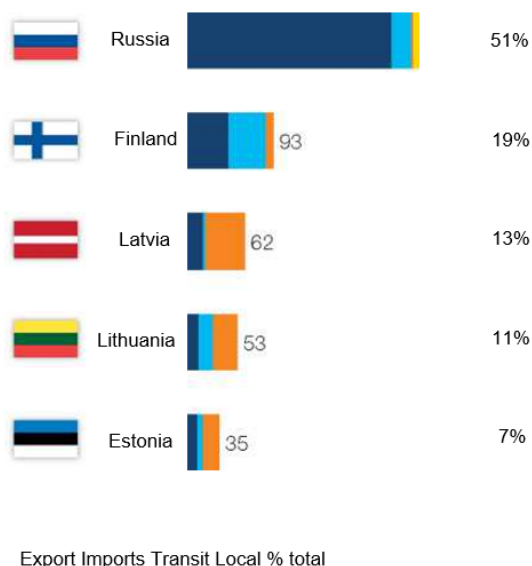
There are ~60 ports at the Baltic Sea corridor and not all of them are processing transit cargo. Therefore, not all of them are competing with the Freeport of Riga. Competitors of the Freeport of Riga are Ustyug, Primorsk, Saint-Petersburg, Vysock, Hamina-Kotka, Helsinki, Tallinn, Sillame, Ventspils, Liepaja and Klaipeda, because they are processing the same territories and types of cargo.

~50 % of all the cargo being transported by the Baltic Sea corridor are being transhipped in Russian ports, and Ustyug, Primorsk and Saint-Petersburg are the biggest ports of the corridor. Latvian ports together are processing approx. 65 mil. tons of cargo per year, or ~13 % of total amount of cargo at the corridor. Approx. 70 % of Latvian port cargo flow consists of transit cargo. The Freeport of Riga is the fifth biggest corridor port, servicing 7% of the Baltic Sea corridor cargo. Russia and Finland are generating significant flow of import and export cargo, but Baltic states are mostly servicing transit cargo flow. For additional information see Image No. 13.

Image No 13

Baltic Sea corridor cargo turnover in 2017

Baltic corridor port turnover by type
Item: mil. tons, 2017



10 biggest ports by turnover
Item: mil. tons, 2017

Port	Turnover (mil. tons)	% of total
Ustyug	103	21%
Primorsk	58	12%
Saint-Petersburg	54	11%
Klaipeda	43	9%
Riga	34	7%
Skoldvik	21	4%
Ventspils	20	4%
Tallinn	19	4%
Vysock	18	4%
Helsinki	14	3%
Other	108	22%
total		total

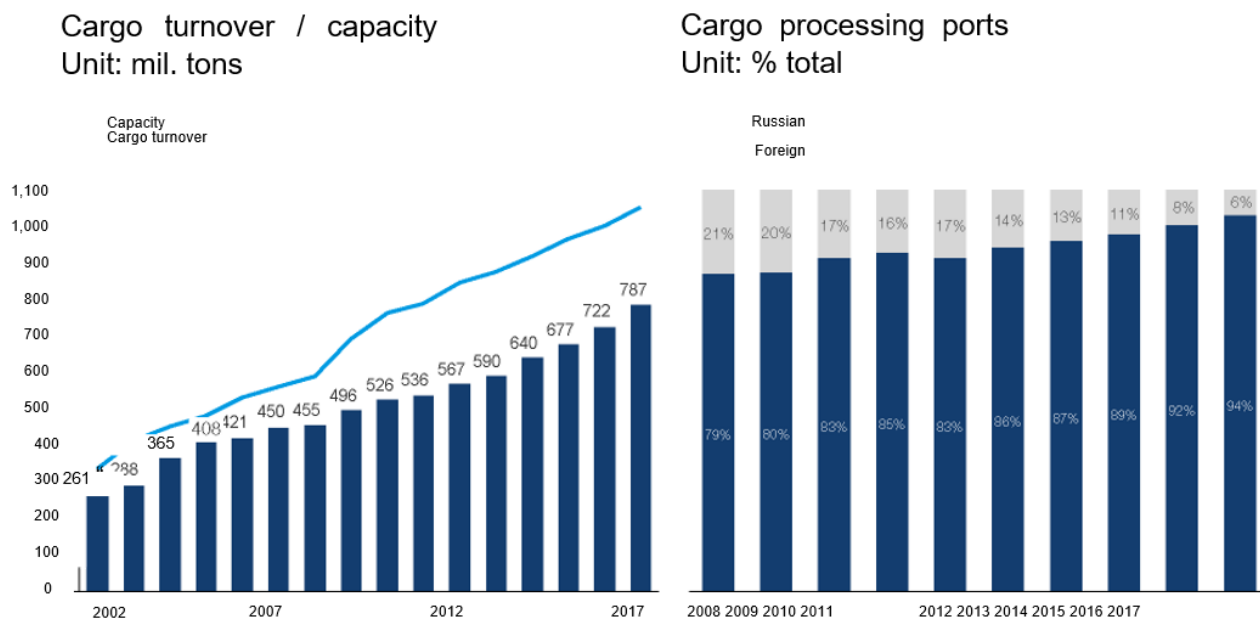
Source: POR

There is a serious competition between the Baltic Sea corridor ports. It is because the ports has similar working profile and they are targeting processing the same inland territories and because port capacities at this region are exceeding the total amount of cargo flows.

Competition within the frames of Baltic Sea corridor is significantly increased by Russian purposeful activities to redirect Russian and even Middle-Asian cargo to its own ports using not only administrative resources, but also the existing control over Eurasian railroad system. Russian priority is to redirect strategically vital energetic commodities, like crude oil, oil products and coal to its own ports. Within the period of time from 2002 to 2017 Russia has increased the total capacity of all four transport corridor ports from ~300 mil. tons to 1 billion tons per year. Therefore the cargo tur-over of Russian ports has grown from 261 mil. tons in 2002 to 787 mil. tons in 2017, or for 8% per year on average. So, the significant part of Russian export cargo was redirected to the Russian ports, but the proportion of Russian export cargo being transhipped in foreign ports decreased from 20 % to 6 %.

Image No. 14

Russian port cargo turnover, capacity and proportion in Russian cargo processing in 2002-2017 (mil. t)



Source: POR

Russian government is expecting the cargo turnover of Russian ports will increase from 787 mil. tons to 1.5 billion tons in 2035. To be able to ensure the transshipping of these amounts it is being expected to increase the port capacity.

Baltic states are very contingent upon transit cargo, but for Latvian port this contingency is the biggest. Proportion of Latvian port transit cargo is ~70 %, in Estonia - 51 %, but in Lithuania - 48 %.

4.3. Cargo Segments

Latvian ports are processing wide range of cargo, four biggest groups of which are energy commodities, agricultural and forest industry cargo, general cargo (containers) and Ro-Ro (ferry and passenger traffic). Short description of segments is provided in Table No. 8.

Table No. 8

Core sea cargo segments in biggest Latvian ports in 2018

Core sectors	Core subsectors	Main serviced territories	Core contributing factors	Market position of the Freeport of Riga
<i>Energetic commodity cargo</i>	Coal Oil Products (incl. SPG) Crude oil	Russia (export) Belarus (export) Latvia (import)	Purchase and production of raw materials in market are countries Geopolitics Railroad connections with market area countries Demand for fuel at local market	Segment is divided between Riga and Ventspils ports; the Freeport of Riga is dominating in coal segment, but Ventspils – in oil product segment
<i>Agricultural and forest industry cargo</i>	Cereals / products Mineral fertilizers Forage	Latvia Russia Belarus Estonia Lithuania	Manufacturing of agricultural and timber materials at serviced territory Geopolitics Global demand for foodstuff	Core market participants are Riga and Liepaja ports; Riga has better position



	Timber/ products		Railroad connections	in mineral fertilizers and timber material area, but Liepaja in cereal transshipping
<i>Container cargo</i>	Fresh and frozen products Machinery and equipment Mass consumption household products Timber Chemicals, etc.	Latvia Russia Middle-Asian countries Belarus	Consumption and production at serviced territory Geopolitics Transport connections with market area countries Competition between ports	The Freeport of Riga is dominating this segment in comparison with Ventspils and Liepaja ports, competitive ports outside Latvia are (Klaipeda, Saint- Petersburg, Gdansk)
<i>Ferry and passenger traffic</i>	Ro-Ro Ro-Pax Cruise ships Ferries	Latvia	Local consumption and manufacturing Increase of income	Liepaja and Ventspils are dominating the Ro-Ro segment, but the Freeport of Riga is the only one providing passenger ferry traffic

Source:

Image No. 15

Future expectations of cargo carriage segments at the Freeport of Riga

Segments	Perspective	Grounding
Energy commodities		<ul style="list-style-type: none"> Main fossil fuel importing countries of Europe (Germany, Netherlands, Great Britain, etc.) are implementing energetic policy aimed on decrease of fuel consumption and use of renewable energy sources . Therefore, during next 20 years consumption of fuel in Western Europe most likely will decrease. <p>Taking into account Russian geopolitical conflict with EU and USA, Russia has purposely redirected energy commodities from Baltic state ports to Russian ports and in next 20 years most likely such transport policy of Russia will be continued.</p> <ul style="list-style-type: none"> Taking into account growing demand for coal at Eastern Asian and South Asian countries (China, South Korea, Japan, India, etc.), Russia will increase the amount of coal export using the Far East corridor. It is expected that China and India will be the biggest coal consumption states within the period by 2030.
Agriculture/ forest industry		<ul style="list-style-type: none"> During the last 10 years production of cereals in Latvia has increased for 7% per year on average, and 80% of this amount were exported. World population is constantly growing together with the demand for foodstuff. Therefore, in segment of agricultural products the increase of cargo turnover is expected, taking into account Latvia's opportunities to increase the cereal income amount. Significant increase of cargo turnover in forest industry is not expected.
Containers		<ul style="list-style-type: none"> In accordance with expectations of International Monetary Fund and HSBC (one of the World's biggest banks) average increase of container cargo turnover per year is 3 %. This increase is applicable to the Freeport of Riga, as long as at Ventspils and Liepaja ports the turnover of container cargo is comparatively inconsiderable. Biggest part (80 %) of turnover of container cargo of the Freeport of Riga consists of transit traffic, this is why competition with foreign ports is expected in this area (mainly – Saint-Petersburg and Klaipeda ports).
Ferry and passenger traffic		<ul style="list-style-type: none"> At Ro-Ro and passenger traffic segment increase is expected depending mostly on Latvian economy basics (incl. development of processing industry). Latvia also has opportunities to increase Ro-Ro traffic connection with Eastern Europe and Scandinavian ports, main role in development of this segment is being played by Ventspils and Liepaja ports (shorter maritime route to the destination ports in comparison with the Freeport of Riga). Passenger traffic segment is being positively influenced by tourism potential of Riga and constantly growing recognition.

Source: POR

4.3.1. Energy Commodities Cargo

Within 20 years energy commodities cargo area was the core factor of increase of cargo turnover at the Freeport of Riga. However, decrease of energy commodities cargo amount being indicated over the last years and expectations of further demand are showing the lack of significant increase of cargo turnover in the future.

Coal

By the transhipped amount coal is the biggest type of cargo at the Freeport of Riga (35% of the Freeport of Riga cargo turnover in 2017). Latvian ports are mostly processing coal from Russia, which is the biggest coal producer and exporter on Eurasian continent. Russia produces ~410 mil. tons of coal per year.

Over the last years significant changes in Russian coal export structure happened. While over the last years the biggest part (~60 % of produced coal) Russia was sending to the European countries, in 2018 more than a half of Russian coal was exported to the Far East (Asia – Pacific Ocean) region. South Korea, China and Japan are becoming bigger Russian coal consuming countries.

96 % of Russian coal export were transported by sea, incl. 60 mil. tons through Baltic Sea ports (39 mil. tons – through Russian port and 21 mil. tons through Baltic state ports). Largest coal export ports are Ustyug, Riga and Vysock. Share of the Freeport of Riga in Russian coal export market is approx. 6%. Competitive advantages of Riga are as follows: better winter navigation conditions in comparison with Russian Baltic Sea ports, list of provided additional services (e.g. magnetic cleaning of clogging coal), cargo processing speed. Cargo flow to Riga is being guaranteed by coal shipping contracts with customers effective in general for five – seven years. However, Russia has announced implementation of several coal terminal projects, which could increase the competition between Baltic Sea region ports even more.

By the long-term period decrease of coal consumption growth tempo is expected in global scale, affecting the amount of Russian coal export. It is expected that coal production maximum will be reached in Russia ~ by 2030, but then it will start decreasing. In accordance with International Energy Agency forecast coal export amount in 2035 could decrease to the level of 2010.

Coal consist 35% of the Freeport of Riga cargo turnover and provided significant contribution to the port development over the last 20 years. When market conditions are changing, coal cargo is the most risky area for the Freeport of Riga, taking into account geopolitical conditions, Russian port development plans and fluctuations of coal consumption amounts and geographical changes at World market. Therefore, it is important for the Freeport of Riga to diversify the cargo base decreasing dependence of cargo turnover on possible decrease of coal cargo amounts.

Oil Products and Liquefied Propane

17 mil. tons of crude oil and oil products were transhipped in Latvian ports in 2017 (including SPG), constituting 27% of total cargo turnover in Latvian ports. Oil products market in Latvia has three significant components:

- Import: ~1,8 mil. tons per annum, mostly – distilled fuel, used as a fuel for motor vehicles;
- Export: re-export constituting less than 1 mil. tons per annum;
- Transit: Latvian ports are providing Russian and Belarus oil products export – 14 mil. tons per annum.

In accordance with EU expectations, Latvian consumption amounts will be constant during next years -1-1,2 mil. tons per annum (import up to 1,9 mil. tons per year, difference is made by oil products re-export). Despite of increase of automation level, significant increase of oil products demand is not being expected due to the decrease of population.

