

2.7 Territorial Plan

2.7.1 Juridical and Institutional Background for Territorial Plan

(1) National Land Use Plans

National plans related to urban planning are summarized as follows;

- Long-term Economic Development Strategy of Lithuania until 2015; 2002. (The Ministry of Economy)

Table I.2.7-1 Share of GDP by Sector

(Unit: %)

Sector	2001	2002 planned	Forecast		
			2005	2010	2015
Agriculture, Forestry, Fishery	7.0	7.0	6.4	5.7	5.0
Industry, Construction	34.4	35.4	33.6	32.8	32.4
Services	58.6	57.6	60.0	61.5	62.6

- Stock of Land of the Republic of Lithuania (See, Law on Land, Article 5.)

The stock of land of the Republic of Lithuania shall be used taking into account public interests and environmental requirements, and in compliance with:

- 1) Laws and special conditions of land and forest use established by the Government; and
- 2) The principal specific purpose of land use, business restrictions, easements and territorial management requirements established in the land use planning schemes prepared according to the procedure set by the Government and other documents of territorial planning.

According to the principal specific purpose of land use, the land use of the country is shown in the table below.

Table I.2.7-2 National Land Use by Purpose

Land by Purpose	Land Area in 2002 (Thousand ha.)
Agriculture Purpose	3,956.2
Forestry Purpose	1,963.6
Others	426.2
State Inland Water	184.0
Total	6,530.0

Contents of the Law on Land are summarized as follows;

- i) General Provisions
 - Purpose of the Law
 - Ownership of Land
 - Rights of the Owners of Land

- ii) Land Contracts
Contents and Terms and Conditions of the Agreement on the Transfer of Land Rights of Ownership of Private Land
- iii) State Ownership of Land
Land in the Ownership of the State
Allotment of State-Owned Land for Use; Leasing of State-Owned Land
- iv) Common Ownership of Land
Taking of Land for Public Needs
- v) State Land Survey
The Objective of the State Land Survey

(2) Institutional Organization and Relevant Laws for Territorial Planning

The base law of urban planning is Territorial Planning Law. However, not only this law, but also a number of other laws are being used for the preparation of urban planning.

Ministry in Charge of Urban Planning

The Ministry of Construction and Urban Planning was in charge of the system between 1990 and 1998. Since 1998, the Ministry of Environment has been responsible for the nationwide territorial planning. (See, Organization Chart on the administration of territorial planning)

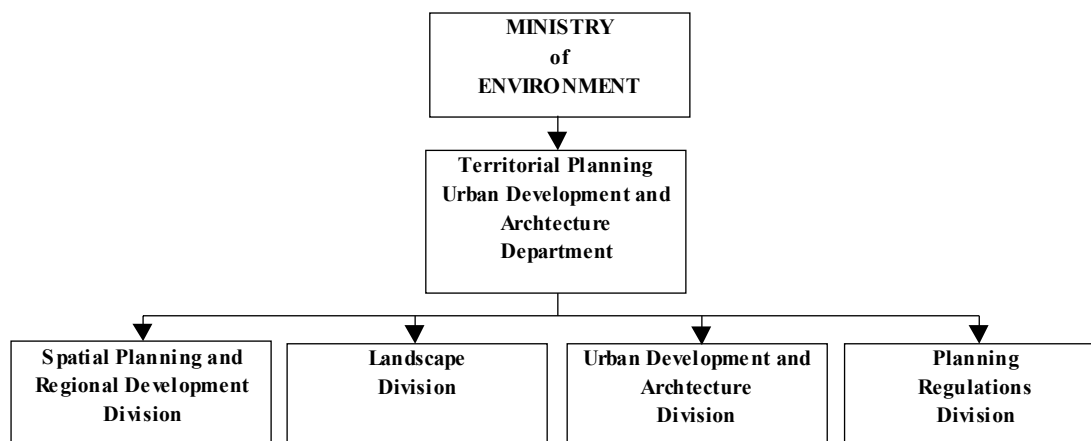


Figure I.2.7-1 Organization Chart on Administration of Territorial Planning

The master plan forecasts shall be made for a period of no less than twenty years. They may be changed, supplemented at the proposal of the Government, the county governor or the municipality board (the mayor).

The following three (3) types of Master Plan shall be formulated;

- i) The Master Plan of the territory of the Republic of Lithuania shall be prepared by the decision of the Government. The preparation of the plan shall be organised by the Ministry of Environment. The Government shall submit the master plan for the approval of the Seimas.

- ii) The master plan of the county territory shall be prepared by the decision of the county governor or by a joint decision of several governors. Preparation of the territorial plan shall be organized by the county governor. The county governor shall submit the master plan to the government for approval.
- iii) The master plans of the municipality territory or its separate parts shall be prepared by the decision of the municipality council. Their preparation shall be organized by the municipality board (the mayor). The municipality board shall submit the master plans to the council for approval. (Article 9.)

Contents of Territorial Planning Law are summarized as follows;

- i) Concept/ Objectives of the Law
- ii) General Planning
Objects of General Planning
Formulation, Co-ordination, Approval, Change and Validity of Master Plans
- iii) Special Planning
- iv) Detailed Planning
- v) Regulation of Territorial Planning
Code of Territorial Planning Regulations
- vi) Transparency of Territorial Planning
Participation of the Public in the Process of Planning
Public Announcement of Territorial Planning Documents
Public Meeting
- vii) State Supervision of Territorial Planning
- viii) Indemnification for Damages and Liability for Violations of the Law

Transparency of territorial planning is emphasized such as;

- General, detailed and special territorial documents must be submitted for public discussions.
- Public discussion of territorial planning documents shall be arranged by the organizer of planning.
- The general procedure of the participation of the public in the process of planning shall be regulated by the provisions of public discussion of territorial planning document drafts, approved by the Government.

2.7.2 Master Plan of Territory of Lithuania (Long-Term Plan, 20 Years)

Legal grounds of the preparation;

The Master Plan of the Territory of Lithuania was prepared according to Decision No.161 (of the year 1993) of the Government of the Republic of Lithuania. The Ministry of Environment organized the preparation of the Master Plan. The preparation was based on the demands of the “Territorial Planning Law” adopted by Seimas on 12 December 1995.

Explanatory Note;

Based on the Master Plan of the Republic of Lithuania, the main solutions for the whole territory are presented in the following directions:

(1) Common Territorial Structures

In this part the plan deals with two issues.

1) Optimization of Urban System.

The main items were: development of an urban framework for the country, axes of urban integration, influenced neighboring areas, relations of urban and rural territories, improvement of life quality. A system of 3 categories of urban centers were envisaged, including national, regional and local level centers as well as relevant urban integration axes to ensure the forming and integration of its parts.

2) Ensuring Landscape Protection.

The main items were: nature framework, protection of landscape and biological diversity, use and protection of cultural heritage territories.

(2) Specialized Territorial Structures

In this part the plan dealt with four issues.

1) Territories of Bio-Productive Economy, including agricultural and forest territories. Seven zones of different agro-potential were defined and guiding management proposals presented.

2) Development of Recreation Territories

Recreation areas according to their attractiveness and potential were defined at three levels (national, regional and local) based on identified features. A system of tourism routes of national importance was presented. Support for recreational development was envisaged.

3) Technical Infrastructure Territories

These included transport and communications, energy infrastructure and eco-engineering infrastructure. A common transport infrastructure and its territorial development directions were defined. Other technical infrastructures, a main development system and territorial directions were given.

4) Other Functional Territorial Structures

In this part the plan dealt with social and [cultural infrastructure as well as education, science and culture infrastructure.]

(3) Spatial Integration of the Development of the Territory of the Country

In this part the plan dealt with following issues:

1) Integrated Development Strategy

In the common spatial concept three different management types were envisaged – territories of conversion, support and development. Main social, economic and urban functions, an active zone and deconcentration areas were defined.

2) Regional Policy in the Context of the Master plan

Territorially differentiated policies based on principles of sustainable development were formulated.

(4) Reservation of the Territories for the Common Needs of the State

Here a summary of all the territories to be reserved for the common needs of the state was given.

2.7.3 Klaipeda City Master Plan and Port Area

(1) Klaipeda City Master Plan (Long-Term Plan, 20 Years) Articles 8 and 9.

The existing Klaipeda City Master Plan was approved by the city council in 1997.

The municipality board is now preparing a new master plan.

The final version of the master plan is going to be completed at the end of this year, 2004.

The review of the existing master plan is mainly due to:

- Issues of land restriction to Lithuanian citizens (individuals).
- Building structures of residential houses have shifted from multi-apartment houses to individual houses of one or several apartments.
- Residential houses are being built using the funds of the Municipality.

The main new parts of the Klaipeda Master Plan will constitute:

- i) Outside structures (District)
- ii) Urban decisions
- iii) Port Development
- iv) Cultural legacy
- v) Transportation
- vi) Infrastructure
- vii) Engineering communications
- viii) Others

(2) Port Territory and Reserved Port Territory

Port territory and reserved port areas, as of June 2003 are:

Leased Areas:	405 ha
Not Leased:	66 ha
<hr/>	
Total:	471 ha

Reserved Port Territory: 101 ha

An inventory of reserved port territory is summarized as follows based on a reconnaissance survey:

i) Territory next to the northern breakwater (2.5 ha);

This territory is located at the westernmost area of the Port neighboring the oil terminal. From this territory, a sand beach some 50m wide continues up to Butinge (crude oil export base, near the border of the country), 35km north from Klaipeda. In the future, this territory could be the junction with an offshore artificial island if developed.

ii) Stock company “Klaipedos Nafta” (Klaipeda’s Oil) land for the expansion of this company (9.6 ha);

iii) Territory between Minijos Street and Nemuno Street up to the entrance to the Ferry Terminal (Smiltynes Perkela) (about 15 ha);

This triangular shaped territory is located behind the Stevedoring Company “Bega” facing Minijos Street. The south-eastern part of this territory (some one third of the territory) has already been occupied by buildings. As for the remaining two thirds of the territory, there are only three privately owned houses and they seem to be available for the use as port territory.

iv) Territory between the stock company “Smiltynes Perkela” (Ferry Terminal) and LKAB “Klaipedos Smelte” (stevedoring company) (4 ha);

This territory is located behind the Joint Stevedoring Company “Transfosa” facing Minijos Street. It is an open space excluding the front space facing Minijos Street where three shops are located (car workshop, interior goods shop and gas station).

v) Territory between Minijos Street and Nemuno Street from Dubysos Street to Strevos Street, including the territory of the constructed drug store (about 17 ha);

This territory is located behind the Joint Stevedoring Company “Transfosa” facing Minijos Street.

There are eight (8) devastated houses and a few shanties in this territory. Additionally, many car garages using containers can be observed in places. However, this territory could be used as general port territory.

vi) Territory between Nemuno Street and Zalgirio Street (4.9 ha);

This territory is located behind the Stevedoring Company “Smerte”.

Ten (10) devastated apartment houses and parking lots are scattered within this rectangular shaped territory. However, these buildings could be demolished and this territory could be used as port territory if necessary.

Neighboring this strip territory, a residential area facing Minijos Street has already been developed so it is not possible to include this area into the port territory.

- vii) Territory between Minijos Street, “Western Ship Repair Yard” and the river of Smiltele (about 48 ha);

This territory has sufficient space and would be useful if the waterfront is restructured.

(3) Law of Klaipeda State Seaport

The Articles concerned with the land of the port in the “Law of Klaipeda State Seaport of the Republic of Lithuania” are abstracted below.

- Article 2. “Port” – is the territory, (land of the port and equatory), designed for going in and out of ships, for their standing, maintenance and cargo transhipment as well as passenger service.
- Article 3. 1. KSSP shall be the administrator of the state ownership.
3. Limits of territory and reserve territory shall be established by the Government on the recommendation of the MOT.
- Article 5. 1. The land shall be subject to State ownership.
3. The port administration shall have the right to lease port land for activities related to the needs of the port and also for subjects which are acting in the territory of the port, even if their activity does not relate to the port activity.
- Article 7. 1. The infrastructure, land and equatory of the port shall be not sold into private ownership.
- Article 12. 1. To define the guidelines for the port development and co-ordinate relationships between port, municipality and government institutions of the Republic of Lithuania, a Port Development Council will be created. This council shall comprise representatives from the concerned ministries, local government of the city of Klaipeda, scientific institutions, port administration and the enterprises located in the port territory.

According to Article 5.1, reserved territories have to be transferred from the City to the State when these territories are used for the port and co-ordination matters are to be solved by the Port Development Council.

2.7.4 Co-ordination between Port Planning and Urban Planning

In general, urban planning is required to comply with the national development plan and the regional plan. Furthermore, the urban planning should be coherent with national projects such as road, river, railway, port and airport etc. and also with the nationwide pollution prevention program, if any. The City Master Plan might be changed or supplemented at the proposal of the Government, the county governor or the municipality board (the mayor). (Territorial Planning Law, Article 9.)

However, smooth implementation is also necessary if the port program is to coordinate with urban planning.

From the urban planning viewpoint, the following requests could be expected considering the development potential, traffic demand and natural resources of Klaipeda City:

- To consider the environment when making the port land use plan.
- To conduct a harmonized development of the whole city territory based on the land use plan.
- To construct an urban transport network and urban facilities matching the land use plan.
- To introduce national projects contributing to the regional development as well as the national development from the long term view points.

It is desirable, therefore, for the above requests to be incorporated into the port planning.

Klaipeda Port occupies only the port territory consisting of the narrow belt zone along the lagoon. The urban territory stretches behind the port territory. Therefore, the expansion of port territory has to depend on the use of reserved territory or urban territory. This reserved territory shall be transferred from the City to the State if necessary. If the reserved territory is not adequate for the future port demand, the expansion of port territory and reduction of urban territory should not be planned from a one-sided approach. It is proposed that the port function and the urban function coexist in the expansion area under mutually beneficial conditions.

In many countries, landward port expansion becomes more difficult as the established ports are traditionally located near the city centre. Therefore, the port territory will have already included the urban facilities corresponding to the development of port and city. For example, port territory is designated not only as port proper but also as industrial zone, park area, recreational zone and traffic facilities zone etc. It is also used for the development of land area for port-related industries and business. By applying a more outward looking strategy, Klaipeda Port could facilitate the future port demand.

In “The Strategic Development Plan of Klaipeda City”, formulated by the City, the following policies are proposed for the development of Klaipeda Port.

- To ensure the balanced development of the city and the port as well as the efficient use of port capacity.
- To ensure the development of Klaipeda as a centre of international transportation.

At present, haphazard land usage can be observed in the reserved territory. If the use of reserved territory is planned in the Port Master Plan/ Short-term Development Plan, this territory should be transferred from the City to the State as port territory at an early stage in order to prevent sprawl as well as to promote public interest.

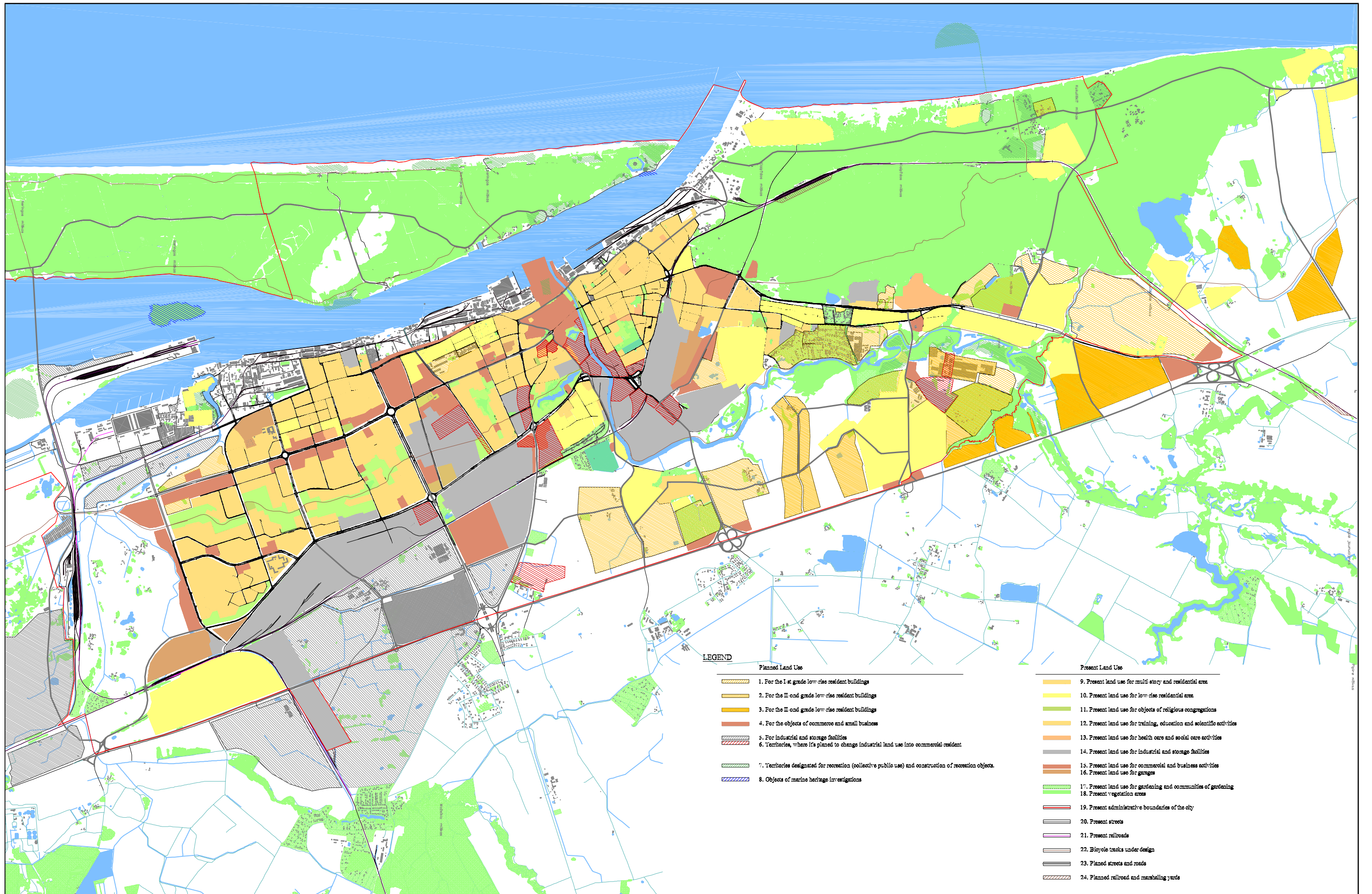


Figure I.2.7-2 Land Use Map

2.8 Institutional Matters and Port Management

Klaipeda Port is in many ways in transition from a Soviet-style port to a western-style port. A new structural framework has been established and implemented but there remain some anomalies, and there are strategic issues that remain unresolved.

The Klaipeda State Seaport Authority (KSSA) is a state enterprise that acts as a landlord for the port. The port operators, almost all of which have been privatised, lease their territories from KSSA. KSSA holds the port land area (territory) and the port water area on behalf of the government, and leases the land and its use to the operators, and controls the port water area, within the Lithuanian laws.

2.8.1 Land Ownership and Privatisation

Historically, land ownership by the general populace or by private organisations came relatively recently to Lithuania. Serfdom ended only in the 1870s. Between then and 1990 the only period of true independence was the inter-war period of 1920 to 1940, during which time the country made huge advances. During the subsequent Soviet era, all land and all institutions were expropriated from individuals, and became state-owned. Following independence in 1990, the government re-established private land ownership and commenced privatisation of state property. The system was complicated and took several years, but there were many conflicting interests to resolve. In principle, where an individual or his/her family could establish land ownership pre-WWII, those property rights were honoured. If that was not possible, equivalent land was granted. Similarly (but often in conflict), tenants of state-owned apartments etc. had the right to purchase their apartments, using a voucher system that was used to assist privatisation of state property and enterprises. Employees had priority rights to shareholding in their enterprises. Little or no cash payment was called for, so by 1995 wide public ownership was established. 86% (or 81% according to a different source) of state-owned assets designated for privatisation were sold in this phase (of which a large proportion was residential property), but only 0.6% for hard currency². The disadvantage of this arrangement was that there was little cash injection, and reform was slow. Foreign ownership was restricted, with no rights for foreigners to purchase land.

After 1995, the privatisation became more commercial: sales were for cash, at market prices as determined by auction or tendering or other methods, and with requirements on investment programmes, and restraints on the dismissal of employees. Foreign investors (and their cash) were welcomed into joint ventures. Some large state companies that were previously not ready for privatisation were sold. Major enterprises such as Lithuanian Gas, Lithuanian Energy and Lithuanian Railways are scheduled for partial or total privatisation in the short or medium term, and are being restructured with that in mind.

Foreigners are still not allowed to purchase land directly, but as part of the adjustments to join the EU, a new law permitting land ownership by citizens of EU countries will come into force the day after accession.

Since independence, respect for the property rights of individuals has been written into the constitution of Lithuania and has been upheld in the courts.

² UN Revue of Lithuania, 1997

2.8.2 Klaipeda State Seaport Authority (KSSA)

(1) Port Territory and Water Area

During Soviet times, the port territory was controlled by a number of different bodies, under different ministries – the oil terminal under the Ministry of Energy, the fishing harbour (and the fishing fleets) under the Ministry of Agriculture and Fisheries, the commercial harbour under the Ministry of Transport, the shipyard under the Industry Ministry. Even the water area was divided. After restoration of independence in 1990, all the port territory and the water area were quickly brought under one control, KSSA. The port being a strategic asset in a monopolistic situation, there was never any intention to privatise the port authority, or the port territory and water area, and the Law on Klaipeda Port (the port law) specifically states that port territory and water area may not be privatised.

The Law on Klaipeda Port lays down the functions of the port authority:

Table I.2.8-1 Functions of Port Authority

Article 11. Functions of Port Authority	
Main functions of port authority:	
1)	to coordinate port territory protection provided by port land users, to ensure safe navigation in the port;
2)	to ensure activities of harbour master;
3)	to oversee and to take care of port reserve territories according to regulations of the Government of Lithuania;
4)	to use and to govern entrusted state property efficiently;
5)	to lease land of the port;
6)	to collect port dues;
7)	to organize rescue operations (vessels and people) in the port area;
8)	to prepare port strategy projects, detailed plans of port territory and port reserve territory, to organize its implementation, scientific research, to advertise the port;
9)	to analyse and to approve reconstruction projects of existing port constructions and construction projects of new objects, to define and to approve obligatory technical conditions;
10)	to implement pollution prevention projects and to organize elimination of pollution consequences;
11)	to build, to use and to develop infrastructure of the port;
12)	to maintain designed depth of port area and also along the berths and piers;
13)	to organize and to execute port environment protection;
14)	after coordination with institutions of municipality to do preparatory work of infrastructure development in reserve territories of the port;
15)	to ensure supervision in parts of the port's territory that is not leased;
16)	to organize social-domestic service for seamen.

Source: Law on Klaipeda Port 1996, amended to 2002.

Under this law, KSSA has strong controlling powers if it wishes to use them, including the opportunity to take Option 2 of the Halcrow/APEC 1993 Master Plan, with 'One Unified Port, with Terminals becoming Progressively Autonomous'. However, for reasons we shall show, the path taken is closer to Option 1: 'Several Independent Terminals'.

The port water area comprises 623 ha. Shipping movements and the safety of navigation are the responsibility of the harbour master. Pilotage has been rationalised as a port service under the harbour master's control. Towage has been privatised; a variety of tugs are available, including modern German and Dutch-built tugs with azimuth propellers. The Maritime Safety Administration (MSA) was formed as a separate state body in June 2002 under MOTC, with responsibility for search and rescue services, ship registration, seafarers' training and registration, and hydrography in Lithuanian waters and flag/port state control.

The port territory is 472 ha in total, of which 406 ha is leased. In addition there is a 101 ha territory of the Klaipeda City that is designated as reserved port territory in potentially useful neighbouring sites. The port territory boundaries are now clearly defined (subject to the possibility of a few remaining minor corrections), and there are no disputes between the City, KSSA and the port operators regarding the boundaries. The same is true of the reserved port territory. Apart from a strip 50m wide alongside the main road (Minijos Street) that KSSA may release for city use, KSSA at present retains the right to claim the reserved port territory for port use, in theory preventing long-term development by other bodies. However, there is an area of the reserved port territory (about 2 ha, with a further 2 ha awaiting contract) that has been let on a long-term lease by the city for non-port-related use, apparently without the consent of KSSA. This transaction is being investigated by the Special Investigation Service, the government body that investigates business malpractice. The land concerned is planned as a development area of the port, and the outcome of this investigation is important. A new building has been built on part of the area that lies within the 50m strip mentioned above; otherwise the disputed area has not been developed. The law has been tightened regarding the requirement to obtain KSSA consent for the use of reserved port territory, so the situation should not arise again.