The amount of transit oil products being transhipped in Latvian ports will depend on Russian and Belarus oil product export amounts. In 2017 Belarus and Russia together exported 174 mil. tons of oil products, and Russia provided more than 90% of that amount. 90 % of Russian oil products were exported by ships, and Baltic Sea corridor is

the core Russian oil products export corridor. The amount of oil products in this transport corridor in 2017 reached 73 mil. tons, incl. ~10 mil. tons through the Baltic Sea region ports, which are not Russian ports. Biggest part of that amount (5 % of Russian total export) was transhipped in Latvian ports. Latvian port market share at oil products transit market is labile, taking into account forecasted further re-targeting of Russian energy commodity cargo export to its own ports. It is possible that Belarus export cargo could become more accessible for Latvia, but the significant increase is not expected.

In 2017 oil products constituted 17% of total Freeport of Riga turnover, but oil products turnover decrease is being expected in long-term perspective.

4.3.2. Agricultural and Forest Industry Cargo

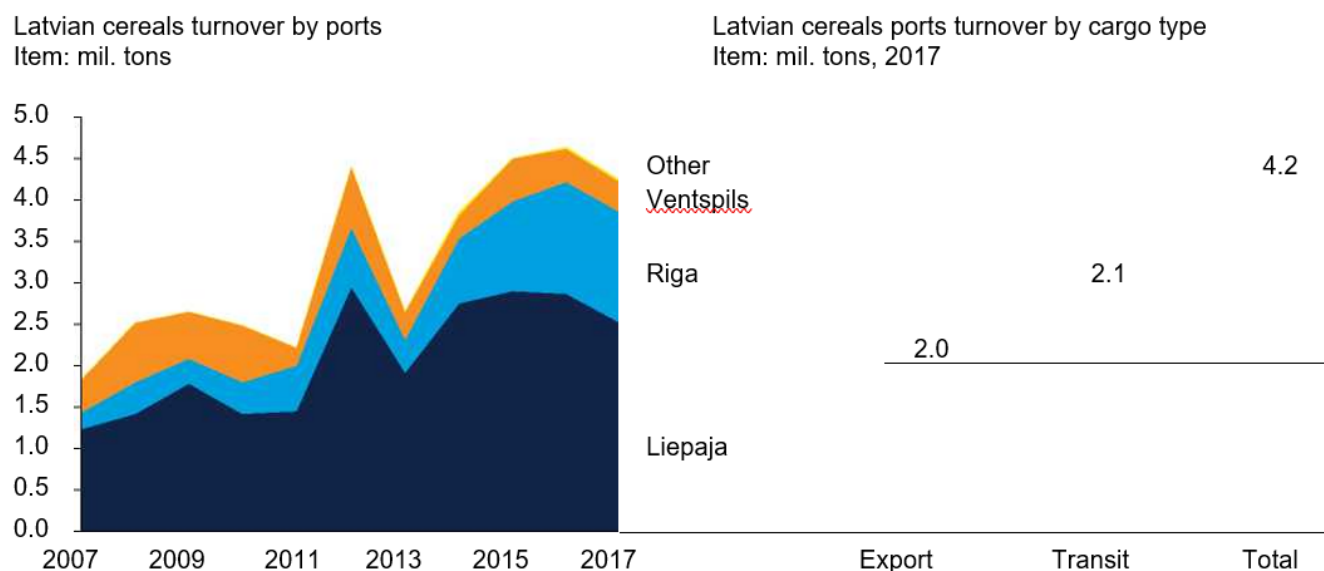
Agricultural and forest industry cargo sector includes various types of cargo and the turnover is influenced by various factors. Cereals, cereal products and other agricultural cargo, mineral fertilizers and forest industry cargo – timber constitute this sector. Part of this cargo is raw materials being transported as bulk cargo or general cargo, but other part – products being transported as bulk cargo, general cargo or in containers.

Cereal and Cereal Products

Core agricultural cargo being transhipped in Latvian ports is cereal and cereal products. In 2017 4.2 mil. tons of cereal were transhipped in Latvian ports, by equal parts it was export and transit of cargo from other countries. Over the last 10 years the amount of cereals processed in Latvian ports has doubled from two to four million tons (see image No. 16).

Image No. 18

Turnover of cereal products in Latvian ports (mil. tons) in 2017



Source: POR

One of the core factors stimulating the increase of cereal transshipping amounts was cereal production in Latvia, which has doubled over the last ten years, reaching 3 mil. tons per annum; moreover, approx. 10% of agricultural lands of the country were used for cereals production. Approx. 70% of cereals produced in Latvia are being exported. Main Latvian cereal export markets are North Africa and Near East countries.

Cereal and cereal products are potential sector of development for the Freeport of Riga. It is being indicated by two factors: increase of amounts of Latvian cereals export and opportunities to attract transit cargo from neighbouring states (Estonia, Lithuania, Belarus and Ukraine).

Forest Industry

Forest industry cargo constitute ~10 % of Latvian ports total annual turnover including timber chips, timber granules, round timber, industrial wood and other products. Timber being transhipped in Latvian ports mainly is Latvian export, but ports are also being used for e.g. transit of Belarus timber. Despite of decrease of export of round timber over the last years

the export of timber granules is increasing. Part of forest industry cargo is being placed in containers and this way of transportation of timber is trending upward.

The Freeport of Riga is transshipping approx. 4 mil. tons of various forest material cargo every year. Over the last years the amount of transhipped forest industry cargo is constant. It is hard to forecast the dynamics of forest industry market for years to come, but the turnover of forest industry cargo could be affected by weather conditions not favourable for forest industry or decrease of demand at consumption markets being caused by the surplus of local raw-materials. Despite of the aforementioned it is expected that the amount of forest industry cargo at the Freeport of Riga will be constant.

4.3.3. Container Cargo

Container carriage is the fastest growing cargo sector in Latvia. Over the last 10 years the amount thereof has doubled, reaching 450 thousand TEU. The Freeport of Riga is providing 99% of total container cargo turnover of Latvian ports, and over the last decade it was increasing for 10% per year by average.

The Freeport of Riga Market Area Ports Cargo Turnover

The amount of container cargo in the above four transport corridors, servicing the Freeport of Riga market area in 2017 constituted 7,5 mil. TEU. Taking into account the fact, that regions with similar economic and geographic indicators (e.g. Indonesia or Brazil) are creating the bigger amount of container carriage, which will stimulate increase of container cargo turnover at ports (it could be stimulated e.g. by Russian and other market area countries industrialization, causing the necessity for equipment import, increase of high added value goods in export structure, etc.).

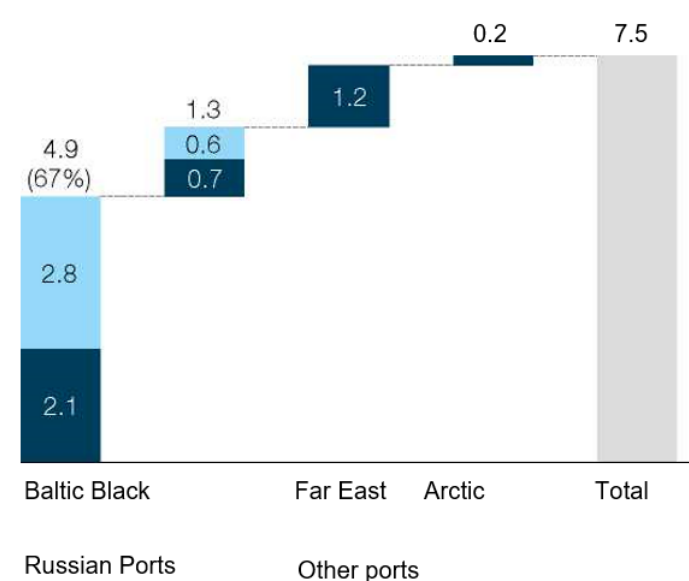
The Baltic Sea corridor is processing the biggest part (4,9 mil. TEU or 67 %) of all the Freeport of Riga market area container cargo, moreover, more than a half (57%) of Baltic Sea corridor container cargo are being transhipped in the region outside ports on the Russian territory. Riga with 446 thousand TEU turnover is the fifth biggest container port of the Baltic Sea corridor with ~10 % of market shares (see image No. 17).

Image No. 17

The Freeport of Riga market area container cargo flow in 2017

Market area container cargo separation by corridors

Item: mil. TEU, 2017



Market area container cargo separation by countries.

Item: mil. TEU, 2017



Source: POR

Transit Cargo

Approximately one third part of all Baltic Sea corridor container cargo is transit cargo, but structure of several port container cargo is different – regional Russian ports are processing mostly export/import cargo, in Finland ports the amount of transit container cargo is ~40 %, but at the Freeport of Riga transit container cargo are constituting biggest part (70-80 %) of total container cargo amount. Despite of lack of precise data about the transit container cargo origin, approx. 10% of Russian export/import total amount of container cargo are being transported outside ports of Russia every year. The Freeport of Riga market area countries, having no external sea ports (Belarus, Kazakhstan, Uzbekistan, Tajikistan and Kirgizia) in 2017 provided almost 800 thousand TEU. This amount is constituting potential container cargo transit flow for the market area servicing ports, incl. the Baltic Sea corridor ports.

Latvian Export and Import

Precise information about the amounts of Latvian container cargo export/import amounts is not being recorded; summarization of data is also disturbed by the fact that Latvian foreign trade biggest proportion is being constituted by trading with other EU countries and these deals are not being recorded.

In 2017 Latvia has exported ~100 thousand TEU. Since 2000 export of container cargo has increased for 10% per annum on average. Biggest proportion of Latvian container cargo is being constituted by raw-materials (various timber 42% turf 28%), but biggest export destination countries are China (15%), Korea (14%), Egypt (11%) and USA (10%).

Container cargo import amounts are smaller (~34 thousand TEU in 2017). The biggest container import position was automobile tyres, constituting 11% of amount but the biggest container cargo origin state was China (34%), followed by USA, India and Turkey.

4.3.4. Ferry and Passenger Traffic

This traffic segment includes cargo and passenger traffic being provided by i Ro-Ro and Ro-Pax ships.

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

The amount of Ro-Ro cargo being processed at Latvian ports increased since 2000 for 9% per year on average, reaching 3.2 mil. tons in 2017. Ro-Ro cargo turnover increase was stimulated by new scheduled ferry line implementation in the Freeport of Ventspils, where the biggest part of Latvian Ro-Ro cargo was processed (66 % in 2017).

Ro-Ro transportation at the Freeport of Riga are being provided using scheduled passenger traffic line from Riga to Stockholm (provided by JSC “Tallinnk Latvija”), and the amount of cargo hasn’t increased much – depending on the number of incoming ferries it was 400-600 thousand tons per year. Market positions of the Freeport of Riga in this sector is comparably weaker than other Latvian biggest ports – location in the Gulf of Riga in comparison with other ports requires the longer entrance period and causing additional costs, which are significant disturbing conditions for maintenance of scheduled traffic.

Passengers

0,83 mil. passengers were processed at the Freeport of Riga in 2017, it is the biggest number of passengers in history of port. Passenger traffic could be divided in two sectors (cruise tourists and ferry passengers) having different specifics.

Cruise market is of expressively seasonal nature – cruise ships are mostly entering the port from May to September. Cruise business is also cyclic – cruise passengers in most cases are particular shipping line customers, but cruise ship operators are changing shipping routes from time to time to offer new cruise destination points for their customers. It describes scheduled Riga city inclusion/exclusion from cruise route and fluctuation of passenger quantities at the Freeport of Riga. In 2017 biggest number of cruise passengers processed by the Freeport of Riga was registered (87,4 thousand passengers) constituting ~10 % of total number of passengers processed by the Freeport of Riga.

For further development of cruise sector the proper width and depth of navigation channel shall be created in Riga to process bigger cruise ships, as well as more available wharfs for simultaneous processing of several cruise ships. In addition to the aforementioned, passenger servicing infrastructure should be improved, including the connection of infrastructure with the city.

~90 % of total number of passengers at the Freeport of Riga are related to the activities of *Tallink* ferry line, providing scheduled daily traffic with Stockholm (0,74 mil. passengers in 2017). Unlike cruise passengers, who are mostly heading for vacation trips, ferry services are being used both by tourists and business trip passengers. Development of passenger traffic sector is possible by attracting new scheduled ferry line to other Baltic Sea region port.

4.3.5. Other Cargo

The Freeport of Riga is a multi-functional port and in addition to the aforementioned bigger groups of cargo it offers transshipping and storage of various other types of cargo. Other cargo constitutes 10-15 % of total turnover of cargo, including ore materials, various metal cargo (incl. metal waste, ferroalloys), metal products, broken rock, construction materials, frozen cargo and other cargo. Part of this cargo (ore materials, broken rock, metal products) are cargo received by maritime transport, allowing to decrease the domination of cargo being sent by maritime transport.

4.4. The Freeport of Riga Market Position

The Freeport of Riga is expressively transit port – the port, where cargo of origin or destination outside Latvia is being mostly transhipped. Bigger part of cargo turnover at the Freeport of Riga is constituted by Russian and Belarus origin cargo. Proportion of transit cargo constitutes ~80 % of total turnover of cargo.

Latvian export and import cargo constitutes comparatively small proportion of turnover of cargo at the Freeport of Riga (~20 %). Industrial activities being performed at the Freeport of Riga and nearby (Riga city agglomeration) (machine industry, metal processing, chemical industry, electronic industry, etc.) is not providing significant additional cargo flow to the Freeport of Riga. So, the local cargo segment is being mostly constituted by Riga agglomeration agricultural and forest industry cargos, the significant increase of which is not being inspected within the next 10 years.

Transit cargo being processed at the Freeport of Riga mostly is energy commodities, bigger proportion of which is mostly constituted by export of Russian fossil fuel. Taking into account geopolitical situation and Russian transport development policy, as well as global tendencies in energy area, such dependence is causing significant risks to the further developments of the Freeport of Riga.

Taking into account the proportion of transit cargo in cargo turnover structure, the Freeport of Riga market position is risky, as long as it is possible to redirect this cargo to other Baltic Sea region ports. Risk is also being increased by transit cargo infrastructure: approx. half of port cargo turnover is being constituted by energy commodities (coal and oil products), making the Freeport of Riga sensitive to world energy market tendencies and geopolitical fluctuations. The Freeport of Riga could partly decrease these risks by improving processing industry on the territory of the Freeport of Riga (using free zone regime advantages) and by attracting additional Latvian export and import cargo.

Core factors influencing the Freeport of Riga cargo turnover are summarized in table No. 9.

Table No. 9

Core factors influencing the Freeport of Riga cargo turnover

Factor	Description
Geopolitical situation	<ul style="list-style-type: none"> • Biggest part of cargo turnover of the Freeport of Riga is being constituted by transit cargo from Russia and other countries through Russia. • Russia is purposely implementing the Russian port development and protectionism policy redirecting the cargo to own ports and it is being expected that this policy will go on. • Improvement of Latvian-Russian or EU-Russian relations could significantly increase the opportunities of the Freeport of Riga to keep and attract new transit cargo.
Railroad connection	<ul style="list-style-type: none"> • 100 % of the Freeport of Riga bulk cargo and liquid cargo are being transferred by railroad. • To redirect the cargo to its own ports Russia is applying restrictions for railroad traffic to non-Russian ports, including the railroad tariff policy favourable for Russian ports.
Tendencies in energy area	<ul style="list-style-type: none"> • Coal constitutes 1/3 of cargo turnover at the Freeport of Riga, moreover, the bigger part of this coal is energy coal (coal used for the production of fuel electric energy). • It is expected that consumption of coal in Europe will decrease over the next 10 years. Coal production amounts in Russia will decrease, but the biggest importers of coal will be East Asian and South Asian countries.
Consumption in market area countries	<ul style="list-style-type: none"> • The Freeport of Riga is Latvia's biggest container port. • The amounts of container carriage are being affected by consumption in Latvia and the Freeport of Riga market area countries. • Fluctuations of energy commodities consumption in Latvia (mostly oil products) could cause a negative effect on the perspectives of the Freeport of Riga. • It is expected that population of Latvia and neighbouring countries (Russia, Lithuania, Estonia and Belarus) will go on decreasing, causing negative effect on the growth of consumption, despite of increase of income.
Production in market area countries	<ul style="list-style-type: none"> • Cereals are being produced in Latvia, being one of the most transhipped cargo at the Freeport of Riga, except for energy commodity cargos. • Market area countries, especially Russia produced large amounts of cereals and other agricultural products. • Belarus without its own sea border produces oil products and is using the Freeport of Riga as oil products export port.



Competition between ports

- The Freeport of Riga is acting under serious competition conditions.
- Russian ports have ambitious capacity improvement plans, which could affect the Freeport of Riga development perspectives.
- It is unknown what will be the proportion for which Russian ports will be able to overtake all Russian and Middle Asian countries export and import, but it is expected that:
 - the amount of Russian coal cargos will decrease, but still be exported through the Freeport of Riga, as long as it is important for the possessors of Russian energy commodity cargos to ensure several cargo transshipping ports for constant coal export (for example, in winter period when Russian ports could be frozen). Moreover, Latvia has opportunities to offer lower transportation charges for one ton from Latvian border to the cargo loading on ships at the Freeport of Riga in comparison with other cargo carriage routes, provided that Russia will decrease or cancel railroad tariff discounts for cargo carriage to Russian ports;
 - Bigger and bigger amounts of Russian oil products will be redirected to Russian ports, but the Freeport of Riga could go on processing and attracting Belarus cargos;
 - Redirection of container cargos to Russian ports is more complicated, because Russia and other countries has competitive road haulage market, so it is highly likely that these cargos will be directed to the Freeport of Riga like they are now.

Source: POR

Taking into account the aforementioned market analysis, perspective cargo segments for the Freeport of Riga are container carriage, agricultural and forest industry cargos, and passenger traffic.

Table No. 10

The Freeport of Riga core cargo development sectors

Sector	Grounding	Purpose(-s)
Container cargo	<ul style="list-style-type: none"> • Growing market sector, where the Freeport of Riga has sustainable positions • Location at the capital ensures the demand for container carriage for local market processing • Good road and rail connections with Eurasian territory 	<ul style="list-style-type: none"> • To keep and increase the transit market share • To stimulate the development of processing industry at the Freeport of Riga territory, specifying areas to be supported with the biggest cargo development potential
Agricultural and forest industry cargo	<ul style="list-style-type: none"> • Growing Latvian cereal manufacturing volumes providing sustainable local cargo base • Big transit market, including part of Estonia, Lithuania, Russia and Ukraine • Increase of world population will stimulate growing consumption of cereal 	<ul style="list-style-type: none"> • To increase local market share, ensuring the export cereal and grain transshipping on the left bank of Daugava, located nearer to the core cargo origin region (Zemgale) • To increase the added value of cargo carriage by creating opportunities to build big amount cargo storage warehouses at the Freeport of Riga and perform processing of cargo (segregation, packing, etc.)
Ferry and passenger traffic	<ul style="list-style-type: none"> • There is a local demand in Riga for ferry traffic and it is also an attractive offer for tourists • Other regional ports, e.g. Stockholm and Saint-Petersburg, big number of entering ships indicating the opportunity to attract additional ships to Riga; • Cruise ship passengers are providing direct contribution to the city economy 	<ul style="list-style-type: none"> • To attract additional cruise operators and ships to the Freeport of Riga, increasing the number of passengers • To attract additional cargos and passenger ferry operators • To cooperate with Riga city and tour operators to improve the cruise offers

Source: FRA

5. Cargo Turnover Expectations

Grounding on the performed market analysis, two cargo forecast scenarios were defined within the frames of **FRDP 2019-2028**.

Minimal scenario including forecast of cargo turnover at the Freeport of Riga in situation when several market factors unfavourable for the Freeport of Riga would happen.

Optimistic scenario includes the Freeport of Riga cargo turnover forecast in situation, if maritime cargo carriage market will develop in a way favourable for the Freeport of Riga. Summary of core presumptions describing scenarios is provided in table No. 11.

Table No. 11
The Freeport of Riga cargo turnover scenario presumptions

Core presumptions	Minimal scenario	Optimistic scenario
Socially-economic tendencies	<ul style="list-style-type: none"> Negative natural population increase at the biggest part of the Freeport of Riga market area Low tempo of world GDP increase on average Restriction of innovations 	<ul style="list-style-type: none"> Negative natural population increase at the biggest part of the Freeport of Riga market area tempo of world GDP increase on average Low GDP growth tempo at the biggest part of the Freeport of Riga market area Development of innovations
Geopolitics	<ul style="list-style-type: none"> Competition for influence and resources between powerful countries Countries are unable to settle core global issues, e.g., decrease of greenhouse gas emission 	<ul style="list-style-type: none"> Cooperation between countries in global issues has improved, e.g. regarding the decrease of greenhouse gas emission
Energetics	<ul style="list-style-type: none"> Low GDP growth decreased the energy commodity costs, decreasing the renewables competitiveness Priority to the energy resources provision opposite to the environmental protection and long-term development stimulation Fossil energy commodities consumption increase in Western Europe and other countries, being Russian energy commodities export market 	<ul style="list-style-type: none"> Big GDP increase is raising energy commodity costs, increasing the competitiveness of renewables Renewables decreases the fossil fuel market share in long-term perspective New technologies are ensuring fuel economy, stimulating decrease of consumption of fossil energy resources

Trading

- Trading restrictions between countries is expanding (international sanctions, market restriction measures, etc.)
- Lower tempo of foreign trading growth due to trading restrictions and therefore lower GDP growth tempo
- Lower container cargo amount increase tempo due to comparatively low GDP growth tempo. Small increase of bulk cargo amount as long as countries are trying to provide foodstuff and energy commodities
- Significant growth of GDP stimulated by trading liberalization
- Significant increase of container cargo amounts, stimulated by free trading and consumer goods demand. Smaller increase of bulk cargo amounts at separate markets, influenced by the decrease of consumption of fossil energy commodities

Source: POR

In *minimal scenario* the turnover of cargo at the Freeport of Riga will decrease from 34 mil. tons in 2017 to 27 mil. tons by 2028 and by ~18 mil. tons by 2037. Core reason of cargo turnover decrease is the decrease of coal and liquid cargo amounts. In *Optimistic scenario* total turnover of cargo at the Freeport of Riga by 2028 will reach 41 mil. tons once again, and 42 mil. tons by 2037. In *optimistic scenario* increase of cargo turnover in long-term perspective is being disturbed by the decrease of coal and liquid cargo transshipping amounts. Long-term forecast of the Freeport of Riga cargo turnover for both scenarios from 2018 to 2037 is provided on image No. 18.

Image No. 18

The Freeport of Riga cargo turnover scenario forecasts for 2018-2028



Source: POR

Turnover of container cargo in *Minimal scenario* will increase from 446 thousand TEU in 2017 to 621 thousand TEU by 2028 and to 690 thousand TEU by 2037. In *optimistic scenario* the growth up to 754 thousand TEU is expected by 2028 and 1 mil. TEU by 2037. Biggest part of container cargo turnover in both scenarios will be ensured by transit cargo. Long-term expectations of the Freeport of Riga container cargo turnover for both scenarios for the period of time from 2018 until 2037 is provided on image No. 19.

Moderate decrease of processed passengers is being expected within the *Minimal scenario* from 839 thousand in 2017 to 813 thousand by 2028 and increase up to 837 (almost to the level of 2017) by 2037. In *optimistic scenario* the increase of number of passengers from 839 thousand in 2017 to 1,1 mil. by 2028 and 1,4 mil. by 2037 is expected, due to the increase of number of cruise ships passengers (see image No. 20).

Image No. 19

Container cargo turnover scenario expectations for 2018-2028



Source: POR

Description of forecasts by core cargo groups and passengers being processed at the Freeport of Riga for minimal and Optimistic scenario will be described in sections below.

5.1. Minimal Scenario

5.1.1. Description of Macroeconomic Assumptions

The following macroeconomic assumptions were applied in the *minimal scenario*:

- Population of the Freeport of Riga area countries by 2030 will not change – 282 mil., but by 2037 it will decrease to 276 mil.;
- GDP of market area will increase from 2,5 trillion US dollars to 3 trillion US dollars by 2027 and 3,7 trillion US dollars by 2037 (+2% per annum on average);
- Population of Latvia will decrease from 1,9 mil. to 1,6 mil. by 2037 (-1% per annum on average);
- Latvian GDP growth tempo is +2% per annum on average.
- Global factor influence resulted in (see Table No. 11 in the beginning of 5th section) slower development of national economy and foreign trading.

5.1.2. Predictions on energy commodities

In *Minimal scenario* the decrease of energy resources cargo amount for 3% per annum is expected, mostly affected by decrease of coal amounts from 12 mil. tons in 2017 to 10 mil. tons by 2028 and 2 mil. tons by 2037. Decrease of cargo amounts is mostly influenced by the following factors:

- Increase of coal demand in East Asia and South Asia (China and India) and retargeting of Russian coal export to the Russian Far East ports;
- Russian coal maximum production will be reached by ~2030 and will be decreasing from then;

- Stabilization of demand for coal in East Asian and South Asian countries after 2030 (use of natural gas and renewables will increase);
- Comparatively inconsiderable Russian local market demand for coal.

Russia will continue export of coal through the Freeport of Riga at the same time mostly for two reasons: development of Russian port and rail infrastructure takes time to reach the capacity needed for Russian cargo export cargo processing, moreover, coal terminals working at the Freeport of Riga has close relations of the Freeport of Riga coal production companies.

Volumes of oil products transshipping will decrease from 6 mil. tons to 2 mil. tons by 2028 and to 1,9 mil. tons by 2037. The amount of oil products being transhipped by the Freeport of Riga will be mostly constituted by Belarusian cargo and oil products imported from Scandinavia for the local consumption in Latvia. It is expected that export of Russian oil products will be completely redirected to the Russian ports. The Freeport of Riga will have to compete for the Belarussian cargo with Lithuanian and Polish ports.

5.1.3. Predictions on Agricultural and Forest Industry Cargo

In *minimal scenario* the amount of agricultural cargo at the Freeport of Riga will gradually increase from 1,4 mil. tons up to 1,7 mil. tons by 2028 and will reach 1,9 mil. tons by 2037. Increase of cargo volumes will be provided mostly by local cargo, because increase of agricultural cargo transit will be insignificant. The amount of mineral fertilizers being mostly provided by export of Russian and Belarusian cargo will decrease from 2,4 mil. tons in 2017 to ~0,9 mil. tons by 2028 and to ~0,4 mil. tons by 2037. It is expected that Russia will gradually retarget transshipping of mineral fertilizers to its own ports.

Somewhat of stability is expected in forest industry cargo sector, as long as this cargo flow is mostly being constituted by Latvian timber export. Part of timber – a little more than a half – is being transported as bulk cargo, but the other part in containers. Small increase of broken stone amount is expected in Latvian ports in total, but in *minimal scenario* increase of the broken stone transshipping amount at the Freeport of Riga is not expected, taking into account that the increasing amount will be processed by other Latvian ports.

5.1.4. Predictions on container cargo traffic

Volume of containers at the Freeport of Riga market area will increase from 7,5 mil. TEU to 14 mil. TEU by 2028 and to 23 mil. TEU by 2037 (average increase tempo 6% per year), however the market share of the Freeport of Riga will decrease from 6% in 2017 to 4% by 2028 and to 3% by 2037. The amount of cargo transhipped at the Freeport of Riga will constitute 620 thousand TEU by 2028 and ~690 thousand TEU by 2037, ensuring the average increase tempo of 2% per year. The amount of Latvian export and import container cargo will increase (3% per year on average) as well as transit container cargo amount (2% per year on average).