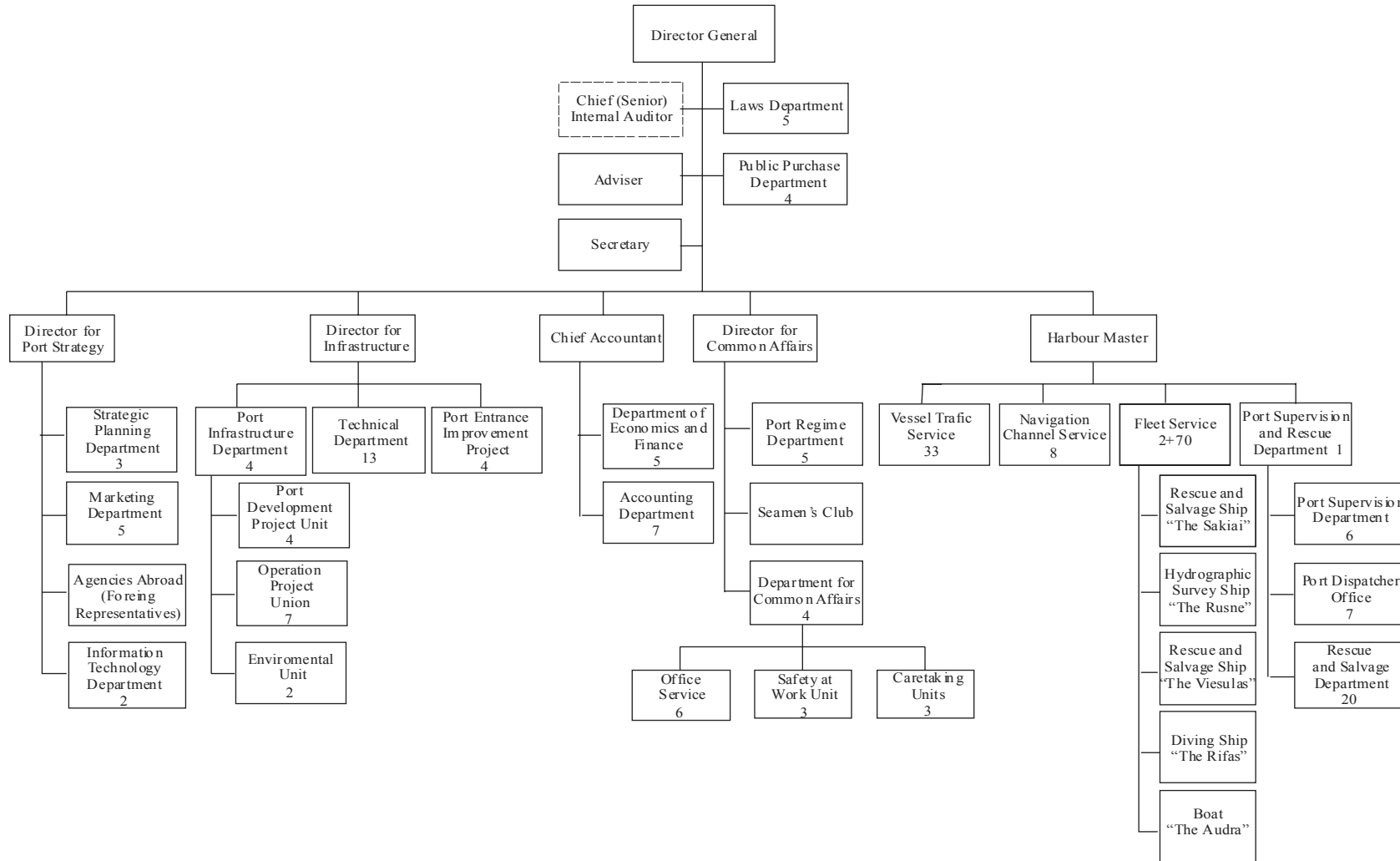
Supplementary laws provide a draft lease for port operators, and specify the formula for calculating the land lease rates.

(2) KSSA Organisation

The founder of KSSA is MOTC. The head of the Water Transport Department is chairman of KSSA; the other four directors are the Director General of KSSA and three more from MOTC.

Under the law, port development plans have to be referred to a separate body, the Port Development Board. Membership includes representatives from KSSA, MOTC, Ministry of Finance and other interested ministries, Klaipeda county and Klaipeda municipality, port users and others (there were nineteen at a recent meeting). The Minister of Transport and Communications is the chairman, and it meets twice a year. Its decisions are subject to approval by the government.

Internally, KSSA has been reorganised, following the spinning off of the Maritime Safety Administration (MSA) in June 2002. Some employees were transferred. Close liaison exists between KSSA harbour master and the MSA. The organisation chart also shows the employee numbers. In addition to administrative and harbourmaster functions, KSSA employs the pilots and the pilot boat crews, which brings up the numbers. (Figure I.2.8-1)



Source: KSSA, translated by JICA Study Team.

Figure I.2.8-1 Organisation Chart of Klaipeda State Seaport Authority (KSSA)

The port law requires KSSA “to prepare port strategy projects, detailed plans of port territory and port reserve territory, to organize their implementation, and to analyse and to approve reconstruction projects and new construction projects, and to build, to use and to develop the infrastructure of the port.” The Strategic Planning Department oversees the development strategy, including territorial planning (land use). The Infrastructure Department does the preliminary design of development work, and project planning. For detailed design, they employ consultants, usually PramProjectas, a private consultancy based in Kaunas. Under the land lease contracts, any construction or demolition of infrastructure must be approved by KSSA. Therefore, much of the work is reactive, responding to requests for development by terminal operators. There has been much discussion between port users, the city and others on development, and various long-term development plans have been produced by PramProjectas for KSSA and other bodies. Much time and effort has gone into these, but the detailed plans seen do not generally reflect the modern trends of port operation and railway usage, and therefore lack realistic analysis.

2.8.3 Port Operators and Land Lease Contracts

(1) Port Operators

There are eighteen main port operators, or lessees, who operate twenty sites, (called terminals, although four are shipbuilding or ship repair enterprises). All are fully privatised enterprises except the Oil Terminal (corporatised, with majority holding by the Ministry of Economics) and Klaipėdos Ship Repair Yard (corporatised, with controlling holding by State Property Fund (VTF), but part or all of this holding is scheduled to be sold shortly). All are in essence the enterprises that were operating in the territories when KSSA was formed. The enterprises existing at that time had priority, or first refusal. In practice, this was probably inevitable, because of the buildings and fixed assets and employees that were transferred with the privatisation, some of which were essential to the operation of the port. The existence of the formula for calculating the land lease rate supports this view.

The port operators inherited assets and businesses that varied greatly in usefulness and prospects. Most were fighting for survival. For example, the former fishing harbour occupied a large area (roughly the area now occupied by Transfosa, Smelte and Senoji Baltija), but the Lithuanian fishing fleet was in dire trouble in the early 1990s (since when most vessels have been scrapped or sold), and almost no fish were being landed in Klaipėda. In order to survive, the fishing harbour resorted to cargo handling operations, in direct competition with the existing commercial harbour. Similar factors led other terminals, including shipbuilding and ship repair enterprises, to do the same. This had the merit of providing competition (and, incidentally, complying with EU competition policy), but it retained the fragmentation of the port. A notable example was the development of what is now Klaipėdos Terminalas on part of the territory of Western Shipyard, for Ro/Ro and container traffic. Klaipėdos Terminalas filled an important need at the time, was (and is) well managed, and has been successful. Despite very restricted space and less-than-ideal infrastructure inherited from the shipyard, and with modest investment in well-chosen equipment, the terminal competes successfully against the purpose-built container terminal, retaining over 50% of that traffic.

Elsewhere, the legacy of this method of privatising the terminals is evident in the numerous terminals competing for log timber, sawn timber, bagged and other

fertilisers, second-hand cars, and scrap. These are cargoes that can be handled with relatively simple equipment, and so far anyway there has been a demand for their shipment in smaller vessels. But it is notable that even with these ‘simple’ cargoes there is specialisation developing, with for example Klaipėdos Smelte now handling most of the scrap, using better loaders, shipping in deeper draft ships, and with the facility of using a new scrap shredding machine.

Employment in the port is substantial.

Table I.2.8-2 Employment Numbers in Klaipėda Port, 2003

Terminal Operator		Employment Numbers	
		Employees	Part-time workers, sub-contractors, tenants, etc.
-	KSSA	237	-
1	Klaipėda Petroleum (Klaipėdos Nafta)	320	-
2	Cargo Terminal (Krovinių terminalas)	10*	-
3	KLASCO (Klaipėda Stevedoring Company)	800*	-
4	Laivite Ship Repair Yard	1200	-
5	Klaipėda Ship Repair Yard	150	100
6	Baltija Shipbuilding Yard	1350	400
7	Klaipėdos Kartonas	370	-
8	Bega	280	-
9	Ferry Smiltyne	75*	-
10	Transfosa	75	-
11	Klaipėdos Smelte	350	-
12	Progresas	10*	200*
13	Senoji Baltija	35	excludes fishing boat crews
14	Klaipėdos Hidrotechnika	190	100
15	Lithuanian Peat Cargo	20	6
16	Klaipėdos Terminalas	90	-
17	Western Shipyard	1460	1000
18	KLASCO Container Terminal	50*	-
19	Timber handling Terminal	20*	-
20	Baltic Ferry Terminal & KLASCO	100*	-

*Estimate or guess

Source: From Port Operators or their brochures.

The total is approximately 9000, of whom over 5600 are in the shipyards or ship repair yards, and about 700 more in enterprises with no direct port-related activity (Klaipėdos Kartonas and Hidrotechnika). About 2700 are involved with commercial shipping, ferries and cargo-handling operations.

In addition to the eighteen main terminal operators, there are over 40 lessees of port territory. Some are associated with the terminal operators, or are involved in cargo-related activities, such as the cold store company within Smelte terminal; where known, the employee numbers have been included above in the appropriate terminal. The rest are a variety of enterprises or individuals, occupying territory generally at the back of terminals, or in the Nemuno Street / Nevezio Street areas behind the terminals, often for non-port-related uses.

(2) Land Lease Contracts

As indicated above, the form of the land lease contract is given under one subsidiary law, and the rental is calculated in accordance with another. All the contracts accord with these regulations. None except Malku Ilankos Terminalas were let, or the rates arrived at, through competitive tendering.

The maximum length of lease is 50 years. A few contracts are for 50 years; most contracts for port operators with port-related activities are for 25 years; contracts for non-port-related use are now given for 5 years or less, although some earlier leases are for longer. At the end of his term, the lessee has priority right to renew. Under the contract the lessee may use the berth and related territory for activities specified in the contract. The port law demands that these activities must be related to port use, and a minimum performance of stevedoring or other measure of activity (such as turnover) may be specified (although this is not being enforced). The lessee may build (or demolish) buildings, roads and other facilities on the land, but only with written permission of KSSA. He must maintain the area and the berths and quays, except that unless otherwise specified KSSA will “repair with his (KSSA’s) own funds the coatings of hydraulic engineering structures, retaining constructions and mechanisms, (and) remove serious defects of hydraulic engineering structures ...” [Source: Pro-forma Land Lease Contract, January 24, 2001.] Similarly, he must maintain the railways in good condition, except that unless otherwise specified, KSSA will undertake railway replacements and all building of new railway track.