5.1.5. Ferry cargo traffic forecast

Minimal scenario provides the decrease of number of passengers in case of negative natural and mechanic population increase and it will not be supported by the Freeport of Riga passenger attraction marketing activities. It will result in decrease of number of passengers being transferred by the ferries and no new ferry routes will be opened, and no new ferries will be ensured for existing Riga – Stockholm route. Decrease of number of passengers is expected to 818 thousand by 2028 and increase to 837 thousand (to the level of 2017) by 2037. Ro-Ro cargo amount will be comparatively constant - 438 thousand tons in 2017, 557 thousand tons by 2028 and 560 tons by 2037.

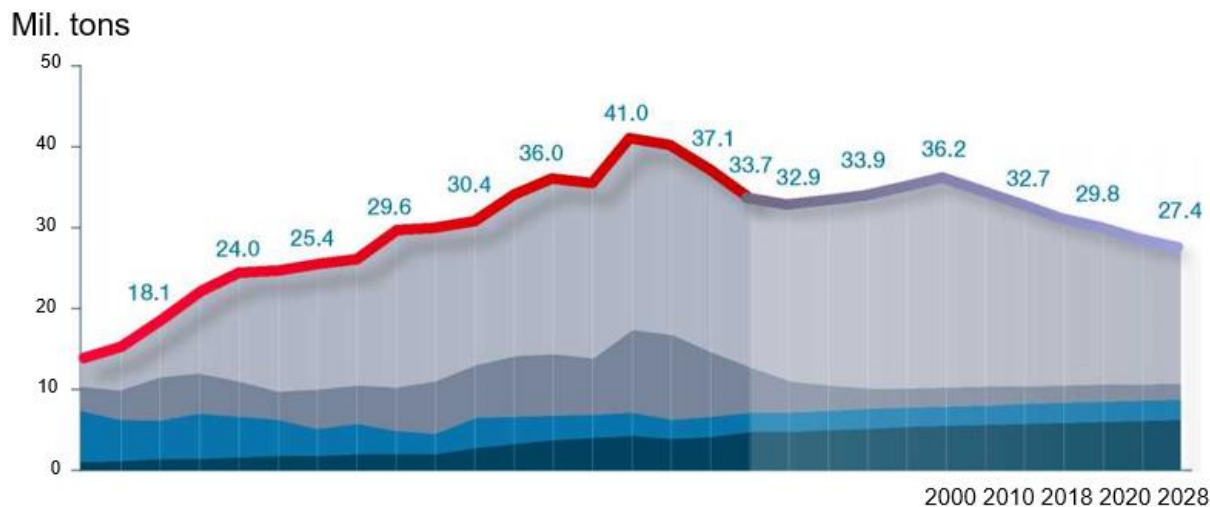


5.1.6. Summary of Minimal Scenario with Distribution by Cargo Types

Summary of cargo turnover forecast within the *minimal scenario* is provided on image No. 21.

Image No. 21

Cargo turnover forecast by types of cargo within the minimal scenario for 2018-2028



Bulk cargo Liquid cargo General cargo Containers

Source: POR

5.2. Optimistic Scenario

5.2.1. Description of Macroeconomic Assumptions

The following macroeconomic assumptions were made in *Optimistic scenario*:

- Population of the Freeport of Riga market area will increase from 282 mil. to 287 mil. by 2027 with further decrease to 285 mil. by 2037;
- GDP of the Freeport of Riga market area countries will increase from 2,5 trillion US dollars to 3,3 trillion US dollars by 2027 and 4 trillion US dollars by 2037 (+3 % per year on average); Population of Latvia will decrease from 1,9 mil. to 1,8 mil. by 2037 (-0,5 % per year on average); Average growth of Latvian GDP will be +3 % per annum. Geopolitical situation (EU and Latvian political and economic relations with Russia) will improve in long-term perspective. Bigger demand for energy commodities is expected, but there is a significant uncertainty regarding the term when the decrease of consumption of fossil energy commodities could start.

5.2.2. Predictions on energy commodities

Decrease of the amount of energy commodities in long-term perspective is expected within the *Optimistic scenario*, mostly caused by the coal transshipping volume: increase from 12 mil. tons in 2017 to 13 mil. tons by 2028 and decrease to 7 mil. tons by 2037. Decrease of the amount of cargo is mostly caused by the following factors:

- redirection of global demand for coal to the East (China and India) and retargeting of Russian export to the Far East ports;
- Gradual long-term increase of Russian coal production and competitiveness of Russia at global coal market;
- decrease of demand for coal of East Asian and South Asian countries by 2030 (by growing use of natural gas and renewables);
- small increase of Russian local market demand for coal.

The Freeport of Riga will keep the Russian coal export cargo taking into account improvement of relations between countries and that Russian producers will still consider the Freeport of Riga being attractive export channel for various remaining area markets in European and America countries. Moreover, coal transshipping stevedoring companies working at the Freeport of Riga are having close relations with Russian coal production companies.

The amounts of oil product transshipping at the Freeport of Riga over the next 20 years will remain constant 3-3,5 mil. tons. This amount will mostly be constituted by Belarusian cargo. It is expected that Russian cargos will be completely redirected to Russian ports. The Freeport of Riga will have to compete for the Belarusian cargo with Lithuanian and Polish ports.

5.2.3. Predictions on Agricultural and Forest Industry Cargo

In *optimistic scenario* the amount of agricultural cargo will increase from 1,4 mil. tons to 3 mil. tons by 2028 and reach 5,2 mil. tons by 2037. Increase of the cargo turnover will be stimulated by the following factors:

- cereal production amounts increase in Latvia from 2,6 mil. tons to 4,7 mil. tons by 2028 and 4,7 mil. tons by 2037, when 15% of agricultural lands will be used for cereals (in comparison with current 11 %); The Freeport of Riga will tranship 1,6 mil. tons of Latvian export cereals by 2028 and 2,4 mil. tons by 2037;
- The Freeport of Riga will go on attracting transit cargo from Russia, Lithuania, Estonia and possibly from North of Ukraine, and transit cargo amounts will exceed Latvian export amounts approx. twice;
- The amount of mineral fertilizers will increase from 2,3 mil. tons in 2017 to 3,6 mil. tons by 2028, reaching 5 mil. tons by 2037, stimulated by the increase of Russian and Belarusian export and close relations between terminals of the Freeport of Riga and manufacturers in market area countries.

A small increase of cargo amount is expected in forest industry. In long-term perspective bigger part of timber chips will be transported by containers. Within the next decades the amount of timber chips cargo turnover at the Freeport of Riga will increase by 1% per year on average, but the market share of the Freeport of Riga will increase from 44% to 50%. The volume of timber will remain comparatively constant.

5.2.4. Predictions on container cargo traffic

The amount of containers at the Freeport of Riga market area will increase from 7,5 mil. TEU to 15 mil. TEU by 2028 and to 27 mil. TEU by 2037 (average increase tempo 7%), however, the market share of the Freeport of Riga will decrease from 6% to 5% by 2028 and 4% by 2037. Turnover of the Freeport of Riga container cargo is expected 754 thousand TEU by 2028 and up to 1 mil. TEU by 2037 (average increase tempo 5% per year). Increase of the amount of container cargo will be stimulated by growing Latvian export and import (+3% per year on average) and increase of transit container carriage (+5% per year on average).

5.2.5. Ferry cargo traffic forecast

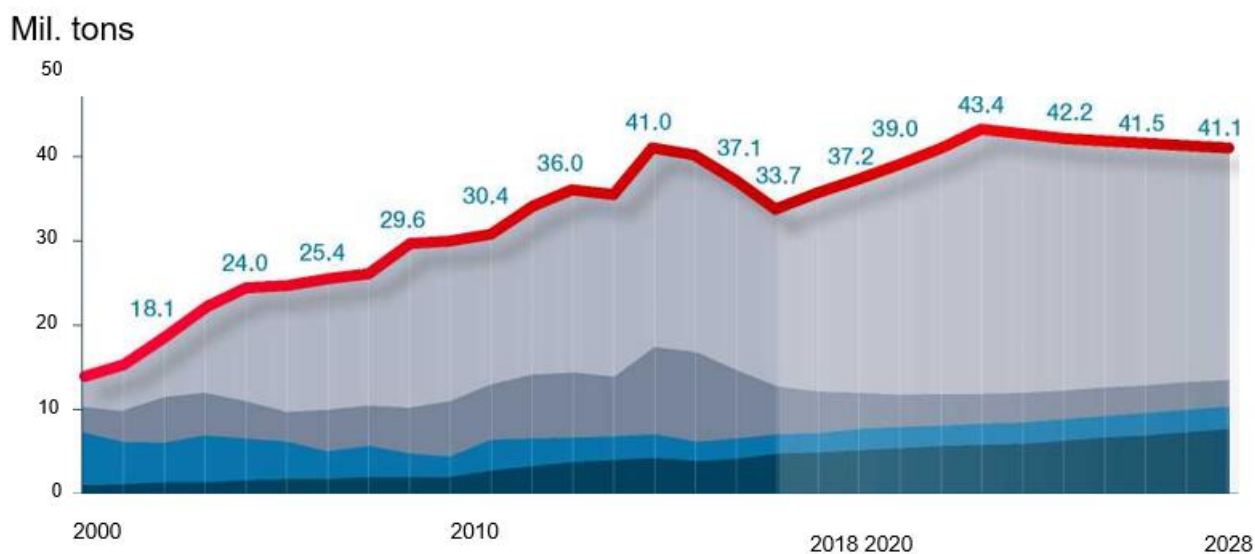
Optimistic scenario expects the implementation of activities coordinated by Riga municipality and FRA to promote Riga and stimulate cruise traffic development. In addition to that FRA will make investments to the improvement of passenger terminal infrastructure, making Riga more attractive destination point for cruise ships. Investments in infrastructure will also be made to ensure the opportunities of the Freeport of Riga to process more than 120 cruise ships per year, and cruise routes and schedules will be coordinated among cruise line operators to avoid traffic jam. Number of incoming ferries will be constant, but the number of passengers of one ferry will increase. At the same time Ro-Ro cargo amounts will increase a little over next ten years (+1% per year on average). Number of passengers is expected to be 1,1 mil. people by 2028 and 1,4 mil. by 2037, but the amount of Ro-Ro cargo will increase to 599 thousand tons by 2028 and 733 thousand tons by 2037.

5.2.6. Cargo Turnover Forecast within Optimistic Scenario

Summary of cargo turnover forecast within the *optimistic scenario* is provided in image No. 22.

Image No. 22

Cargo turnover forecast by cargo types for 2018-2028 within the *optimistic scenario*



6. Analysis of strengths, weaknesses, opportunities and threats of the Freeport of Riga

Grounding on the exhaustive analysis of external and internal environment of the Freeport of Riga, the analysis of strengths, weaknesses, opportunities and threats (SWOT) was performed. The most significant external and internal factors, which could have positive or negative influence on the Freeport of Riga activities (see Table No. 12) were included in SWOT matrix). In accordance with generally accepted SWOT analysis approach, strengths and weaknesses describe the Freeport of Riga, but threats – external environment, where the port is operating (external factors beyond direct control of FRA).

Table No.12

The Freeport of Riga SWOT analysis matrix

Strengths	Weaknesses
<ul style="list-style-type: none"> • Sustainable market position at the Eastern coast of the Baltic Sea, among other things, the Freeport of Riga is a significant bulk cargo and container transshipping port; • Riga is an attractive destination for tourists; • Multifunctional port image of Riga recognized within the area; • Multimodal sea and road communications for cargo carriage to / from the market area countries; • Capacity of the Freeport of Riga terminal infrastructure is enough for cargo transshipping in all sectors; • FRA makes investments in maintenance and improvement of public infrastructure meeting the market demand; • The Freeport of Riga is safe – requirements of ISPS and IMDG in security area are implemented in terminals; • Constant environmental monitoring is being performed at the Freeport of Riga; • FRA is financially independent and sustainable institution with opportunities to attract funding for implementation of significant projects; • ISO 9001 quality management and ISO 14001 environmental management systems are implemented at FRA; • Purposed communication with localities of the Freeport of Riga, having effect on the port activities and cooperation with the city are being performed. 	<p>High proportion of transit cargo in port cargo portfolio; big risk of redirection of cargo to other ports of the Eastern coast of the Baltic Sea; Location in the Gulf of Riga is disturbing navigation for ships upon winter conditions, restricting the development of ferry and cruise traffic;</p> <p>Width of navigation channel is not enough for safe entrance of heavytonnage ships (e.g. Panamax big cruise ships) in bad weather conditions;</p> <p>Ships supply with electricity from the coast and SDG bunkering services are not available at the port (except for Krievu sala); Automobile transport approach roads to the port avoiding the centre of Riga and thickly populated regions are not available;</p> <p>significant investments are required for development of unleased port territories and investment project implementation;</p> <p>Economic activity related to the port functions was not initiated on several leased territories for the long time;</p> <p>Proportion of port charges in FRA income is high, opportunities to balance the income structure (increase income from lease of land and infrastructure) are limited;</p> <p>Inhabitants of localities of Riga influencing port activities are not satisfied that the port is operating close to them.</p>

Opportunities	Threats
<ul style="list-style-type: none"> • Increase of export in Latvia and countries of the Freeport of Riga market area; • Growing sector of container cargo carriage; • Growing cruise sector in Europe and Baltic Sea region; • Creation of port services and processing manufacturing clusters on the port territory, including on free territories of the port; • “Smart technology” development in traffic, logistics and port areas; • Availability of external financial support instruments; • Increase of support from inhabitants of Riga localities influencing the activities of the port 	<p>Decrease of cargo flow due to fluctuations of geopolitical situation;</p> <p>Energy commodities cargo decrease;</p> <p>Neighbouring countries transport policy unfavourable for Latvian transport area;</p> <p>Increase of competition among the Baltic Sea Eastern coast ports;</p> <p>Implementation of State and Riga transport infrastructure projects in time could restrict the capacity of port access to the transport connections;</p> <p>Daugava crossings being planned by Riga could significantly disturb the use of port territory;</p> <p>Location of the port at the centre of Riga is restricting its industrialization opportunities;</p> <p>In case of decrease of cargo flow specialized port terminals will be unable to repurpose their activities;</p> <p>FRA income could decrease due to market competition;</p> <p>Decrease of support from inhabitants of Riga city localities influencing the activities of the port could decrease or restrict port activities.</p>

7. The Freeport of Riga Development Strategy

The Freeport of Riga development strategy includes mission, vision and strategic objectives of the port for next 10 years. Strategic objectives are based on the results of SWOT analysis, trying to develop the strengths of the Freeport of Riga, to use opportunities and to decrease the weaknesses and risks.



7.1. The Freeport of Riga Mission and Vision

7.1.1. Mission

Purpose of the Freeport of Riga as global cargo transportation intersection point is to satisfy the market demand for high-quality all-type cargo transshipping services, adopting to the customers’ needs, global market fluctuations and offering attractive conditions for development of business related to the port activities.

By implementation of socially responsible politics the Freeport of Riga ensures the sustainability of surrounding environment and social dialogue between the port and the public.

Undertaking of the Freeport of Riga is to ensure the attractive investment attraction environment for the development of port cargo transshipping, cargo processing and manufacturing, to provide constantly increasing investments in Latvian economy.

7.1.2. Vision

The Freeport of Riga is multi-functional, modern and long-term development oriented port at the intersection point of transport passages with growing significance in global cargo and passenger transportation chain, providing safe and reliable high-quality port services to the customers for the competitive process and in accordance with good practices of European ports.

The Freeport of Riga is sustainable Baltic volume business, manufacturing and investment attraction centre with significant contribution to the national economy.

Growth of the Freeport of Riga is grounding on implementation of socially responsible policy, use of sustainable resources, care of the environment and long-term cooperation with state and municipal institutions and society for the development of pervasive and integrated transport infrastructure development.

7.2. The Freeport of Riga Strategic Objectives

In accordance with the Freeport of Riga vision and mission, strategic purposes of the port development and *Strategic Activity plan* to achieve them were created. Strategic objections are defined and structured in accordance with four general FRA activity areas:

- Cargo transshipping and passenger traffic;
- Added value, industrialization and development of territory;
- Infrastructural development and innovations;
- Port administration.

Map of FRA strategic objections (SO) in on the image No. 23, list of performance indicators on fulfilment of SA is provided below (see Table No. 13). Performance indicators ensure the opportunities to monitor the execution of SO.

Image No. 23

Map of Strategic objections for 2019-2028

Cargo transshipping and passenger traffic	Added value, industrialization and development of territory	Infrastructural development and innovations	Port administration
<p>SO 1: To support the constant increase of the cargo amount on a long-term horizon</p>	<p>SO 3: To stimulate more effective use of port territory and support investment projects for port territories, stimulating the increase of sea cargo turnover</p>	<p>SO 6: To support safe and Sustainable ship Maintenance infrastructure</p>	<p>SO 9: To strengthen good Governance and corporate culture principles in FRA</p>
<p>SO 2: To make Riga the significant cruise and passenger ferry port in the Baltic Sea region</p>	<p>SO 4: To stimulate development of manufacturing and increase the development of added value services at the Freeport of Riga</p>	<p>SO 7: To support and develop ground infrastructure intended for cargo and passenger traffic servicing</p>	<p>SO 10: to implement sustainable financial policy</p>
<p>SO 5: To stimulate the recognition of the Freeport of Riga and to reach new customers</p>		<p>SO 8: To provide effective port security and protection systems meeting all the modern and future requirements</p>	<p>SO 11: To strengthen the Freeport of Riga as socially conscious entity open for the public</p>
<p>SO 12: To create the “cluster” of companies of the Freeport of Riga, ensuring the accessibility and synergy of services</p>			
<p>SO 13: To develop the Freeport of Riga in accordance with the “smart port” operation principle</p>			
<p>SO 14: To decrease the negative effect of the Freeport of Riga on the environment</p>			

Table No. 13

Performance indicators and criteria of fulfilment of Strategic purposes for 2019-2028

Strategic purpose	<i>SO fulfilment performance indicators and criteria</i>
To support the constant increase of the cargo amount on a long-term horizon	<ul style="list-style-type: none"> • Increase of the amount of cargo transhipped at the Freeport of Riga in 2019-2028: <ul style="list-style-type: none"> – total cargo turnover 45 mil. tons per year; – including container cargo – 1 mil. TEU per year; – positive average increase of cargo turnover (1-2% per year) over the period.
To make Riga the significant cruise and passenger ferry port in the Baltic Sea region	<ul style="list-style-type: none"> • Increase of number of cruise ships and passengers: <ul style="list-style-type: none"> – more than 150 cruise ship entrances per year; – more than 150 thousand cruise passengers per year; • Increase of passenger and cargo ferry traffic: <ul style="list-style-type: none"> – at least one scheduled ferry line has started operating at the port
To stimulate more effective use of the port territory and support investment projects for port territories, stimulating the increase of sea cargo turnover	<ul style="list-style-type: none"> • At least 10 new lessees at the port, performing commercial activities related to the port functions; • Increase of leased port territories (% and ha); • Increase of intensity of use of port territories (mil. tons/ha divided by core cargo sectors); • cargo turnover created by new lessees (mil. tons/year). • Merchants investments in the port territory (mil. EUR/year and mil. EUR over the period).
To stimulate development of manufacturing and increase the development of added value services at the Freeport of Riga To stimulate the recognition of the Freeport of Riga and to reach new customers	<ul style="list-style-type: none"> • Increase of manufacturing and cargo added value service providing companies (quantity). • Increase of the amount of added value and manufacturing services being provided on the port territory. • Cargo turnover created by the manufacturers (mil. tons/year). <hr/> <ul style="list-style-type: none"> • Increase of number of port customers – shipping lines, freight forwarders, etc. (quantity). • Representation of the Freeport of Riga in most important area events and organizations in Latvia and around the World (quantity); • International cooperation and good practice implementation in different aspects related to the port activities is being supported; • Representation of the Freeport of Riga interest in international economic relations, transport, logistics and cruise traffic area international organizations.
To support safe and sustainable ship maintenance infrastructure	<ul style="list-style-type: none"> • Core navigable channel widened up to 150 m; • Core navigable channel deepened from the mooring buoy to the Krievu sala with depth mark 1617m and from Krievu sala to the southern part of Kundziņsala with depth mark 15.5m; • Sufficient depth near the wharfs is ensured to be able to process biggest cruise ships being used in the Baltic Sea; • Unified wharf corridor line, obtaining new territories for commercial practices at the port in created; • reconstruction of the piers of the Freeport of Riga is performed. • Reconstruction of the core navigable channel coast FG and CDE dams was performed. • Reconstruction of at least one wharf is being performed every year. • Uninterruptedness of operation of navigation technical means is provided. • Compliance of the port technical fleet to the ship traffic intensity is provided (compliance of average age, capacity and equipment of the fleet)). • Number of accidents at the port related to the navigation decreases; • Number of defects related to the wharf equipment (fenders, towing, lighting equipment etc.) decreases. • Equipment of Vessel Traffic Service Centre (VTSC) is updated.



To support safe and sustainable ship maintenance infrastructure	<ul style="list-style-type: none">• Reconstruction of existing Kudziņsala railroad connection;• Traffic overpass from Tvaika Street to the Kundziņsala is constructed.• Railroad bridge to the Kundziņsala over Sarkandaugava pocket is constructed;• Infrastructure at Krievu sala and Kundziņsala is enough to ensure the operation of terminals;• Infrastructure on the Western part of Krievu salas is developing;• Modernization of railroad infrastructure at Rinūži and Daugavgrīva;• Spilve territory adjustment to the port operation, including construction of public infrastructure;• capacity of the Freeport of Riga engineering communications is increased;
To provide effective port security and protection systems meeting all the modern and future requirements	<ul style="list-style-type: none">• Number of safety-related incidents at the port has decreased;• Correspondence of the terminal to ISPS and IMDG code requirements is being observed;• biometric access control system at critical infrastructure objects is implemented;• Equipment of port access control posts with port border control digital systems (electronic port border crossing system EORŠS);• Port systems are connected with state administration (police, customs, border guards) security systems and effective exchange of information is being performed;• FRA system connection with port terminal systems was performed.
To strengthen good governance and corporate culture principles in FRA	<ul style="list-style-type: none">• Up-to-date information regarding the FRA services and procedures related thereto, as well as tariffing principles is being provided to the customers;• effective communication with port customers is being performed;• Quality management system meeting the standards is being maintained.• Internal auditing system is working and implementation of recommendations thereof is being ensured;• FRA corporate culture policy is created and implemented;• Workforce efficiency and involvement evaluation system is created and implemented;
To implement sustainable financial policy	<ul style="list-style-type: none">• FRA income exceed over the expenditures is exceeding the depreciation of fixed assets;• EBITDA profitability is at least 25%;• proportion of equity capital (including financial support instruments) in total balance is at least 70%;• Exceed of income over the expenditures after the settlement of credit obligations of the covered period will be used for the infrastructural investments;• EU or other financial support instruments will be used;• Conditions set by credit institutions regarding the financial indicators are being observed.
To strengthen the Freeport of Riga as socially conscious entity open to the public	<ul style="list-style-type: none">• FRA cooperation with port localities is continuing;• Participation in events is continuing, events related to the FRA social responsibility areas are being arranged;• Monitoring of the Freeport of Riga image is being performed from time to time and the proportion of positive feedback is increasing;• Purposed FRA communication policy is being implemented
To create the “cluster” of companies of the Freeport of Riga, ensuring the accessibility and synergy of services	<ul style="list-style-type: none">• All the commercial services at the port are being provided by at least two service providers;• number of port service providers is increasing.• Number of port services available is increasing;• Port companies by mutual cooperation or together with FRA are arranging joint activities related to the effective use of resources.
To develop the Freeport of Riga in accordance with the “smart port” operation principle	<ul style="list-style-type: none">• New FRA record-keeping system is implemented.• New Port of Riga Information System(ROIS) is implemented.• new Port of Riga Community Information System (ROKIS) is created and implemented.• Automation of access posts (period of cargo and automobile transport crossing the port borders has decreased, opportunity to forecast cargo delivery/exportation schedule, electronic cargo delivery and exportation



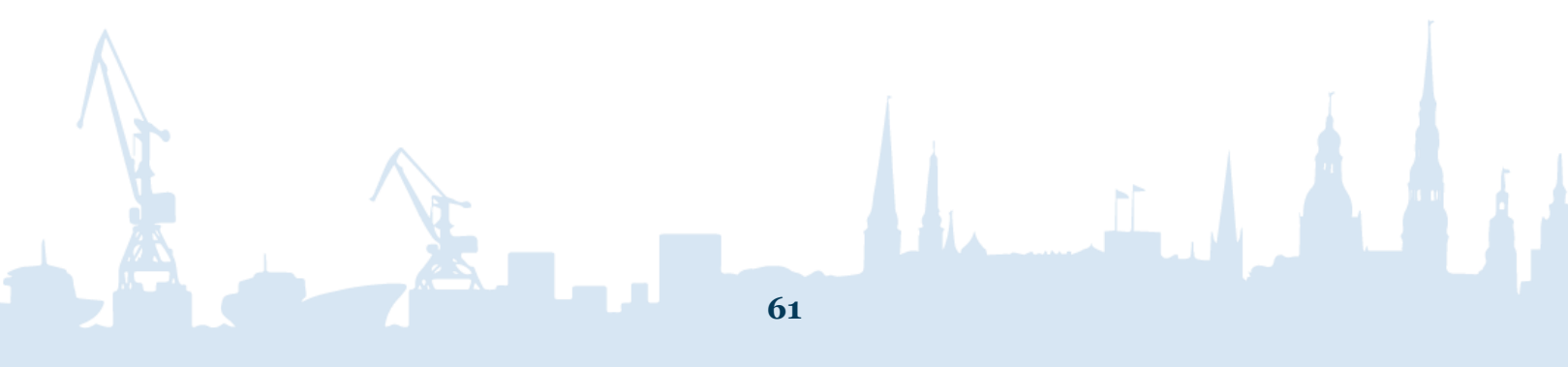
	<p>document system is implemented).</p> <ul style="list-style-type: none">• To create and offer solutions for the support of port activities and increase the efficiency of data flow for the customers (IT applications, etc.);
<p>To decrease the negative effect of the Freeport of Riga on the environment</p>	<ul style="list-style-type: none">• Environmental Quality Management System is maintained according to the standards;• Unified Port environment monitoring programme is created and implemented;• Relining of historically polluted port territories is completed;• Infrastructure for processing the waste caused by the ships meeting the market requirements is being provided• Service for ship equipment with GNC (compressed natural gas) fuel;• Ship coastal electricity supply service is available at the port;• Number of incidents related to the pollution caused by the port activities is decreasing;• Number of complaints from inhabitants of Riga city localities being affected by the port activities regarding the port activity influence is decreasing;• The Port became a member of EU port environmental protection initiative Green Port network.

Grounding on Strategic purposes set by FRA for 2019-2028 and performance indicators of the fulfilment thereof the *Strategic Action Plan* (see below) is created.

7.3. Strategic Action Plan

The *Strategic Action Plan* is setting priority activities to achieve the strategic objections of *FRDP 2019-2028*. The plan is not constraining FRA by the activities of the *Strategic Action Plan* only, it will be updated from time to time grounding on the market situation fluctuations.