The land lease rates are calculated according to a formula. The rate depends on various factors, with higher rates for having access to a berth, for having railway access, and for having deeper water at the berth. The rate is indexed to inflation if inflation exceeds 10%, and the rate is reviewed every 5 years, when the formula is adjusted in conjunction with MOTC. There are various discounts if the infrastructure is in poor condition, for unusable areas or unsuitable buildings, and special discounts for ship repair (30%), for shipbuilding (10%), and for non-profit-making associations (85%). The formulae look complicated, but if the discounts are ignored, the rates can be simplified to the following:

Table I.2.8-3 Calculation of Land Lease Rates in Klaipeda Port

Maximum Vessel Draft Permitted at the Berth	Port Land Lease Rate before Discounts Lt/m ² per Annum	
	With Railway	Without Railway
12 to 13 m	12.00	10.00
11 to 12 m	10.00	9.00
10 to 11 m	8.00	7.00
9 to 10 m	7.00	6.00
8 to 9 m	6.00	5.00
7 to 8 m	5.50	4.50
6 to 7 m	5.00	4.00
5 to 6 m	4.50	3.50
4 to 5 m	4.00	3.00
3 to 4 m	3.50	2.50
less than 3 m	3.00	2.00
without berth	2.00	1.50

Source: Law for Calculating Land Lease Rates, Jan 2001 revised Sept 2002

The average land lease rate for the port territory that is let is 3.86 Litass per square metre per year, and in total comprised 14% of KSSA's revenue. For comparison, figures for Riga and Tallinn are shown below:

Table I.2.8-4 Land Lease Rates in Baltic Ports

Port	Area of Leased Territory	Annual Revenue from Rental	Percentage of Total Revenue	Average Land Lease Rate
Klaipeda	405 ha	15.6m Lt	14 %	3.9 Lt/m ² pa
Riga	2000 ha			
Tallinn (2002)	514 ha	18.5m Lt	8 %	3.6 Lt/m ² pa
Rotterdam (2002)	4330 ha	512.0m Lt	38 %	11.9 Lt/m ² pa

Source: Annual reports of KSSA and Port of Tallinn; PKF World Bank study.

One must be careful not to place too much emphasis on these comparisons, but in landlord ports in Western Europe the revenue from rents is typically 30% to 50% (Rotterdam is shown in the table for comparison). The issue is

- whether the rental revenue reflects the true cost of the facilities, especially additional capital investment costs, and if not,
- whether this causes any adverse economic distortions.

There are strong indications that the land lease rates do not reflect the cost of investment, even remotely. Firstly, the formula for calculating the rate takes no account of cost. Some berths and piers are structurally able to take a deeper water depth than exists, and only require dredging. Others require major reconstruction of the berth infrastructure. Yet the increase in rate for an equivalent increase in depth of water would be the same. In the EBRD study of the reconstruction of Quays No 69 and 70 for Bega, it was shown that the NPV of the additional land lease revenues would be only 10% of the cost of the reconstruction and deepening [European Bank for Reconstruction and Development: Klaipeda Port Infrastructure Project Marketing Study, July 2002]. The project is justified financially for KSSA by the anticipated increase in ship dues and cargo dues, which are the main source of revenue for KSSA. Secondly, no account is taken of the location of the site; Laivite and Klaipeda Ship Repair yards are in prime city-centre waterfront sites, ideal for commercial or city community development. Open-market land prices in good locations in Klaipeda are very volatile and depend on the exact location and environment, but as an extreme example there is a 5.74 ha undeveloped site without water frontage for sale in a prime location in Klaipeda at an asking price of €750,000 per ha (259 Lt per square metre). Open storage space in Progresas territory is available at about 60 Lt/m² pa. [Source: Ober-Haus Real Estate Agents, Klaipeda.] These are equivalent to at least eight times the rent being paid by the shipyards (excluding Klaipeda Ship Repair, which is treated as a special case) of 3.31 Lt/m² pa.

As for the second issue, whether the (apparently) very low land lease rates cause adverse economic distortions depends on the degree of control exercised by KSSA and central planners. If KSSA maintains strict control of all developments and is not influenced by how its revenue is derived, and also can force changes onto its lessees (and commit them to invest) in order to achieve the overall economic good, then the low level of land lease rates does not matter. If however the KSSA strategy were to

allow market forces to guide the development of the port, and the port operating terminals were genuinely independent, then the low level of land lease rates would distort those market forces. Transitional distortions might be justifiable economically, but long-term distortions would cause long-term damage.

Financially, it may not appear to matter for KSSA. They receive most of their revenue (around 82%) from ship dues and cargo dues. KSSA is required to be self-financing, and achieves this objective, with reasonable but not excessive surplus. In the example given above of the reconstruction of Quays No 69 and 79, 94.4% of the additional revenue is forecast to come from additional ship and cargo dues. If the expected additional cargo is achieved, the required rate of return will be achieved, but the financial risk is being taken by KSSA rather than by the terminal operator, Bega. On the other hand, Bega takes risk of investment in superstructure.

In the case of the shipyards, KSSA does not receive significant income from ship and berth dues. If, as we believe, the land lease rates are artificially low, the shipyards are in effect being subsidised by other port users.

If the land lease rates were to be increased to bring them closer to market rates and/or cost-related rates, it would be only fair to reduce the ship dues and cargo dues. The terminal operators may object on the grounds that they would be paying more and the shipping and cargo interests would be paying less, but provided that they are permitted to recover the extra cost in their tariffs, it is a false argument. Under the existing leases the rent reviews are every five years, so corrections cannot be made immediately.

(3) Responsibility for Railways

Klaipeda Port is served predominantly by railways at present (around 70% of cargo arrives or departs by rail, around 27% by road; the amount coming by inland waterways is negligible). The proportion coming by road is increasing and will undoubtedly continue to increase; by how much is one of the important questions for the future. But even if road traffic increases much faster, rail traffic will remain very important for the port. For the long distances to and from the hinterland of the CIS rail haulage will be favoured over road haulage for the foreseeable future. Rail access to the port is critical to port performance.

1) Main Line Railway Tracks

Lithuanian Railways (LG) is responsible for all mainline tracks in Lithuania. The marshalling yards (at Klaipeda station in the centre, Draugyste in the south for the southern part of the port, and Pauoscio in the north for the oil terminal) are under LG ownership and control.

2) Access Railway Tracks

The connection(s) between the LG system and the terminals is more of an issue. In the port law, the definition of the port infrastructure includes the access roads and railways. Under Article 11, the main functions of KSSA include: “to build, to use and to develop the infrastructure of the port.” Thus, in the case of Klaipeda, KSSA is clearly responsible for the connection between the LG main line system and the terminals. This is sensible: the layout of the port is such that the access railways run through parts of the port territory that are ‘common territory’ – not

allocated to any one terminal. LG have been concentrating their resources on the development of the main line routes, and have shown little enthusiasm for the port railways: the LG sections of port track are noticeably less well maintained.

3) Railway Tracks on Terminals

On the port terminals themselves, one would expect the terminal operators to decide on the railway requirements – the layout and operational requirements – and to pay for them, whether they design and operate their railways themselves, or subcontract to others. However, KSSA has also undertaken to be responsible for the development of railways on the terminals. This is outside the requirements of the port law. However, under the subsidiary law, the pro-forma land lease, the lessee must maintain the railways in good condition, but, unless otherwise specified, KSSA will undertake railway replacements, and all building of new railway track. This is the case even if the lessee operates the railways on his leased territory and has his own locomotives. Except Bega, all railway development so far has been undertaken by KSSA. This arrangement was formulated at the time when KSSA had financial resources and port operators generally did not; this is not the case any longer. To repeat, the basic port law itself specifies only that the access railway (and roads) should be provided by KSSA.

4) Role of KSSA in Railway Development

It would be preferable that KSSA should minimise its involvement in the railways within the terminals. As far as possible, the terminals operators should be left to decide their own railway requirements, and to pay for them. Some overall control is necessary to ensure that the requirements are compatible with the restraints of the access route, and to ensure adequate quality of construction and safe operation; this latter could be delegated to LG (or the railways inspectorate when that is formed).

KSSA is responsible for railway access to the port terminals, and it is reasonable that that should continue. It is a service that needs to be provided for all port operators that genuinely require it. However, in principle the cost should as far as is reasonable be allocated in some way to that terminal. It could be in the form of a railway levy, but under the present law the most direct way would be to recover the cost through the land lease rate. This is another reason why the rate should reflect the true cost or value of the land and infrastructure provided. If not, every operator, whether needing railways or not, will be inclined to demand railway access, leading to unnecessary and over-expensive development. The current proposal to develop a rail link into the Hidrotechnika and the peat terminals should be reviewed in this light.

As an example of the operation of this principle, it is considered that railway access to the southern part of the port should be improved without delay. One solution would be in the form of a double-track common-user railway running behind the terminals (or even passing through one or more terminals if necessary, provided that the right of free passage were granted). The development should be at KSSA cost, and the cost may include possible compensation payments to lessees whose land may be taken for the best alignment of the railway. The total cost should be recovered through a special levy on the terminals that benefit, or through an equivalent adjustment to the land lease rates. It is possible that in a few years' time that port developments dictate

that the railway alignment needs to be changed; this is a risk that must be taken. The uncertainty of future developments should not be an excuse for delaying the provision of services needed now.

2.8.4 Shipyards and Non-Port Terminal Operators

Shipbuilding and ship repair are amongst the oldest industries in Klaipeda (along with timber). Not surprisingly, three of the four shipyards are located in the centre of the City. However, since the change from wooden to steel ships, shipbuilding and ship repair have become generally rather noisy and dirty industries, and are likely to remain so. In an ideal world one would like to remove all the shipyards from the city centre for environmental reasons, and to return the prime real estate site to the city for development into more socially friendly uses. But we realise that this is most unlikely to be possible. These three yards provide considerable employment: about 2700 direct employees plus about 500 part time or subcontractors.

1) Baltija Shipbuilding Yard

The largest employer is the Baltija Shipbuilding Yard. This has been taken over by the A P Möller group of Denmark who have invested many millions in improvements in the yards. The yard builds sections of ships and ship superstructures for their Odense yard and other yards. It appears this yard can and should survive, probably through 2025.

2) Laivite

Of the three shipyards in the centre, Laivite may pose the most difficult questions over the plan period. Will the yard survive to 2025? To move it in the near future, say to part of the Western Shipyard, would be very expensive, and would not itself alter its long-term viability; yet it would appear to be risky to put major development expenditure into the present site. More immediately, should the yard receive what amounts to a subsidy through a preferential land lease rate that must be helping to keep it alive? The yard has successfully rehabilitated some old near-derelect vessels. The workforce has increased to 1,200 in the last two years, and probably exceeds the employment prospects of a city-centre development of shops, hotels and commerce on the territory. Irrespective of the legal position, it is not clear what the best solution should be.

3) Klaipeda Ship Repair Yard

Klaipeda Ship Repair Yard is a corporatised body, but is still majority owned by the State Property Fund. This yard occupies a heritage site of the city, more or less surrounding the remains of the ancient castle. It rents only a narrow strip of the quays from KSSA, the rest of its area being Klaipeda City territory. There are also one or more heritage buildings to be preserved. The yard is smaller than Laivite, serving smaller vessels, and it appears to be struggling to survive. There has been no new investment. The yard has resorted to cargo handling to help it survive. It also runs the yacht marina beside the castle, and the cruise terminal. The yard has been given until 2009, when it will probably close, if it has not closed earlier.

4) Western Shipyard

The Western Shipyard is 8 km south of the city centre. Their development plans include the building of a large new €8m factory on part of the hinterland for ‘metal processing’, apparently for fabrication of non-marine structures, 100,000t per year. It was not clear what market there is for this enterprise. The project is awaiting approval by KSSA. This new enterprise is not port related, although it may depend on the proximity of the shipyard facilities. Other developments confidently proposed were a terminal for containers and heavy cargo. It is not known whether these developments would be proposed if the land lease rate were much higher.

KSSA has an important decision to make in regard to the proposed factory that may affect the future development of the port. The whole area around and including the shipyard territory may be a desirable port development area. Roughly 50 ha of the un-leased port territory is behind Western Shipyard, and about 48 ha of the reserved port territory is alongside it. However, it is understood that the silt in the port water area near the shipyard is contaminated with heavy metals. Before significant port development can be approved in this area, a fundamental environmental question remains to be answered concerning the disposal of the dredged material.

5) Progresas, and the Nemuno Gv. / Nevezio Gv. Areas

Progresas, the former fish-canning and food-processing enterprise, has the lease on approximately 14 ha of port territory without access to any berth. Parts of the territory are being used for storage, open storage of scrap, secure parking of vehicles and other miscellaneous uses, but mostly it is disused, and many of the buildings have little or no use. It is part of a much larger block of land of over 40 ha behind the Smelte Terminal, divided into about 28 plots of different sizes; Smelte themselves have acquired several plots, using some for their scrap metal business, including the scrap shredding plant.

This is potentially an important long-term development area for the port. Although some re-levelling might be needed, one can envisage a large terminal with this land as the back-up area to Berth Nos. 95 to 104 or thereabouts. The worldwide trend is towards terminals with larger back-up areas, stretching 500m or even 750m (such as would be available here) from the quay face. A major container terminal could be of this size, or a major coal terminal.

The site has advantages over the reserved port territory behind Berths Nos. 68 to 95:

- it is further from the city centre;
- it is port territory, not reserved port territory, and there can be no dispute about its availability;
- it is industrial land, without current or former use as schools, sports facilities, bars and housing;
- it is closer to the rail access point.

A short-term issue is the routing of a second railway line to improve rail access to Smelte, Bega and the other port terminals south of the Dane River. PramProjectas

plan a single railway line for Smelte following the existing route, and a second single railway line for Bega passing through the middle of the Progresas territory. Such a solution has disadvantages:

- two single lines has considerably less capacity than a double line;
- two single lines create more traffic crossing points than one double track does;
- it would divide the territory in the region of Progresas with a railway line, which seems unnecessary.

A common-user double track railway is preferred, which for the time being could follow approximately the existing railway alignment.

6) General

The general issue is this: it appears that every terminal operator or lessee of port territory is very possessive of the port territory he has acquired. Some acquisitions have occurred by the sale and purchase of a building; the law then requires that the lease of the land it is standing on is transferred. Otherwise, exchanging port territory, or dealing in it, either by subletting, or by buying and selling the lease, has not occurred. Indeed the terms of the lease discourage it, and the lessee could be in danger of losing his rights. Each terminal operator appreciates that he owns rights that are of substantial value; but the system is inflexible, and under present conditions, unless he develops the terminal for his own use, he is unable to realise that value.

2.8.5 Free Zone Areas

The government of Lithuania has approved the development of free zones, and one exists in the outskirts of Klaipeda City. The free zone is outside the port territory, and major foreign companies have invested in manufacturing there, bringing much-needed hard currency in the early years after independence. The law also allows for the development of free zone areas in the port area, but none has yet been established. Care must be taken not to contravene EU legislation and competition law, but it appears that being a development area, Klaipeda can qualify for exemptions.

Corporation tax in Lithuania is one of the lowest in Europe, so the extra benefits of a free zone are reduced (although value added tax is at a normal rate).

In Latvia in particular, there is much marketing emphasis on the free-trade or special economic zone status of the ports of Riga, Ventspils and Liepaja, and favourable tax rates and land lease rates are offered. As is apparent from the port plans, large areas of the ports' territory have been designated as free-zone development sites. There seems to have been little take-up of the offers. One would expect other investment considerations to come before the fiscal benefits. In Muuga a steel galvanising plant has been built at a prime deepwater quayside site in the port territory. Doubtless the investment is welcome, but one wonders at the long-term wisdom of subsidising such an enterprise in such a location.

2.8.6 Klaipeda Port and European Union

The accession of Lithuania into the European Union will mean that the port will be required to comply with EU laws. Of particular relevance to the port is the EU competition policy.

(1) EU Competition Policy

Under the EU competition policy, the EC proposed a directive on market access to port services. It started with a consultation Green Paper² issued in December 1997. From this followed the draft directive on Market Access to Port Service, issued on 13 February 2001³. The directive was supported by ship-owners' organisations, but port organisations, including the European Sea Ports Organisation (of which KSSA is a member), had many detailed comments on its implementation, even though they supported the basic principles. The European Parliament voted in favour of the directive in the First Reading in November 2001, but introduced numerous amendments. There followed a succession of amendments and counter-amendments on which the EU Parliament, Commission and Council could not agree. The matter was finally put before the Parliament-Council Conciliation Committee to arbitrate, and a compromise proposal was agreed on 29 September 2003⁴. Under this procedure, no further amendments were permitted, and the compromise proposal had to be ratified or rejected outright by the Council of Ministers and the European Parliament without change. Voting was in November 2003, and the directive was rejected. It is not known whether the EC intends to come forward with an alternative directive. Even if it does, it will be years before any legislation is implemented.

Nevertheless, the failure of that specific legislation does not relieve the port of its obligation to comply with the more general EC competition policy. The directive laid out the competitive principles that the EC wished to enforce in ports, and in many respects those principles still apply under the competition policy, even without the codification into specific legislation for ports. It is therefore advisable for the KSSA and MOTC to take heed of the principles that were evident in the directive.

1) Competition within Ports

The principles are that there should be:

- freedom for service providers to provide port services of a commercial nature in a non-discriminatory way,
- transparency of procedures (for example in the authorisation of service providers), and
- neutrality of port authorities towards port users.

The port services concerned are pilotage, towage, mooring, cargo handling and passenger services. The intention is that these services should be open to competition, or, if there are limits to the number of service providers, then the limitations should be imposed for valid reasons and the selection should be non-discriminatory.

2) Competition between Ports

The principle is that competition between ports should not be distorted by financial flows from public authorities to the port operators, users and service providers. The issue of state aid to ports is discussed at length in the Green Paper

² EC Green Paper: 'Sea Ports and Maritime Infrastructure' COM (1997) 678, 10 December 1997.

³ EC Communication COM (2001) 35 issued on 13 February 2001, containing Directive on Market Access to Port Services 2001/0047COD.

⁴ Joint text approved by the Conciliation Committee C5-0461/2003, 22 October 2003.

and the Communication introducing the directive, but the directive itself confines itself to the requirement for the port authority to maintain separate accounts for each of its port service activities, and to submit details of financial relations with the state in accordance with the Transparency Directive (1980, amended 2000).

The adjectives ‘transparent’, ‘non-discriminatory’, ‘objective’, ‘relevant’, ‘open and fair’, and ‘proportional’ occurred in several places in the preamble and/or the directive.

(2) EU Competition Policy and Klaipeda Port

Using the (failed) directive as a guide, the main issues for KSSA and the development and organisation of the port are as follows.

1) Public Funding of Port Infrastructure

The EU recognises that in the past many ports depended on public funds for development and maintenance of infrastructure, especially for sea defences, entrance channels and other facilities essential for the operation of the port as a whole. It is not clear what public financing is acceptable under EU competition law. (Indeed there is a dilemma, because the EU accepts and encourages the use of public funds to improve certain transport corridors, for regional development, and to encourage short-sea shipping and intermodalism in order to relieve the pressure on the road systems.)

KSSA should maintain details of its financial relations with the state. This should not be a problem; it would appear that it already maintains proper accounts, and the details that are required for transparency etc. can surely be worked out. Indeed, such transparency is desirable in its own right.

Under the directive, the Commission would have been required to draw up common guidelines for the use of state or public funds in ports. It is not known whether they intend to do this, nor what legal status such guidelines would have. It seems most unlikely that public funds, or state guarantees to support private fund-raising, would be completely cut off. Even if it were, in a perfect market-orientated world it should not matter, because developments should be financially and economically justified in their own rights. In the case of Klaipeda Port, with a healthy financial position over recent years, and with most of its competitors having the same obligations, the competitiveness of the port should not be reduced.

Provided that the port development plans, both short and long term, are responsibly analysed and can be demonstrated to be financially and economically justified, KSSA has nothing to fear from this aspect of EU competition policy.

2) Pilotage

Of the port services specified in the (failed) directive, only pilotage is provided by KSSA. The inclusion of pilotage in the directive as a ‘commercial’ port service was the subject of much controversy in the consultations and debates, but with the strong support of ship owners it remained in the final version, albeit with the acknowledgement that special safety criteria may apply in the authorisation of providers of pilotage services. If justified on safety grounds, compulsory pilotage might be permitted, and the service undertaken by the port authority.

In Klaipeda Port the pilotage service is provided by KSSA, and for certain categories of ships pilotage is compulsory, unless they are regular callers with masters familiar with the port. The arrangement is very common throughout the world. Despite the failure of the directive, the port should review whether these limitations are justified and KSSA and MOTC should review possible alternatives.

In view of the navigational hazards of Klaipeda Port (exposed narrow channel across the prevailing wind direction; narrow entrance; cross and counter-currents; the bend in the channel alongside the oil terminal; and the restricted turning circle for the largest vessels) and the environmentally sensitive region nearby, it seems likely that the present arrangement is justified. It is advisable that separate accounts should be kept, and that clear conditions should be laid down.

3) Cargo Handling and Land Leases

Much of the directive was concerned with provision of cargo handling services. It would appear that the EC would like there to be unrestricted access by cargo-handling service providers to operate in the port. Failing that, if there are selection procedures, the criteria should be non-discriminatory etc. and made public. The development policy of the port may restrict the range of commercial activities, but within that range, if there are limitations to the number of service providers, these may only be for reasons of space or capacity, safety or environmental considerations.

With the possible exception of some hazardous cargoes, Klaipeda Port does not restrict the range of port-related commercial activities. And there are a number of cargo handling operators. There are seven or more separate cargo-handling terminals, each with their own leased territory, and some with subsidiary or sub-let operations within their territory. In addition there are cargo-handling operations at other sites, notably the shipyards, the fishing harbour and the construction company. There are no overt limitations on the number of cargo-handling operators, and no apparent selection procedures. At first sight therefore, Klaipeda Port appears to satisfy EU competition policy with regard to cargo handling.

However, there are less obvious restrictions and hidden limitations that prevent just anybody from operating in the port. Almost all the sites with port access are leased, the leases having been given to the operator existing at the time of independence. And the subsequent privatisations were not entirely 'transparent' (etc.). In the development of the port, certain choices have had to be made on the sequence and extent of investment, and further choices will have to be made. As the port develops there will be pressure to restrict certain operations to certain areas, in the name of specialisation and efficiency. And the land lease rates, whilst in accordance with a legislative framework, are arguably discriminatory and non-transparent in that they do not reflect true costs or values.

KSSA and MOTC need to be aware that one or more of these restrictions may be considered to be anti-competitive. It is suggested that the solution is to revise the land leases in the following ways:

- When opportunities occur, to bring the land lease rates into line with market prices, and where development cost is incurred, to reflect that in the recovery rate from the user. This should be combined with a reduction in vessel dues to

make the combined charges more ‘non-discriminatory’, ‘relevant’ and ‘objective’.

- To remove or greatly ease the restrictions on the sale of leases and sub-letting.

The length of the main land leases no longer appears to be an issue. The directive specified maximum permitted durations of authorisation (10, 15 or 36 years according to the amount and nature of investment by the service provider). With the failure of the directive, it now seems unlikely that existing contracts will need to be curtailed, and the consequent threat of serious legal conflicts and the possibility of compensation appear to have disappeared.

(3) European Transport Policy

In passing, mention should be made of the White Paper “European transport policy for 2010: time to decide” (September 2001). For freight, the Commission is proposing ‘to shift the balance between different modes of transport through a proactive policy to encourage the linking up of the different modes and promote rail, maritime and inland waterway transport’. A new programme to promote intermodality has been created called “Marco Polo”. As announced on 11 October 2003, applications for the first round of funds for Marco Polo projects were to be made by 10 December 2003. Organisations in candidate states such as Lithuania were precluded from participating in this round. However, the development of logistics to encourage rail transport to the hinterland might be a suitable project for future rounds. The applicant must be a commercial organisation (even if owned by an administration). The subsidy can be up to 30% or 35%.

2.8.7 Security - ISPS Code of IMO

Since independence, Lithuania has been a member of the International Maritime Organisation (IMO), the international body regulating international shipping and responsible for *inter alia* the International Convention for the Safety of Life at Sea (SOLAS). Until now, the IMO has been concerned almost exclusively with ships. However, since the terrorist strikes in the USA on September 11, 2001, the IMO has pushed through an amendment to the 1974 SOLAS Convention to enhance security. This includes a new security code that includes ports as well as ships, called the International Ship and Port Facility Security Code, or ISPS Code. The Code was adopted on 12 December 2002, and compliance with the Code will become mandatory on 1 July 2004 (except in the unlikely event that before 1st January 2004 there are objections either from one third of contracting governments, or from contracting governments representing 50% of the world’s shipping).