Within the frames of *Strategic Action Plan* each strategic objection (SA) will have justification of urgency arising out of divisions of *FRDP 2019-2028 Description of the Freeport of Riga* and *Market Analysis*, core activities to achieve the activity objective are listed, and linkage of the objective with other strategic objections is provided.



7.3.1. SO1: To stimulate constant increase of cargo amounts in long-term perspective



Justification

The purpose of FRA is to create conditions ensuring the constant increase of the cargo turnover in long-term perspective – it is the overarching goal of the Freeport of Riga and the achievement thereof will ensure the activity and development of the Freeport of Riga.

Container cargo, agricultural and forest industry cargo in *FRDP*

2019-2028 Market analysis are identified as cargo which will constitute the core of the Freeport of Riga cargo turnover in long-term perspective. The activities stimulating the

attraction and increase of volume of such cargo shall have priority, but the environmental impact of transshipping of such cargo is comparatively lower. Environmental-friendly port is a part of vision of the Freeport of Riga.

FRA will develop the Freeport of Riga containerhub port of regional significance, servicing cargo flows on Eurasian continent.

Increasing agricultural cargo market is ensuring the perspectives of the Freeport of Riga to become the dominating Latvian port in this group of cargo. The biggest part of agricultural cargo is being constituted by local – Latvian export and the Freeport of Riga is able to attract additional amounts of transit cargo. In forest industry sector Riga will go on being the leading Latvian port, processing both local origin and neighbouring states export cargo. Latvian local agricultural and forest industry cargo export in long-term perspective will ensure the Freeport of Riga cargo turnover framework.

Energy commodities, chemical bulk cargo, metals and other transit cargo will go on constituting the significant part of cargo turnover, so the FRA will influence the development of this sector. Capacity of the Freeport of Riga terminals for the transshipping of this cargo is enough for processing of existing and additional cargo flows.

Core activities to achieve SO1

- To stimulate the transshipping of container cargo:
 - to attract new container carriage lines, including deep-sea lines;
 - to attract processing, manufacturing and logistic companies, performing containerizing of cargo and provides cargo added value services to the territories of the Freeport of Riga, which are not being used (see also SO3 un SO4);
 - to apply the port charges conditions to the container ships, stimulating the increase of the amount of cargo;
 - cooperation with LDz and other involved parties to stimulate the attraction of container cargo carriage to the Latvian transit corridor;
 - To stimulate agricultural and forest industry cargo transshipping:
 - to attract processing, manufacturing and logistic companies, performing agricultural and forest industry cargo processing and providing added value services to the territories of the Freeport of Riga, which are not being used (see also SO3 un SO4);
 - in cooperation with LDz and other involved parties to stimulate attraction of agricultural and forest industry cargo to the Latvian transit corridor from Lithuania, Ukraine;
- To support the Freeport of Riga companies initiative to increase the cargo volume in existing cargo sectors (energy commodities, chemical bulk cargo, metal, etc.), as well as attraction of cargo from new areas. Linkage with other SO: other Strategic objections (except for SO2, related to the passenger traffic development) shall be the support instruments to achieve SO1.



SM3 SM4 SM5 SM6 SM7 SM8 SM9 SM10 SM11 SM12 SM13 SM14

7.3.2. SO2: To make Riga the significant cruise and passenger ferry port in the Baltic Sea region

Justification



New Ro-Pax ferry connections with other Baltic Sea ports will ensure not only better integration in regional cargo and passenger traffic network, but will also allow to increase the Ro-Ro cargo amount and proportion, diversifying the port cargo turnover.

By increase of cruise traffic in worldwide scale, cruise market is constantly increasing in Baltic Sea region as well. Tourism service offer of Riga as the capital city is attractive for cruise tourism attraction. Therefore, Riga has a potential to become the significant regional cruise passenger ships processing port. Synergy with Riga City Council and tourism area companies (“Rīga” Airport, “AirBaltic”, tour operators, Rail Baltica line operators, etc.) will stimulate the development of maritime passenger traffic in the long-term perspective.

Core activities to achieve SO2

- To develop cruise ships and Ro-Pax ferry processing infrastructure (see also SO6 and SO7);
- In cooperation with the Riga municipal tourists organisations and area merchants :
 - to stimulate attraction of new cruise lines/operators;
 - to stimulate Riga as cruise city recognition, including positioning of the port as cruise departure and destination point (“turnaround port”);
 - to ensure representation of FRA and Riga in cruise area associations (see also SO5);
- To attract new Ro-Pax ferry lines;
- To apply port charge rates to the Ro-Pax ferries and cruise ships, stimulating the increase of number of passengers.

Linkage with other SO

Just like SO1, SO2 is a measure for FRA activities final result, the achievement of which requires implementation of several other SO. The most significant contribution in achievement of SO2 will be ensured by SO5-SO8.



- 7.3.3. SO3: To stimulate more effective use of the port territory and support investment projects for port territories, stimulating the increase of sea cargo turnover

Justification



Port of Riga territory is a limited resource, so the most effective use thereof is one of the preconditions for development of the Freeport of Riga in long-term perspective. FRA shall evaluate the efficiency of port companies and stimulate implementation of new projects. Development of the territory will be based on the following principles: maritime cargo transshipping terminals shall be developed on the territory with direct access to the aquatic waters above all else, while warehouse, logistic centres, manufacturing facilities and other projects shall be implemented on other territories, indirectly stimulating the increase of maritime cargo turnover or creating other type of synergy with port companies.

Core activities to achieve SO3

- To create and implement new land lease procedure, providing motivating terms for more effective use of the port territory and increase of cargo turnover;
- To attract new companies to the free territories of the port (see also SO5);
- In cooperation with involved parties to review the borders of the Freeport of Riga on separate port territories to stimulate more effective use thereof and activity of entities ;
- To stimulate licenced commercial activities and use of free zone regime advantages (see also SO5);
- To perform preparation of free territories for commercial use (engineering- technological research, transport infrastructure and engineering communication plans development, etc.);
- In cooperation with project developers and by review of investment expediency to perform construction of port public infrastructure (transport infrastructure and engineering communications) to the development project territories;
- To evaluate the expediency of investments and perform modernization of port public infrastructure, to stimulate port terminal capacity and efficiency increase (see also SO6 un SO7).

Linkage with other SO

Completion of SO3 will contribute to the fulfilment of SO1 and SO11, fulfilment of SO3 shall be reviewed in conjunction with fulfilment of SO4 and SO5, but the most significant contribution to the fulfilment of SO3 is planned from SO7 and SO12.



7.3.4. SO4: To stimulate development of manufacturing and increase the development of added value services at the Freeport of Riga



Justification

Manufacturing development and diversification of cargo added value services will make a significant contribution in achievement of SO3, so FRA is stressing it as separate strategic objection. Together with activity directions defined within SO3, several additional activities were defined to achieve SO4 as well.

Manufacturing facilities to attract raw-material and/or end product maritime cargo flows shall be developed at the Freeport of Riga. Accessibility of logistics and cargo added value services (storage, processing, package or repackage, consolidation, containerizing, etc.) at the Freeport of Riga provides wider opportunities for the customers of the Freeport of Riga stimulating the attraction of cargo. The above activity areas will cause the decrease of commercial activity risks related to the transit cargo proportion. Development of added value and manufacturing services in synergy with current cargo transshipping and storage services will stimulate the increase of cargo flow at the Freeport of Riga.

Core activities to achieve SO4

- To create and implement new land lease procedure, providing motivating terms for more effective use of the port territory and increase of cargo turnover;
- To support the Freeport of Riga companies initiative to develop manufacturing and cargo added value service;
- To stimulate manufacturing facilities and new service projects attraction to free territories (*Spilve*).

Linkage with other SO

Fulfilment of SO4 will contribute to the fulfilment of SO1. Fulfilment of SO4 shall be considered together with SO3 and SO5 fulfilment, but the most significant contribution to the fulfilment of SO4 is planned from the achievement of SO5, SO7 and SO12.



SM3 SM5 SM7 SM12 SM13

7.3.5. SO5: To stimulate the recognition of the Freeport of Riga and to reach new customers



Justification

Recognition will stimulate attraction of new customers under conditions of strong competition, will support additional cargo flow and passenger traffic. This objection could be achieved by marketing and international cooperation activities. Marketing activities will allow to direct port services to target markets, but participation in various international organizations will give the possibility to represent the interests of the Freeport of Riga and attract new customers.

Core activities to achieve SO5

- Develop and implement new marketing strategy to stimulate the achievement of *FRDP 2019-2028* strategic objections;
- To involve the Freeport of Riga companies in FRA marketing procedures;
- To cooperate with Ministry of Transport, Riga City Council, LDz, “Rīga” Airport, LIAA, tourist area organizations, Rail Baltica operators and other organizations to participate in common marketing activities of Latvian transport area and to increase the efficiency of such activities;
- To ensure participation in organizations important for the Freeport of Riga:
 - to represent the Freeport of Riga interests within the development of policy International Association of Ports and Harbours (IAPH), European Sea Ports Organization (ESPO), Baltic Ports Organization (BPO), International Harbour Masters Association (IHMA), International Association of Cities and Ports (IACP), etc.;
 - For attraction of cargo and passenger flow World Free Zones Organization (WFZA), *Cruise Europe*, *Cruise Baltic*, Cruise Lines International Association (CLIA), various commerce and industry chambers, etc.);
- To stimulate implementation of good practices of international ports at FRA and companies of the Freeport of Riga;
- To continue cooperation with “sister-ports”;
- To stimulate sharing of experience between FRA and other experts of the Freeport of Riga.

Linkage with other SO

Fulfilment of SO5 will make significant contribution to the fulfilment of SO1-SO4 and other SO



SM1 SM2 SM3 SM6 SM4 SM7 SM8 SM9 SM10 SM11 SM12 SM13 SM14

7.3.6. SO6: To support safe and sustainable ship maintenance infrastructure



Justification

Average dimensions of ships in cargo and passenger carriage are constantly increasing, navigation and ship piloting technologies are developing. Under the competition conditions the Freeport of Riga has to provide safe infrastructure for the processing of ships (piers, navigable channel, navigable equipment, etc.). The development of ship infrastructure shall meet the perspective cargo and passenger flow in particular port regions, moreover, it shall be economically justifiable and shall stimulate sustainable development of the Freeport of Riga

Core activities to achieve SO6

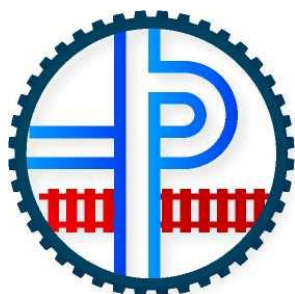
- Develop a medium-term plan for the maintenance and modernization of the infrastructure of the Freeport of Riga;
- To carry out scheduled modernization of wharfs of the Freeport of Riga;
- To extend the main navigable channel of the Freeport of Riga to 150 m in order to ensure the arrival of heavytonnage cargo and cruise ships in the port;
- To deepen the main navigable channel of the Freeport of Riga from the mooring buoy to *Krievu Sala* with a depth mark of 16-17 m and from *Krievu Sala* to the southern part of *Kundzinsala* with a depth mark of up to 15.5 m to provide servicing of heavytonnage cargo and container ships;
- To provide sufficient depth at wharfs for servicing major cruise ships used in the Baltic Sea;
- Evaluate and acquire harbour aquifers inappropriate for servicing heavytonnage ships to constitute a single wharf cordon line and new areas for commercial activities;
- Restore coastal strengthens, incl. reconstruction of FG and CDE dams;
- Reconstruction of the East Pier and West Pier;
- In cooperation with LLC "Rīgas brīvostas flote" to carry out modernization of navigation equipment (lighthouses, fire signs, etc.);
- To perform renewing of other objects related to the ship navigation and to develop infrastructure:
 - Upgrading VTSC hardware to ensure safe, continuous (24/7) and compliant operation;
 - In cooperation with LLC "Rīgas brīvostas flote" to evaluate the compliance of the port technical fleet (icebreakers, pilot yachts, etc.) for the provision of quality navigation services;
- To promote sewage collection capacity at passenger ship service wharfs (associated with SO14);
- To support the establishment of an EU-compliant shore-side electricity supply infrastructure at the Freeport of Riga.

Linkage with other SO

Fulfilment of SO6 is a significant precondition for fulfilment of SO1 and SO2. SO6 is a relatively independent purpose, not directly depending on implementation of other SO, however, it is related to the execution of SO8, SO10, SO11 and SO14.



7.3.7. SO7: To support and develop ground infrastructure intended for cargo and passenger traffic servicing



Justification

To ensure fast cargo flow from the Freeport of Riga and to it, it is necessary to maintain and develop port land transport infrastructure, the capacity of which is aligned with LDz infrastructure, state automobile roads and Riga municipal street network. For servicing of passenger flow the existence of good connection with city public transport network is important. Moreover, engineering communications of the port (electricity supply, water supply and sewerage, gas supply, communication networks) should be developed in coordination with service providers (JSC "Sadales tīkli", JSC "Augstsprieguma tīkli", JSC "Gas", LLC "Rīgas ūdens" u. c.). In general the port land

infrastructure should comply with perspective cargo and passenger flow in particular port regions, it should also have economic justification and promote the sustainable development of the Freeport of Riga.