The Code itself is a book of 141 pages. The essence of it can be understood from the IMO News Briefing at the time, which is summarised in Table I.2.8-5.

Klaipeda Port must comply with the Code by 1 July 2004 (as must all the main ports of the world). To this end, KSSA and MOTC have been in initial discussions. The existing Klaipeda Port Security Plan, already put in place and approved by the government before the adoption of the Code, will act as a very good starting point. Even so, compliance with the Code will require diligent effort on bureaucratic procedures, and probably expenditure on additional security measures, but it does not raise any new strategic issues in relation to this study. A few comments may be helpful:

- The facilities in Klaipeda Port would not appear to be high-risk targets for terrorism. However, good security in Klaipeda Port is not only for the benefit of the port itself, but for the shipping and ports communities worldwide. As with airline and airport security, security everywhere is important.
- Security in Klaipeda Port is difficult. There are numerous autonomous terminals, and long boundaries. There are facilities important to the port that are open to the public, notable the railway access points. Nevertheless, access to the port is reasonably well controlled.
- Seminars, advisory ‘packs’ and training courses are available to assist the government, management and security officers to carry out their obligations. There are also consultants offering various levels of assistance, to the extent of carrying out most of the work if that is what is required⁵. These appear expensive. If the government and the designated authorities can make headway themselves, so much the better.
- However, a document that appears good value is that provided by IMO, who devised the Code, called “ISPS – Port Facility Security Officer”⁶. It is described as a ‘model course’ and is intended for use by instructors in maritime institutes as a teaching aid.

⁵ For example, Lloyd’s Register www.lr.org and Port of Rotterdam www.portofrotterdam.com.

⁶ “ISPS – Port Facility Security Officer”, published by IMO, London (see www.imo.org/Publications).

Table I.2.8-5 ISPS Code for Ports

The International Ship and Port Facility Security Code (from IMO News Briefing 2002 No. 42)

Ensuring the security of ships and port facilities is basically a risk management activity. For port facilities, the requirements will include:

- Port Facility Security Assessment
- Port Facility Security Plans
- Port Facility Security Officers
- certain Security Equipment.

In addition the requirements for ships and for port facilities include:

- Monitoring and controlling access
- Monitoring the activities of people and cargo
- Ensuring security communications are readily available.

Each contracting government will conduct a Port Facility Security Assessment for each port facility within its territory that serves ships engaged on international voyages. First, they must identify and evaluate important assets and infrastructures that are critical to the port facility as well as those areas or structures that, if damaged, could cause significant loss of life or damage to the port facility's economy or environment. Then, the assessment must identify the actual threats to those critical assets and infrastructure. Finally, the assessment must address vulnerability of the port facility by identifying its weaknesses in physical security, structural integrity, protection systems, procedural policies, communications systems, transportation infrastructure, utilities, and other areas within a port facility that may be a likely target. Once this assessment has been completed, government can accurately evaluate risk.

The Port Facility Security Assessment will help determine which port facilities are required to appoint a Port Facility Security Officer and prepare a Port Facility Security Plan. This plan should indicate the operational and physical security measures the port facility should take to ensure that it always operates at security level 1. The plan should also indicate the additional, or intensified, security measures the port facility can take to move to and operate at security level 2 when instructed to do so. It should also indicate the possible preparatory actions the port facility could take to allow prompt response to the instructions that may be issued at security level 3. In order to communicate the threat at a port facility or for a ship, the government will set the appropriate security level. Security levels 1, 2, and 3 correspond to normal, medium, and high threat situations, respectively. The security level creates a link between the ship and the port facility, since it triggers the implementation of appropriate security measures for the ship and for the port facility.

As threat increases, the only logical counteraction is to reduce vulnerability. The Code provides several ways to reduce vulnerabilities. Ships will be subject to a system of survey, verification, certification, and control to ensure that their security measures are implemented. Port facilities will also be required to report certain security related information to the government concerned, which in turn will submit a list of approved port facility security plans, including location and contact details to IMO.

Ships using port facilities may be subject to port State control inspections and additional control measures. The relevant authorities may request the provision of information regarding the ship, its cargo, passengers and ship's personnel prior to the ship's entry into port. There may be circumstances in which entry into port could be denied.

Because each port facility presents different risks, the method in which they will meet the specific requirements of this Code will be determined and eventually be approved by the administration or government.

Governments are responsible for communicating information to the International Maritime Organisation and to the shipping and port industries. They can designate, or establish, designated authorities within government to undertake their security duties and allow recognised security organisations to carry out certain work with respect to port facilities, but the final decision on the acceptance and approval of this work should be given by the government or the designated authority.

Source: Adapted from IMO News Briefing 2002 No. 42

2.8.8 Bottlenecks in Transport Network through Klaipeda Port

(1) Physical Bottlenecks

The existing physical, or infrastructure, bottlenecks in the transport network have been discussed elsewhere. Although not crucial yet, the railway access at both ends of the port are reaching their capacities.

As the port developments progress and 14m water depth becomes available at more berths, the loading/unloading rates of rail wagons can be expected to become an increasingly significant factor. There is also the continuing need to develop additional cargo handling and storage facilities on the terminals, the cost of which must be balanced against the need for improved service to shipping interests (as reflected in the cost of ship time and delays). The organisational structure of the port allows the private terminal operators to make their own investment decisions, and this should of course be allowed to continue. The exception to this freedom at present is the development of railways on the terminals. The removal of this exception has already been suggested above (2.8.3).

There are physical constraints relating to container traffic that are becoming pressing. The draft limitation at the KLASCO container terminal is restricting the operation of the larger MSC feeder vessels. The project to deepen the channel to the terminal is in hand by KSSA. The physical constraints at Klaipedos Terminalas are more intractable. The terminal is successful, and popular with shippers and ship owners. However, space in the quayside stacking area is severely limited, and the water depth is below the design depth – the bay has silted up over the years. It appears impossible to overcome these constraints totally satisfactorily. In the last few months, the KSSA has leased 2.8ha of the ‘stadium’ land to them; this is good news, although the new area is already nearly full (albeit mostly with empties, which it would be possible to store further from the terminal if necessary). As for the water depth, the water may be polluted, making dredging (and the disposal of dredgings) difficult. Nevertheless, we understand that KSSA has undertaken to deepen the jetty to 9.1m early in 2004.

(2) Container Logistics

Container traffic through Klaipeda Port is increasing fast. The ‘container revolution’ that swept through the west in the last quarter of the 20th century hardly touched the Soviet Union. That revolution is now happening; the Baltic States are feeling it first, and it is picking up momentum in Russia and the rest of the CIS. All the forecasts indicate a massive increase in container traffic as east-west trade develops. Although it is a competitive trade, it is reasonably high value-added, it is relatively clean, with fewer environmental risks, and Klaipeda Port is well placed geographically both for the sea access and the hinterland. Most forecasters believe that the container ships that are likely to call at Baltic ports in the foreseeable future – to 2025 and beyond – will be capable of being handled within the existing water depth limitation inside Klaipeda Port of 14m. It is most important that Klaipeda Port is ready, both with the infrastructure, but also with the logistic framework to continue as a strong player, preferably in the forefront, in this most important trade.

1) Planning within Klaipeda Port

The theoretical infrastructure capacity of the KLASCO container terminal is adequate for a few years (although additional equipment will be needed sooner)

and land for expansion is available. Thus it may appear that there is no urgent necessity to optimise the use of space on the terminal, or the use of equipment. This would be a mistake. One of the keys to getting the best performance from the space and the equipment is the terminal planning. From the limited observations during visits to the terminal, there appeared to be excessive movements of the RTGs, including moving between blocks, at the expense of servicing the ships: the SSG was repeatedly waiting for trailers to return from the stack. This would indicate inadequacies in terminal planning, apparently already inhibiting the smooth performance of the terminal, even at the current low utilisation. This impression was reinforced by the apparently low emphasis put on the matter by the management. As the utilisation increases and the amount of equipment increases, so the importance of terminal planning increases. Ongoing effort is needed in this area, with improvements being added as skills and experience increase. The cost/benefits are highly advantageous. The benefits are two-fold: improved performance to customers (road hauliers and shippers as well as ship owners); and better utilisation of space and equipment, meaning that capital expenses can be deferred.

The problem at Klaipėdos Terminalas, the other container and Ro/Ro terminal, is different. The terminal is making good use of the space (and equipment) available, and apparently able to give good performance. The problem is lack of space and limited quays. The issues for short-term improvements have been discussed. Whether Klaipėdos Terminalas has ambitions in the longer term to undertake major redevelopment of their site, or to find a completely new location in the port is not known, but the land-lease structure should be flexible enough to make this a possibility.

2) Distribution of Containers to Hinterland

The origin and destination of container cargo is difficult to determine. One of the ironies of container transport is that a high proportion of the boxes appear to travel (or originate from) only a few kilometres from the port. Logistics and consolidation centres proliferate in the vicinity of all major container ports, even though much of the cargo may be destined much further afield, either after unstuffing, or (preferably) remaining in the container. These centres need not be on port territory, and their development is indeed already in evidence around Klaipėda. Nevertheless, facilities for direct distribution of containers to the hinterland are essential if Klaipėda Port is to gain a fair proportion of the potential container traffic.

One of the inhibitions discouraging shipment of containers into the CIS is the poor tracking of containers. Containers are owned or leased by shipping lines (with the exception of relatively few specialised containers). The lines' aim is to have the container returned, the sooner the better, and preferably with a return cargo in it. With the vastness of the CIS, even the industrialised western part, and the lack of dedicated container facilities, the lines are reluctant to allow their containers to 'disappear' into the hinterland.

Other inhibiting factors are the uncertainty of the customs procedures, and the different types of bills of lading. Although crucial, these are secondary factors in that they would be resolved much more easily if there were facilities for containers to be transported and handled swiftly and securely.

What can be done about it? The ‘Viking train’ to southern Ukraine is a good start. Regular ‘block’ trains should be organised to the major destinations as soon as the traffic justifies them. An essential prerequisite is a ‘dry port’, or inland container depot (ICD), at the destination where containers can be discharged from the train, possibly with a container freight station (CFS) associated with it where containers can be stuffed and unstuffed. A terminal near Vilnius offers these services in a small way, but no such facilities exist in Moscow yet apparently. The issue remains – who should develop these facilities and systems, and what role should KSSA take, if any?

Different solutions have developed in different parts of the world. The railway operators are always closely involved and obviously have to cooperate, but the ICD development and management is often private. For example, many of the earliest examples were developed by consortia of shipping lines, the same consortia that developed the early container terminals in ports. A different solution has been very successful in India, a large country which, like the former Soviet Union, depends on its railway system for most of its inland transportation. In India, a special subsidiary of Indian Railways was formed, dedicated to the development of ICDs. From almost nothing 14 years ago, CONCOR now handles over a million export and import TEU per year to and from about 28 rail-linked ICDs in cities in India using their own fleet of over 2600 high-speed rail container wagons, other rail services, and road services. A notable feature of the service is the meticulous tracking of containers throughout. CONCOR is now a quoted limited company, 63% government owned and 37% public.

In Russia, a consortium was formed in late 2002 called National Container Company (NCC). The members of NCC include the leading container terminal operators in Russia, including those of St Petersburg and the proposed terminal at Ust Luga, and have brought in a major European logistics group, Eurogate, who operate a network of ICDs and other intermodal services in western Europe. This appears to be a powerful grouping, with the declared intention of creating ICDs across Russia. They have clearly identified the need for such services, and appear intent on realising them. The planned reorganisation and commercialisation of Russian railways should make this easier.

The project is good news and bad news for Klaipeda Port. The development of a network of ICDs in Russia would enhance container traffic greatly, to the benefit of all. However, the fact that the developers are a consortium of container terminal operators from the Russian ports may mean that there is a temptation to show favouritism towards shipment to and from their own terminals irrespective of the logic and economics of using rival ports, especially foreign ports such as Klaipeda.

For Klaipeda Port, the Viking train is a small but significant start, but the facilitation of improved logistical services to elsewhere in the hinterland is becoming urgent, with container tracking an essential element. As a start, a rail-linked IDC in the outskirts of Vilnius served by a regular block train would seem a realistic objective. How this can be achieved is not clear. Any private initiative in this direction should be encouraged. The role of KSSA is more likely to be as coordinator, and to put pressure on Lithuanian Railways and MOTC to clear the way to these initiatives. After accession to the EU it might be that such a facilitation project is eligible for assistance under the Marco Polo initiative under

the EU transport policy to encourage intermodalism and the transfer of freight from road to rail.

An EU Tacis technical assistance project in 2000 on the Trans-European Network north-south transport corridors found a similar situation from the perspective of Ukraine. Extracts from two of the papers are given in Table I.2.8-6 and Table I.2.8-7.

Table I.2.8-6 Intermodal Development in FSU, Ukraine and CIS

Extracts from:

**EU Tacis Project TNREG9703: Improvement of Traffic Flows on Corridors II and IX.
Technical Assistance for Intermodal Development, Dorsch Consult Consortium, Nov. 2000**

- *Railway Operations*
Container traffic has always formed a very small element of overall rail freight transport in Ukraine and elsewhere in the FSU. Containers have always been treated as simply another form of wagon-load traffic. All rail freight operations are based on moving full trains between selected marshalling yards, and trains are not despatched forward to the next yard until they are "full". This type of operation, whilst maximising the use of traction resources (locomotives and crews) effectively means that there are no dedicated train paths for intermodal freight, and very often no dedicated trains, with individual intermodal wagons being attached to general freight trains. There are consequently no guarantees of transit time, and very poor capability to track individual containers – two of the elements most sought by the international shipping industry and its customers. Since they have been free to do so, most of the railways' potential customers have switched their container operations to road transport where they have more control over the door-to-door transport they are selling to their principals.
- *Documentation and Legal constraints*
There is no clear legal basis for the operation of intermodal transport – particularly for transit traffic. Movements are governed by a series of protocols imposed by Port Authorities, Railways, Customs and Border Police. Much documentation is heavily duplicated between the various agencies, is unaligned and incompatible, is completely paper driven, and has to be presented in advance.
- *Railway Infrastructure*
The maintenance requirements are traditional, and demand that wagons are checked at every marshalling yard.

2.4 Intermodal Potential

Decisions on the transport mode to be employed for inland transport are no longer controlled by the state but, as elsewhere in the world, are made by the shipping lines, their local agents, and forwarding agents, and are entirely dictated by the concepts of performance, transit time, reliability and value for money. The railways have failed to achieve these attributes, and have consequently lost most of the potential traffic to road haulage.

3.4 Long-term Promotion of Private Investment in Infrastructure

The concept of public-private partnerships in transport infrastructure is widely accepted and encouraged throughout much of the world. This is particularly so in intermodal transport, where private sector investment by shipping lines in the operation of major, state-owned, ports is becoming increasingly commonplace. The private sector is generally willing to invest in the operation of intermodal block trains between ports and inland terminals, by providing expertise, traffic and terminal handling equipment, provided always that the institutional basis to do so is in place. The current system in Ukraine lends no encouragement to such investment.

Source: EU Tacis Project TNREG9703

Table I.2.8-7 Multimodal Transport in the FSU, Ukraine and CIS

Extracts from:

**EU Tacis Project TNREG9703: Improvement of Traffic Flows on Corridors II and IX.
Multimodal Transport (MMT) in Corridors II and IX, Dorsch Consult Consortium, Dec. 2000**

Distribution of Maritime Containers

... Now let us consider more closely the competitive situation at a port between road and rail and see why rail enjoys a relatively favourable situation:

- goods are '*already*' containerised and easily transferred to rail
- the cost of loading to rail is broadly comparable with that of loading to road, given an *efficient* port layout (There is no need to bring the goods to a terminal – they are already there!)
- traffic volumes are *concentrated* at the ports and the largest flows are to major cities

Rail is, therefore, on the face of it competitive for major flows to major cities that exceed 150-200 km and above 500 km an efficient rail service might be expected to take between 30% and 50% of the market. But rail must be efficient, cost-effective and reliable. To achieve this rail requires scheduled block train services, backed by contracts that *guarantee* quality service delivery.

MMT development up to 1990

[In the FSU] ... there existed also some 12,000 x 13.4m and 20,000 18.5m container flat wagons equipped to handle ISO and small containers, with a further 3,400 flat wagons dedicated to TSR traffics. Design speed for wagons was 120 kph but only 90 kph was authorised.

In the FSU three levels of service were provided for container traffic : for i) single wagons, ii) groups of wagons and iii) single wagons, over 1100km, by passenger train. Service standards were said to have been low. Container wagons were generally 'tripped' to adjacent marshalling yards; inbound wagons were assembled at these hump yards, for transfer to container terminals and outbound wagons were 'humped' and placed in outgoing trains. With the exception of TSR traffic no attempt was made to operate unit trains that would by-pass marshalling yards.

The equipment and services described in the preceding paragraphs were largely for domestic FSU traffic. International traffic included the TSR, movements to countries in central and eastern Europe and some very limited movement from ports. ...

Benefits of MMT

The principal benefits of increasing MMT, and its efficiency, on the corridors are likely to be as follows:

- Increased capacity, as MMT trains may operate as unit trains at up to 90 kph, which may be increased to 120 kph (wagons are designed for 120 kph but suitable locomotives will be required).
- Improved rolling stock utilisation, as MMT trains operate at higher speeds and achieve quicker turnarounds at terminals than conventional freight trains.
- Reduced use of marshalling yards, 'freeing up' capacity or allowing cost reductions, as MMT unit trains do not use intermediate marshalling yards.
- Increased revenue, which may be significant because MMT has an ability to generate higher revenues than most conventional freight and maritime traffics may generate 'foreign' currency also.

Market Structures, Organisation and Traffic

[CIS] railways need as a matter of urgency to establish MMT divisions, as in EU countries, within their organisations. ... An MMT division must be able to develop high quality services and terminal networks in response to market needs. ...

The first market to develop in [CIS] countries should be maritime containerisation, where market and economic structures allow rail services to be 'competitive' at distances as low as 200km. The success of the German railways in capturing some 70% of container traffic from Hamburg and Bremerhaven, against strong road competition, supports this strategic view. This is an activity where partnerships are important but where success can be financially rewarding. The massive market growth is a further incentive for railways to 'attack' this market

Operating Practice and Equipment

The key to successful MMT development is use of unit-trains emphasising the need to develop routes with sufficient potential and to provide a high quality of service so as to ensure an 'adequate' market share. While wagons are not of optimum design they are quite satisfactory.

Source: EU TACIS Project TNREG9703

2.8.9 Financing of Port Projects

Sources of finance can be divided into two types: grant-aid (especially from the EU), and project loan finance from development banks or others banks.

(1) Financing of Port Projects

Within the EU there are numerous funds, supervised by different Directorates General of the Commission, with billions of Euros to spend over the next few years, from which grants can be made to help member states and accession states to achieve EU policy objectives. In general funding is made through national or regional authorities of member states. The government of Lithuania is familiar with the procedures, and the country has already benefited from numerous grants, including transport-related funding, mainly for roads and railways. Clearly, the government and the port should take full advantage of any grants that are available, thus it is not an issue. Nevertheless, the following brief notes are made under the headings of the different Directorates General, following the pattern of the survey by the European Sea Ports Organisation.

1) Transport and Energy

Trans-European Network (TEN) funding now includes seaports, inland ports and intermodal terminals. Klaipeda Port is eligible under the criteria. Infrastructure projects, including port access, transport links and dredging, are eligible for up to 50% for feasibility studies, and 10% of the cost of the work. A revision of TEN is due in 2004, with the suggestion of an emphasis on the new accession countries and concepts like 'motorways of the seas'.

The Marco Polo programme, mentioned earlier, will give start-up aid to commercial actions for non-road transport systems for freight of up to 30% of costs for up to three years.

2) Regional Policy

Grants are available to improve the economic situation of the least favoured regions of the EU and areas with specific handicaps. In general, regions (rather than states) whose per capita GDP is less than 75% of the EU average are eligible. It includes a special instrument for regions of pre-accession countries, and an interregional fund to promote cross-border, trans-national and interregional cooperation.

3) Environment

Up to 50% of costs of environmental projects. In the past the EU has contributed to environmental projects in ports, such as decontamination of sediments, nature-friendly dredging systems and port reception facilities.

4) Enlargement

Lithuania has benefited from the PHARE programme, to improve institutions and administrations.

5) Others

Other Directorates General with funds that might benefit ports are those of Research and Development, Education, Enterprise and External Relations.

Continuous watch should be kept on the possible funds. Details are on the EU web site.

(2) Loan Facilities for Port Infrastructure Projects

KSSA and the terminal operators have experience in raising finance for port development. The main development banks are:

- European Bank for Reconstruction and Development (EBRD). Major investor in central and eastern Europe and the CIS. The EBRD has not invested in Klaipeda Port since 1994, but has an active (2001) railways project. The EBRD tends to require slightly higher margins than other banks. Finance is available to government or private organisations. Maximum 35% of project cost.
- European Investment Bank (EIB). Owned by member states of the EU but financially independent. Lending within EU, in candidate countries (where it is the largest international source, especially for transport projects), and elsewhere. Non-profit-making, so it adds no margin over its corresponding borrowing. The EIB was major financier for the Klaipeda container terminal now operated by KLASCO. The EIB normally lends up to 50% of project cost.
- The World Bank Group, whose institutions are relevant are:
 - 1) The International Bank for Reconstruction and Development (IBRD). Loans to governments or government institutions in middle income countries for development projects; long-term (15 to 20 years, usually with a grace period). The IBRD financed the new entrance to Klaipeda Port.
 - 2) International Development Agency (IDA). Concessional loans ('credits') to the governments of poorer countries.
 - 3) International Finance Corporation (IFC). Loans to the private sector. In developing countries.

Each may co-finance with other banks, and/or with EU grants (especially EIB). The exact terms depend on the project, on the guarantees available, and the creditworthiness of the institution(s) involved. Port development in Klaipeda is within the remit of the EBRD, EIB and IBRD (or the IFC for private bodies). In addition, commercial banks may be interested. There is no clear pattern as to which might give the best terms in any given project. As a pro-forma for initial financial assessments in this study, the following guidelines are suggested:

- Interest rates 0.5% to 1% above the London Interbank Offered Rate (LIBOR).
- Payback: 15 years, possibly 20 years, for major infrastructure of the port; less, perhaps 12 years, for terminal development; 7 years for terminal equipment.
- In each case, the bank will generally require at least a reasonable financial return for the developer in his projections of not less than around 10% to 12% internal rate of return (IRR, on a discounted cash flow calculation) before finance. However, for public projects that can be demonstrated to have a clear and

definable economic benefit to the country, the development banks will take into account the economic benefits (using an ERR, or economic rate of return).

In the case of Klaipeda Port, there would not appear to be a case to argue for economic benefits that cannot be recovered financially.

(3) Economic Benefits and Port Development Strategy

Whilst the financial benefits from port expansion can readily be identified in terms of increased revenues and costs saving, the definition of the economic benefits can be more subjective. Common-sense considerations can give some guidelines for the strategy for Klaipeda port development.

There are well-known economies of scale in shipping, and these are referred to elsewhere. There also are economies of scale in cargo-handling operations and other port services. Hence the drive to develop the port, albeit at a cost that must be weighed against the benefits. The financial return, in the form of increased revenue to the port and terminals, must ultimately come from the financial savings achieved by the shippers and hauliers and increased revenue from other 'customers' using the port. If that financial return is not there, or is inadequate, the development is not justified. In such a case the wider economic benefits may be used to support the case for the development. In general however, the financial analysis should reflect the economic benefits.

The question is, are there any other 'hidden' economic benefits, and if so, who gets them? If the port thrives, Klaipeda city thrives, but can this secondary economic activity be taken into account in the project appraisal? A financially non-viable project could not be justified on those grounds. Alternatively, if the port development were to include new roads or railways that had not existed before, there might be an additional benefit to the community from those; but in the case of Klaipeda these transport facilities already exist. Development agencies such as the World Bank will be cautious about over-emphasising the local economic development benefits of large projects. There do not appear to be additional economic benefits from the development of Klaipeda port that would be accepted.

Nevertheless, developments in Klaipeda port would mean that the marginal cost of trade would be cheaper for those commodities that benefit from the developments. For example, if developments are such that the facilities for loading and shipping grain are increased from Panamax size to Baltmax size vessels, then the marginal costs in the grain trade through Klaipeda port would reduce, with the attendant benefit to that trade. But grain is almost entirely a transit cargo. The benefits to the grain trade fall to others, outside Lithuania. There is nothing wrong with this - that is what trade is about - but it shows that from the viewpoint of Lithuania the development must be fully justified financially.