Core activities to fulfil SO7

- Develop a medium-term plan for maintenance and modernization of Riga port infrastructure;
- To evaluate and determine the most optimal model of land use and management of the Freeport of Riga;
- To develop the land infrastructure of Kundziņsala in accordance with forecasted increase of cargo turnover (containers, agricultural cargo, etc.):
 - reconstruction of existing railway connection;
 - construction of a new railway bridge to Kundziņsala and connecting railways - coordinated with LDz;
 - modernization of railway infrastructure by establishing Kundziņsala railway station;
 - construction of traffic transmission from Tvaika Street to Kundziņsala, providing port connection to the Eastern Highway;
 - modernization of the road infrastructure by aligning the perspective development of the terminals with the capacity of the infrastructure;
- Modernization of railway infrastructure at Rīnūži and Daugavgrīva;
- Further development of infrastructure in the western part of Krievu Sala (preparation of territory, construction of wharfs and related infrastructure, reconstruction of Hapaka ditch, etc.);
- In cooperation with developers of new projects, to carry out construction of public infrastructure (transport and communications networks) in the free territories of the port (incl. Spilve);;
- To increase the capacity of the Freeport of Riga communications networks;
- In cooperation with LDz project "Electrification of Latvian Railway Network" to settle the issue of electrification of the railway network to the Freeport of Riga stations;
- In cooperation with Riga municipality to provide passenger and road access infrastructure

Linkage with other SO

Fulfilment of SO7 will provide significant contribution to the achievement of SO1 and SO2, as well as fulfilment of SO3-SO4. SO7 is relatively independent objection, not directly depending on achievement of other SO, but it is related to the achievement of SO10, SO11 and SO14.



SM10 SM11 SM14

- 7.3.8. SO8: To provide effective port security and protection systems meeting all the modern and future requirements



Justification

Management and minimization of safety risk complex is a vital FRA objection in keeping with navigation safety, hazardous cargo turnover, and general global safety risks. Development of security and protection system is aimed at the increase of overall level of security at the Freeport of Riga. Implementation of modern technologies will stimulate the efficiency of security and protection systems: will decrease the response time application risks and improve the use of resources. Security system shall be developed in a balanced way – simplifying processes as much as possible, but keeping high level of security

Core activities to achieve SO8

- Develop and implement the FRA Security Concept;
- To control the compliance with ISPS and IMDG Code requirements in port companies to increase the safety of ships and terminal equipment, as well as reduce the risk of dangerous goods movement;
- Introduce a single port perimeter control system for effective control of movement of persons and cargo:
 - Implementation of a biometric access control system in critical infrastructure objects;
 - Implementation of *Port electronic border crossing system* at the access control posts;
- To link the FRA and public authorities (police, customs, border guard, etc.) as well as FRA and port company information systems to speed up the flow of information related to security risks;
- Use the latest technologies and equipment for more efficient port area video surveillance and other security systems (including drones, motion sensors, heat sensors, odour sensors, etc.).

Linkage with other SO

Fulfilment of SO8 is required to fulfil SO1 and SO2. SO8 is a relatively independent goal that does not directly depend on the execution of other SO, but is related to the execution of SO6 (in navigation safety area), SO10 (financial management) and SO13 (implementation of IT systems in the field of security and defence).



SM6 SM10 SM13

7.3.9. SO9: To strengthen good governance and corporate culture principles in FRA



Justification

Both coordinated work of FRA and port companies and effective FRA internal management processes are essential to achieve objectives of *FRDP 2019-2028*. Adherence of principles of good governance makes it possible to implement effective and transparent, customer- and public-oriented FRA activities. Involved and motivated FRA employees is a precondition for high-quality FRA functions execution and effective cooperation with port customers.

Core activities to achieve SO9

- Simplify administrative procedures to facilitate customer interaction with FRA;
- Ensure transparency in FRA management decision-making and implementation processes;
- Implement the e-management principles:
 - Implementation of IT solutions (port client application, electronic application, etc.) to ensure the circulation of up-to-date business information and faster communication with port customers (related to SO13);
 - Improvement of the IT solutions in FRA's management and record keeping processes;
- Improvement of personnel management processes, implementation of corporate culture principles in FRA to motivate employees, increase work efficiency, increase engagement and sense of belonging.

Linkage with other SO

Fulfilment of SO9 is indirectly stimulating the fulfilment of SO1 and SO2 as well as makes contribution in fulfilment of other SO. SO9 is not directly depending of fulfilment of other SO.



7.3.10. SO10: To implement sustainable financial policy



Justification

FRA shall implement smart and sustainable financial policy to be able to provide financing to maintain and develop the Freeport of Riga capital intensive infrastructure in labile market conditions.

FRA financial management is based on the following principles: middle-term financial planning in accordance with three-year *Activity Plans*, control of income and expenditures, economically justified investments and effective involvement of financial support instruments.

Core activities to achieve SO10

- To implement a sustainable FRA financial policy based on regular monitoring of the financial performance of the Freeport of Riga;
- To maintain a competitive and transparent tariff policy for port services;
- To develop a new Riga port charge model that will promote the development of strategically important cargo segments;
- To develop guidelines for balancing the FRA revenue structure in order to reduce dependence on port charge income;
- To attract available financial support instruments (EU Structural Funds, etc.) to finance development projects.

Linkage with other SO

Fulfilment of SO10 will stimulate the fulfilment of all other SO, taking into account the necessity to plan an effective financing model for implementation and maintenance to perform any activities. Achievement of SO10 will be supported by SO1 and SO2.



SM1 SM2 SM3 SM4 SM5 SM6 SM7 SM8 SM11 SM9 SM12 SM13 SM14

7.3.11. SO11: To strengthen the Freeport of Riga as socially conscious entity open to the public



Justification

The Freeport of Riga is an important institution for city and state development with integrated and balanced port company, environment and port localities development. FRA will support socially responsible business and stimulate cooperation between all the involved parties, public education, improvement of living standards for inhabitants of port localities as well as conservation of cultural and historical heritage. It will change public awareness of the port role in general and its contribution, achieving the improvement of attitude and positive image of the Freeport of Riga to operate in Riga.

Core activities to achieve SO11

- Maintain active communication with the port localities and the public, explaining the development strategy and operational aspects of the Freeport of Riga;
- Involve port locality inhabitants and other interested parties in the exchange of ideas on port-city cooperation;
- Promote public education, preservation of the port's historic heritage, science and education, support cultural and sporting events to strengthen the image of the port as a socially responsible entity;
- Improve public access to water, cultural and natural sites, as well as recreational areas, etc. where such objects are compatible with port operations;;
- To carry out research on the role of the Freeport of Riga in the economy of Riga City and Latvia in order to inform the public about the significance and contribution of the port;
- Perform regular port image monitoring.

Linkage with other SO

Fulfilment of SO11 will indirectly stimulate the achievement of all other SO, as long as the public will agree to the implementation of port development projects, the Freeport of Riga enjoys good public image, etc. Fulfilment of SO11 is depending on the fulfilment of SO5, SO9 and SO14.



SM5 SM9 SM14

- 7.3.12. SO12: To create the “cluster” of companies of the Freeport of Riga, ensuring the accessibility and synergy of services



Pamatojums

The accessibility of wide range services will make the Freeport of Riga the most attractive place in Baltics for the cargo carriers and business, which will significantly contribute the achievement of SO1. Mutual cooperation of all the companies working at the Freeport of Riga (terminals, ship/cargo agents, shipping line operators, forwarders, tow, bunkering services, ship construction and maintenance, etc.) which in cooperation with FRA will create synergy and provide mutually complementing services and cost savings.

Core activities to achieve SO12

- To provide simple procedures for starting and running a business:
 - facilitating the entry into port of services that complement the range of services offered to the customer;
 - to promote the development of existing services in line with technological innovation and market demand.
- To promote cooperation between FRA and port companies through joint activities (external marketing, exchange of experience) ensuring the efficient use of resources.

Linkage with other SO

fulfilment of SO12 will stimulate the fulfilment of SO1-SO5, and could contribute to the fulfilment of SO10 and SO14. Fulfilment of SO12 is depending on the fulfilment of o SO6, SO7.



7.3.13. SM13: To develop the Freeport of Riga in accordance with the “smart port” operation principle



Justification

“smart ports” will be ones to adopt to the growing port competition challenges in the best way; the core principles of such ports are effectiveness, resource economy and responsible attitude to the environment. It will be stimulated by implementation of modern IT solutions and technological achievements. Matching of Information Systems, automated actuators, modern equipment and other solutions will allow the port and customer interaction (“port-customer”, “customer-customer”, “port-involved parties”) to make it even more mutually beneficial.

Core activities to achieve SO12

- Upgrading the FRA information system for management processes;
- To link the FRA and public authorities, as well as the FRA and port company information systems, to ensure more efficient information exchange (see also SO8 and SO9);
- To implement an IT solution for automating various aspects of port operations;
- To use the latest technology and equipment to perform FRA functions to save resources (vessel management systems, safety and environmental protection);
- To develop and offer customers the solutions to support port procedures and increase data flow efficiency (IT applications, etc.);
- In cooperation with LDz, port companies and other involved persons should work on digitization of the Latvian transit corridor.

Linkage with other SO

Fulfilment of SO13 in long-term perspective would significantly contribute to the fulfilment of SM1 and SM2 and contribute to the achievement of other SO. Fulfilment of SO13 in long-term perspective could be mutually related to the fulfilment of all other SO (except for SO1 and SO2).

7.3.14. SO14: To decrease the negative effect of the Freeport of Riga on the environment



Justification

Reducing the environmental impact of the port is one of preconditions for sustainable development of the port and improvement of competitiveness. Environmental policy of FRA is focused on the decrease of the Freeport of Riga “*ecological impression*” (emission, noise, pollution and other factors) in daily work of the port.

In the future FRA will promote the implementation of technologies to diminish the port environmental impact.

Core activities to achieve SO14

- To develop and implement a single monitoring program for the control of significant environmental aspects at the Freeport of Riga;
- To increase the overall energy efficiency of the Freeport of Riga;
- To apply to port vessels the conditions for port charges that promote the use of environment-friendly technologies;
- To improve ship-generated waste management system;
- To continue the relining of historically polluted port areas;
- To attract financial support instruments for more effective environmental projects (see also SO10);
- To use the latest technologies and equipment for more effective environmental protection measures;
- To clean up the degraded port areas and take preventive measures to protect the public land areas of the port against pollution with household and industrial waste in order to reduce the consumption of waste management resources.

Linkage with other SO

Fulfilment of SO14 is vitally important for the operation of the Freeport of Riga. In long-term perspective the fulfilment of SO14 will stimulate the fulfilment of SO1 and SO2 as well as fulfilment of other SO. Fulfilment of SO14 is linked with fulfilment of SO3, SO4,

SO6, SO7, SO8, SO9, SO10 and SO11.



SM3 SM4 SM5 SM6 SM7 SM8 SM9 SM10 SM11 SM12 SM14

8. Strategic financial plan and socio-economic impact

Within the frames of *FRDP 2019-2028* a *Strategic Financial Plan* was prepared estimating the planned revenues and operating costs of the FRA, as well as the planned investments. Risk analysis has been carried out under the Financial Perspective and the potential impact of the risks on the financial results of the FRA has been calculated. A socio-economic analysis of the strategic level has also been carried out, estimating the potential non-monetary benefits and costs of implementing the *FRDP 2019-2028* as well as the potential impact of other transport infrastructure development projects on the development of the Freeport of Riga..

The financial plan is prepared grounding on a forecast of cargo flows and revenue generated by POR advisers. FRA financial plan is prepared for a 5-year period (until 2023), which is a shorter term, than the *FRDP 2019-2028* operational period. The shortened financial perspective period has been chosen to provide a sufficient level of confidence in the financial perspective.

8.1. Methodology and Core Assumptions

FRA Revenue Forecast 2019-2023 have been prepared by POR consultants on the basis of the forecast of cargo flows, as well as the existing port of Riga charges. Their limited increase over the long term was envisaged, but the rate of increase in port charges (tariffs) is significantly lower than the rate of cost increase (inflation).

The cost forecast is structured by dividing them into variable (closely related to the volume of transhipped cargo) and fixed costs; the calculation is linked to the forecast of freight flows and varies according to the chosen development scenario. The forecast includes cost indexation with an inflation rate based on the numerical values of macroeconomic assumptions and forecasts published by the Ministry of Finance of the Republic of Latvia.

Financial calculations are made in EUR currency net of value added tax. FRA mainly performs deals in EUR and US dollars, taking into account the principle that the main revenue - port charges - is in the currency in which bank financing has been received and refundable, which excludes significant fluctuations in profit / loss depending on exchange rate fluctuations..

The Strategic Financial Perspective provides for an 'open' investment section. The calculations include the costs of the investment projects that have been started in the *FRDP 2009-2018* period or whose implementation is planned in the long-term budget calculations of the FRA and concern the *FRDP 2019-2028* operational period. The investment costs of these projects and the receipt and repayment of the related funding are included in the cash flow calculations.

In addition, a separate section of the Strategic Financial Perspective includes investment projects that the FRA plans to implement during the *FRDP 2019-2028* operational period, however, at the moment of development of *FRDP 2019-2028* the year and scheduled plan of implementation is not defined, as well as there is no financing model yet. The FRA will decide on the implementation of these projects, taking into account the dynamics of cargo flows, the prospects of port companies and customers for the modernization of the relevant infrastructure, the expected return on investment and the availability of the necessary financing.

The calculation of the cash flow for financing includes the execution of the loan agreements in force at the time of preparation of *FRDP 2019-2028* in accordance with the schedules. The implementation of planned investment projects in the future is possible through various sources of financing, incl. investing own funds, EU structural and investment funds, public-private partnerships (PPP), borrowing from credit institutions, as well as investments of lessees' funds (with subsequent reimbursement from the rental payments).

The result of financial forecasting is the net cash flow forecast, which reflects the sufficiency of the FRA financial resources to finance the operation of the Freeport of Riga, as well as the co-financing of free cash balances for investment projects.

8.2. Financial Prospects of Development Scenarios

The scenario financial forecasts include a forecast of revenue and operating costs, a current investment forecast and a cash flow forecast. Key performance indicators of the Financial Plan are summarized in Table No. 14.

Table No. 14

FRA financial indicators for each scenario in 2019 and in 2023, mil. EUR

Indicator	Minimal Scenario		Optimistic Scenario	
	2019	2023	2019	2023
Year				
Revenue from port charge	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
budget surplus	7,3	5,6	11,7	15,4
Net money flow*	8,0	12,5	12,4	22,2

Source: POR, FRA

* - Net cash flow is the sum of cash flows from operating activities, cash flows from investing activities and cash flows from financing activities, and represents the FRA net annual financial performance (increase or decrease in cash)

In both scenarios:

- There is a significant dependence of the FRA on port charge revenues;
- In the five-year perspective, total revenue growth is planned, including growth in all revenue groups (revenue from port charges, rental income and other revenue);
- EBITDA and net cash flows are increasing, but revenue overruns are reducing.

In line with the Financial Plan, substantial cash savings are projected for the period up to 2023. Given the good financial standing of the FRA (the ratio of liabilities to EBITDA on 31.12.2017 is 2.96; in the industry, a quantifiable value of 3 to 8 is considered to be a fair value port for large investment projects), the FRA has the potential to attract additional funds. credit resources for the implementation of investment projects, and there are other possibilities for raising funds (EU Structural and Investment Funds, PPP).

8.3. Investments

The financial forecast developed includes some investment projects that have either been launched in the FRDP 2009-2018 period and will be completed by 2023 or are planned for a five-year perspective and included in the long-term budget calculations of the FRA until 2023:

- Investments in project “Infrastructural Development of *Krievu Sala* for the Redirection of Port Activities from the City Centre”;
- construction of traffic overpass from *Tvaika Street* to *Kundziņsala*;
- Dredging works at the access channel for access to the vessel (annual maintenance of the channel);
- Renovation of hydro-technical structures;
- Reconstruction of the main ships historic shore reinforcement;
- Land repurchase in the Freeport of Riga;
- draining of *Kundziņsala* residential area;
- Development of small yacht ports;
- Renovation of roads;
- Acquisition of intangible assets and equipment and machinery;
- Establishment and construction of fixed assets;
- Other minor works.

The list of other FRA planned investment projects for the duration of the *FRDP 2019-2028* (with no implementation timetable and financing model) not included in the cash flow calculation is reflected in Table No. 15.

Table No. 15

Calculated necessary amount of investment within the FRDP 2019-2028 operational period by investment areas

Investment objects/activities	Calculated investments mil. EUR
Dredging works at the access channel for access to the vessel to the port of Riga (dredging and widening)	60.00
Development of new infrastructure (incl. reconstruction of Hapaka ditch on the western side of <i>Krievu Sala</i> , filling of various harbours in the water area of the harbour, straightening of the wrath cordon line, etc.).	50.00
Reconstruction of Eastern and Western piers	40.00
Development of infrastructure in <i>Spilve</i> meadows for the establishment of a new logistics centre (incl. Earthworks, basic infrastructure, engineering networks, etc.)	42.50
Development of railway access road infrastructure	24.55
Reconstruction of wharfs owned and possessed by FRA	10.50
Reconstruction and construction of roads and squares	10.00
Measures for developing a shore-side electricity supply infrastructure	5.00
Modernization and development of port security and defence systems	1.50

Modernization and development of port IT systems (<i>Velkonis</i> , ROKIS etc.)	1.20
Development of water and sewerage infrastructure	0.75
Modernization of electricity supply networks	0.18

Source: FRA

Given the changing market situation, especially in the context of the 10-year development document, it is possible that some of the projects listed in the table will be postponed to the next programming period (after 2029) or will be cancelled at all.

8.4. Sensibility and risk analysis

The financial risks of FRA are divided into four categories: economic risks, project implementation risks, operational risks and political risks. Probability and impact of the core identified risks is specified. Impact is quantified using sensitivity analysis results and changing assumptions in the developed financial model and evaluating their impact on FRA's operational cash balance at the end of each financial year..

Both the probability and the effect of the risk were assessed using a 3-point scale, where 3 has a high probability / impact, and 1 a low probability / effect.

The sensitivity analysis has been carried out for the *Minimal Scenario*, taking into account that it reflects a conservative approach to forecasting the revenue and cash flow of the FRA. *The optimistic scenario* will in any case show higher resistance to negative changes in external conditions.

The risk assessment and the risk matrix are presented in Tables No. 16 and No. 17..

Table No. 16

Summary of FRA risk analysis

Risk	Probability (1)	Impact (2)	Risk assessment (1) x (2)
<i>Market risk</i>	3	3	9
<i>Inflation risk</i>	3	2	6
<i>Interest rate risk</i>	3	1	3
<i>Currency risk</i>	1	1	1
<i>Financing risk</i>	2	2	4
<i>Planning risk</i>	1	1	1
<i>Project delay risk</i>	1	1	1
<i>Workforce costs risk</i>	1	2	2
<i>Political risk</i>	1	2	2

Description: impact assessment from 1 to 3, where 1 – low, 2 – moderate, 3 – high; possible evaluation from 1 to 3, where 1 – low, 2 – moderate and 3 – high

Table No. 17
FRA risk matrix

Interest rate risk	Inflation	Market risk
Workforce costs risk	Financing risk	
Currency, planning, project delay risk	Political and compliance	

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

- The most significant risk affecting the FRA is the risk of market fluctuations, the effect of which may reduce the amount of cargo processed by the Freeport of Riga. Coal, mineral fertilizers, oil products and container cargoes are considered critical cargo groups. If the volume of all the mentioned cargoes in the Freeport of Riga will decrease by 35% or the amount of coal will decrease by 45% (without decreasing other cargo volume), FRA cash deficit (negative cash balance) is expected in the five-year planning period. At the same time, if the transshipping of mineral fertilizers, oil products and containers to the Freeport of Riga will be halted (a reduction of 100% for all 3 cargo groups), this will not have a critical impact on FRA's net cash flow (no deficit will be observed), however, the implementation of FRA development projects will be at risk.
- The inflation risk is taken into account in the financial projections of the scenarios for development, with more intensive indexation of inflation than indexing of revenue inflation.
- The possible increase in interest rates on the existing credit liabilities of the FRA (an increase in EURIBOR) does not have a critical impact on the FRA net cash flow (no deficit will be observed).
- The risk of increasing investment project costs may be more relevant for FRDP 2019-2028 in the first years of operation, when a relatively smaller amount of funds is expected, but investment project estimates will have to increase at least twice, with very little probability. In the long-term, however, the FRA is expected to see a growing accumulation of funds, mitigating the potential consequences of this risk. For effective risk management, the FRA will implement high-quality project management and sound financial management through the most profitable fundraising opportunities as well as investment projects, depending on available funding.
- Political risks can be reviewed in two dimensions: they are insignificant at the local level, while the international risks associated with changes in the geopolitical situation are included in the assessment of the risks of freight flow reduction.
- Apart from the risks mentioned above, no other risks, significant to forecast the FRA financial positions were identified.

8.5. Socio-Economic Impact

Within the framework of the *FRDP 2019-2028*, a socio-economic analysis has been prepared identifying possible indirect benefits and costs from the implementation of *FRDP 2019-2028* without quantifying (monetising) the identified impacts.

The Freeport of Riga is an important infrastructure object that directly and indirectly affects Riga and Latvia economy. The FRA employs ~300 people, people and the Freeport of Riga employs ~5 000 people. In total, ~ 15,000 people are employed in the companies serving the Freeport of Riga. In addition, the implementation of investment projects ensures job creation also in other related economic sectors (construction, transport, etc.). For example, ~2 000 people were involved in the implementation of the project “Infrastructural Development of *Krievu Sala* for the Redirection of Port Activities from the City Centre”. This allows us to conclude that the Freeport of Riga is one of the most significant employers in Riga city and is also a significant economic operator on the Latvian scale.

The development of the Freeport of Riga can have a significant impact on the related sectors of the national economy as well as on society as a whole. The development of the Freeport of Riga plays an important role in the implementation of other transport sector projects, and on the contrary - the implementation of other projects may influence the development of the Freeport of Riga. Table No. 18 summarizes the potential direct and indirect socio-economic impacts..

Table No. 18

Possible socio-economic impact of FRDP 2019-2028 to the economy and society

Factor	Economic impact	Social impact
<p>Implementation of infrastructure projects (construction), incl. port infrastructure and terminals</p>	<ul style="list-style-type: none"> • Additional contribution to economic growth during project implementation (design, production of construction materials, transport, etc.) 	<ul style="list-style-type: none"> • Increase in employment (short term, during construction) • Possible social costs associated with negative environmental impacts (such as air pollution, noise, increased load on transport infrastructure - during construction)
<p>Operation of new infrastructure and terminals</p>	<ul style="list-style-type: none"> • New management, supplies, etc. c. service contracts or additional volumes for existing contracts due to new facilities • Benefit for shipping companies and shippers in relation to (a) access to port for larger ships; and (b) shorter entry / exit times (as a result of modernization of navigation infrastructure) • Growth in the transport sector due to the increase in cargo flows • Additional long-term employment will determine the reduction of economic losses related to staying economically active people in Latvia (choosing to live in Latvia) 	<ul style="list-style-type: none"> • Increase in the standard of living of the population in terms of employment; • Possible social costs associated with negative environmental impacts (air pollution, noise, etc.) • Potential loss of time and cost for the population in terms of increased traffic (increase in cargo flow towards the port)
<p>Passenger traffic development</p>	<ul style="list-style-type: none"> • Increase in the number of tourists in the city of Riga (ferry traffic, cruise ships), additional income for the tourism industry • If the Freeport of Riga starts operating as a start or destination port for cruises: <ol style="list-style-type: none"> a) additional impulse for other transport infrastructure (“Rīga” Airport, “AirBaltic” national airline, urban public transport, railroad) in connection with the arrival / departure of a large number of tourists to / from Riga cruise ships b) additional benefits for the tourism industry (accommodation, catering, etc.) c) additional impetus to the development of ship service and supply industries (ship repair, technical supply, food supply, etc.) 	<ul style="list-style-type: none"> • Possible price increases in tourism and related industries during the season due to increased demand for solvency

Environment protection measures implementation	<ul style="list-style-type: none"> • Support for related industries (planning, design, implementation of environmental measures) • Possible additional cost burden for affiliated companies (e.g. port terminals) 	<ul style="list-style-type: none"> • Improving the quality of life for the public in terms of better quality of the urban environment (less pollution, better access to water, more attractive urban landscape, etc.)
Implementation / improvement of port security measures	<ul style="list-style-type: none"> • Possible additional cost burden for affiliated companies (e.g. port terminals) • Non-monetary benefit for the industry from a higher level of security at the Freeport of Riga (reduced threat of crashes, reduced risk of unlawful actions, etc.) 	<ul style="list-style-type: none"> • The public benefit from a higher level of security at the Freeport of Riga (reduced threat of crashes and corresponding negative impacts on residential areas, reduced public security threats, etc.)
Port technology development	<ul style="list-style-type: none"> • Benefits of reducing resource consumption 	<ul style="list-style-type: none"> • Benefit from a reduction in the environmental impact of port operations

It should be noted that the implementation of the planned Latvian and Riga transport infrastructure development projects may also affect the development of the Freeport of Riga. A brief summary of possible impacts is presented in Table No. 19.

Table No. 19

Potential Impact of Large Transport Infrastructure Projects on Implementation of FRDP 2019-2028 and Development of the Freeport of Riga

Project	Positive impact	Negative impact
<i>Rail Baltica</i>	<ul style="list-style-type: none"> • It is possible to attract additional cargo flow to terminals of the Freeport of Riga (however, this potential is not clear considering the chosen Rail Baltica route and lack of connection with the Freeport of Riga) • Additional passenger flow from Rail Baltica to ferry and cruise ships is possible, Rail Baltica's support for the establishment of the port of Riga as a cruise departure or destination port could be particularly important, providing a convenient connection to the Nordic countries and Western European countries 	<ul style="list-style-type: none"> • Possible “narrow point” formation during the reconstruction of Riga Central Station, limiting the movement of freight trains through the station and across the bridge over the Daugava, thus negatively impacting the operation of the port terminals, especially on the left bank of Daugava (primarily related to the operation of new coal terminals on Krievu Sala) • Possible redistribution of cargo flows from ships to trains, taking into account the Rail Baltica project logistics centre in Salaspils, where the intersection of the 1520 mm East-West rail corridor and 1435 mm North-South rail corridor will be created
<i>Electrification of Latvian railway network</i>	<ul style="list-style-type: none"> • Possible Improvement of the Competitiveness of the Latvian Railway Corridor by Switching to electric traction (however, electrification of tracks from the Šķirotava station to the terminals of the Freeport of Riga, primarily to Krievu Sala should be provided for full functioning) 	<ul style="list-style-type: none"> • Possible train movements limitations and temporary loss of throughput during construction



Reconstruction of Rail section Sarkandaugava- Mangaļi- Ziemeļblāzma	<ul style="list-style-type: none">Increasing the throughput of the stage by constructing a second rail in the section Mangaļi-Ziemeļblāzma	<ul style="list-style-type: none">Possible train movementsLimitations and temporary loss of throughput during construction
Reconstruction of Tvaika Street and construction of overpass to Kundziņsala	<ul style="list-style-type: none">Improvement of truck traffic on the right bank of Daugava, in Sarkandaugava, Kundziņsala, Mīlgrāvis region, as well as improved connection with Mangaļi, Vecmīlgrāvis, Mangalsala regionSignificantly improved connection with terminals located in Kundziņsala, as well as improved connection of Kundziņsala residential area with Riga transport infrastructure	<ul style="list-style-type: none">No significant negative effects have been identified

The *Strategic Action Plan* included in *FRDP 2019-2028* includes defined activities aimed at maximizing the economic benefits of the operation and development of the Freeport of Riga to society and the economy in general, as well as preventing or reducing the potential negative impact on the population and the environment to a level acceptable to the public.

To maximize benefits and minimize negative impacts, the FRA will work with interested parties and developers of other projects (e.g. Riga City Council, public organizations, sectoral ministries, LDz, “Rīga” Airport, etc.).