But consider a different example, the container and Ro/Ro trades. As the facilities and services in Klaipeda port are developed, and the amount of both transit and Lithuanian traffic increases, so the marginal cost of these trades through Klaipeda port reduce. These 'hidden' benefits of improved container and Ro/Ro facilities in Klaipeda port directly benefit traders and industry in Lithuania.

Thus, whatever the other arguments for or against the individual port development projects, there are greater 'hidden' benefits to the Lithuanian economy from

developments that benefit Lithuanian cargoes than from developments for purely transit cargoes. In the context of whether it is necessary to develop the port from 14m to 17m water depth, we can consider the main Lithuanian cargoes:

- Timber. 14m is adequate for the foreseeable future, if not for ever.
- Containers. 14m is adequate for Panamax container ships. Post-Panamax vessels are not expected in the Baltic in the foreseeable future (and many can operate in 14m water depth anyway, especially at the end of their voyage, as Baltic ports would be.)
- Ro/Ro, ferries and cruise ships. 14m is ample.
- Fertilizers. The medium and long term future for fertilizer production in Lithuania depends on cheap gas from Russia and (for phosphate fertilizers) a continuing supply of apatite on terms competitive in the world markets, including in relation to Russia. The traditional source of apatite is from the mines on the Kola Peninsula of Russia, and it is perhaps significant that the Lithuanian phosphate fertilizer manufacturing company has been taken over by Russian owners. The overall world demand forecast for fertilizers is for only a slow increase, even allowing for recovery of agricultural production in Russia itself, the rest of the CIS, and indeed Lithuania. In the competitive and fluctuating pattern of fertilizer trade, the extent to which the markets for the Lithuanian products will be beyond Western Europe is uncertain, and hence the need for deepening to 17m.
- Oil. At present, there clearly is a demand for 17m water depth for the current heavy oil exports from the oil terminal, as evidenced by the existing use of Baltmax tankers, even though currently restricted to 12.5m draft. Some of the oil comes from the CIS, but some comes from Mazeikiai refinery in northern Lithuania and this part is nominally a Lithuanian export. However, the future production patterns at Mazeikiai are not known; development of increased catalytic cracker capacity may reduce or even eliminate the export of heavy fuel oil. There are discussions about pipelines from Mazeikiai to Klaipeda, which lends credence to this idea, as the viscous heavy fuel currently transported by rail cannot be transported by pipeline. If converted into other products, it seems less likely that it would be traded in quantities requiring such large vessels. For the export of crude oil or other large-volume products that are pumpable, the Butinge terminal is most suitable. If the Butinge terminal reaches capacity, the installation of a second SPM (and supporting tankage, etc.) would be far cheaper than developing equivalent 17m facilities in Klaipeda. Even if the trade continues in its present form, the 'hidden' economic benefit to genuine Lithuanian trade is limited, because oil refining is a highly capital-intensive business, and because the refinery is under foreign ownership.

In conclusion, irrespective of the financial analysis of the possible port development projects (as being developed elsewhere in this study), there are greater economic benefits to the Lithuanian economy from some developments than others. Of these, there may be doubts about the medium and long-term future of the Lithuanian share of the trades that might benefit from an increase from 14m to 17m water depth, namely fertilizer and heavy oil exports. The indications are that the greatest 'hidden' benefits would arise from developments in container and Ro/Ro traffic and in maximizing transit traffic from hinterland countries in these cargoes.

2.9 Financial States of KSSA

The followings are extracts from “Financial statements for the year 2002, Klaipeda State Seaport Authority” excluding general terms.

2.9.1 Accounting Policies

(1) Statement of Compliance

The financial statements of KSSA have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the Standing Interpretations Committee of the IASB, except for the effects of inflation on the non-current assets.

(2) Income Statement

Turnover

Income from sales of services is recognized as invoiced. Port duties are invoiced upon exit of vessels from the harbour. Land lease charges are billed on signed contracts with each individual lessee.

General and Administrative Costs

General and administrative costs comprise expenses regarding harbour maintenance, repair, staff, management, office premises and office expenses, etc., including depreciation and amortization.

Financial Income and Costs

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

Income Tax

According to prevailing tax legislation, port dues and income from lease of port land are not regarded as taxable income.

(3) Balance Sheet

Property, Plant and Equipment

Property, plant and equipment, acquired before 1 January 1996, are stated at purchase price revaluated/indexed by applying indexation factors for the different groups of non-current assets less depreciation.

Non-current assets, acquired after 1 January 1996, are stated at cost less accumulated depreciation and impairment.

Depreciation

Depreciation is charged to the profit and loss statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

- | | |
|--|-----------------|
| - Buildings: | 10 to 80 years |
| - Piers, quays and other harbour structures: | 10 to 100 years |
| - Other non-current assets: | 2 to 40 years |

To assist the Seaport Authority in exceeding its functions prescribed by the Law on Klaipeda State Seaport, the Government of the Republic of Lithuania from time to time indicates the transfer of non-current assets from (to) other entities free of charge. The effect of such transfers is recorded as an increase (decrease) of equity.

Property, Plant and Equipment

Property, plant and equipment, acquired before 1 January 1996, are stated at purchase and the net present value.

(4) Cash Flow Statement

The cash flow statement shows the company's inflows and outflows of each during the year as well as the cash position at the end of the year. The cash flow is related to three major areas: operating activities, investing activities and financing.

The cash flow statement is drawn up in such a manner that net cash flow from operating activities is presented indirectly based on operating income and charges in the profit and loss account.

2.9.2 Financial Statements

A summary of financial statements from 2000 to 2002 with financial ratios defined below are shown in Table I.2.9-1. Income Statement, Balance Sheet, and Cash Flow Statement in 2001 and 2002 are shown in Tables I.2.9-2 to I.2.9-4.

Typos below – see MT3 – 7.

$$\text{Net Profit ratio} = \frac{\text{Profit/loss on operating activities before interest etc.} \times 100}{\text{Turnover}}$$

$$\text{Return on investment} = \frac{\text{Profit/loss on operating activities before interest etc.} \times 100}{\text{Total assets}}$$

$$\text{Current ratio} = \frac{\text{Current assets} \times 100}{\text{Short - term creditors}}$$

$$\text{Equity ratio} = \frac{\text{Capital and reserves at year - end} \times 100}{\text{Total liabilities at year - end}}$$

$$\text{Return on equity} = \frac{\text{Profit for purposes of analysis} \times 100}{\text{Average capital and reserves}}$$

Profit for purposes of analysis: Profit/loss before extraordinary items and taxation

Table I.2.9-1 Summarized Financial Statements from 2000 to 2002

	2002 (‘000 Lt)	2001 (‘000 Lt)	2000 (‘000 Lt)
<u>Key figures</u>			
Turnover	105,804	93,506	107,879
Operating result	35,465	19,314	46,024
Result on ordinary activities before taxation	49,627	19,225	45,819
Result for the year	49,627	19,225	45,819
Non-current assets	700,325	641,546	551,025
Current assets	49,826	61,311	69,030
Total assets	750,151	702,857	620,055
Statutory capital	553,580	519,178	481,535
Capital and reserves	609,305	558,114	538,889
Non-current liabilities	123,028	114,511	63,453
Current liabilities	17,818	30,232	17,713
Total liabilities	140,846	144,743	81,166
Total equity and liabilities	750,151	702,857	620,055
Net cash inflow from operating activities	46,370	49,418	62,180
Net cash outflow from investing activities	-76,618	-85,558	-75,911
Net cash inflow from financing	29,067	51,087	4,432
Total cash inflow/outflow	-1,181	14,947	-9,299
Average number of employees	288	310	310
Financial ratios			
Net profit ratio	33.5 %	20.7 %	42.7 %
Return of investment	4.7 %	2.7 %	7.4 %
Current ratio	279.6 %	202.8 %	389.7 %
Equity ratio	81.2 %	79.4 %	86.9 %
Return on equity	8.5 %	3.5 %	8.9 %

Table I.2.9-2 Income Statement for the Year ended 31 December

	<u>2002</u> (‘000 Lt)	<u>2001</u> (‘000 Lt)
Turnover	105,804	93,506
General and administrative costs ²	<u>-72,210</u>	<u>-79,642</u>
	33,594	13,864
Other operating income	1,887	5,550
Other operating charges	<u>-16</u>	<u>-100</u>
Operating result	35,465	19,314
Financial income	25,737	5,938
Financial costs	<u>-11,575</u>	<u>-6,027</u>
Result on ordinary activities before taxation	49,627	19,225
Income tax	<u>0</u>	<u>0</u>
Result for the year	<u>49,627</u>	<u>19,225</u>
Allocation of result		
Allocated to legal reserve	2,898	1,326
Allocated to retained result	<u>46,729</u>	<u>17,899</u>
	<u>49,627</u>	<u>19,225</u>

Table I.2.9-3 Balance Sheet at 31 December

	<u>2002</u> ('000 Lt)	<u>2001</u> ('000 Lt)
ASSETS		
Non-current assets		
Intangible assets	649	975
Property, plant and equipment	694,601	635,141
Financial assets	<u>5,075</u>	<u>5,430</u>
Total non-current assets	<u>700,325</u>	<u>641,546</u>
Current assets		
Short-term loan granted	1,061	1,061
Materials and supplies	989	738
Trade receivables	9,727	10,649
Other receivables	3,847	6,657
Financial assets	1,490	0
Term deposits	11,788	20,101
Cash at bank and in hand	<u>20,924</u>	<u>22,105</u>
Total current assets	<u>49,826</u>	<u>61,311</u>
TOTAL ASSETS	<u>750,151</u>	<u>702,857</u>
EQUITY AND LIABILITIES		
Capital and reserves		
Statutory capital	553,580	519,178
Capital reserve	64,877	37,837
Legal reserve	25,289	22,392
Retained earnings	<u>-34,441</u>	<u>-21,293</u>
Total capital and reserves	<u>609,305</u>	<u>558,114</u>
Liabilities		
Non-current liabilities		
Government grants	6,114	6,168
Interest-bearing loans	<u>116,914</u>	<u>108,343</u>
Total non-current liabilities	<u>123,028</u>	<u>114,511</u>
Current liabilities		
Current portion of interest bearing loans	4,048	4,839
Provisions	5,399	5,399
Trade payables	7,057	18,514
Other payables and accruals	<u>1,314</u>	<u>1,480</u>
Total current liabilities	<u>17,818</u>	<u>30,232</u>
Total liabilities	<u>140,846</u>	<u>144,743</u>
TOTAL EQUITY AND LIABILITIES	<u>750,151</u>	<u>702,857</u>

Table I.2.9-4 Cash Flow Statement

	<u>2002</u> ('000 Lt)	<u>2001</u> ('000 Lt)
Net result	49,627	19,225
Depreciation and amortisation	22,361	22,735
Reversal of provision for Governmental bonds	-1,135	-560
Reversal of dismissal compensation	0	149
Depreciation of grants received	-54	-45
Foreign exchange gain, net	<u>-16,287</u>	<u>0</u>
Net cash inflow from ordinary activities		
Before any change in the working capital	54,512	41,504
Change in trade receivables	922	-1,059
Change in other receivables	2,810	-3,512
Change in materials and supplies	-251	99
Change in payables	<u>- 11,623</u>	<u>12,386</u>
Net cash inflow from operating activities	<u>46,370</u>	<u>49,418</u>
Repayment of short-term loan	0	400
Change in term deposits	8,313	26,738
Acquisition of non-current assets, net	-81,496	-112,696
Assets transferred free of charge	<u>-3,435</u>	<u>0</u>
Net cash outflow from investing activities	<u>-76,618</u>	<u>-85,558</u>
Received direct State funding	5,000	0
Effect of currency exchange differences	16,287	0
Net change in borrowings	<u>7,780</u>	<u>51,087</u>
Net cash inflow from financing	<u>29,067</u>	<u>51,087</u>
Net cash outflow/inflow from operating activities, investing activities and financing	-1,181	14,947
Cash and cash equivalents at 1 January	<u>22,105</u>	<u>7,158</u>
Cash and cash equivalents at 31 December	<u>20,924</u>	<u>22,105</u>