

Economic uncertainty is slowing down the recovery of cargo volumes in the Baltic

Cautious growth expectations for 2012

The year 2010 was a time of strong recovery in the Baltic Sea ports as well as favourable economic development in all of the nine Baltic Sea countries. Foreign trade increased especially in Q1 2011, but towards the end of the year, development has been slowing down. In many ports, total cargo volumes are expected to reach higher levels than in 2010, however, the expectations of modest growth in cargo volumes in 2012 are overshadowed by the prospect of a new economic downturn.



Photo: Neste Oil

In 2010 the total cargo handled in the Baltic Sea ports increased by 9% to 809 mln tonnes, after a dramatic drop of 10% in 2009. Ports' handlings increased in all Baltic Sea countries except for Denmark and Latvia, where diminished transports of fossil fuels kept the cargo volumes at a slightly lower level than in 2009. The growth was strongest in Poland (+32% year-on-year to 60 mln tonnes) and in Estonia (+20% yoy to 46 mln tonnes). In both countries strong growth was seen in all cargo types. In general in the Baltic Sea ports international imports grew more than exports (14% and 6%, respectively), because import volumes suffered the most from the economic downturn in 2009. Measured in total cargo volumes (import, export and domestic traffic), Sweden regained its leading position in the Baltic Sea. Its share was more than a fifth. The country was closely followed by Russia, where handlings are largely composed of oil exports.

In 2010 all cargo types in international traffic noted growth, especially non-bulk cargoes (+17% yoy), which had suffered from the biggest drop the year before. This class includes e.g. containers, where the volumes increased the most (+27%). Liquid bulk cargoes continued to form the largest share of cargo handled in the Baltic ports, with a total volume of 305 mln tonnes (or +1% yoy). Dry bulk cargoes amounted to 190 mln tonnes (+12% yoy).

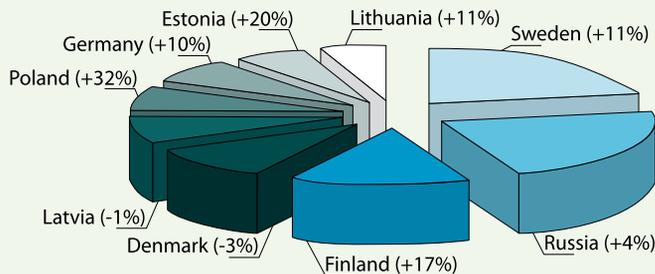
Fig. 2. Total cargo volumes in the Baltic Sea ports by country in 2006-2010



Source: Baltic Port List 2011

Despite the strong growth, total volumes were still 2% or 17 mln tonnes less than in the peak year of 2007; non-bulk cargoes were the furthest behind peak volumes (-8%), and dry bulk - 4% less. On the other hand, in liquid bulk cargoes the peak volumes were reached again in 2010. The three biggest ports in the Baltic Sea remained to be Primorsk, St. Petersburg and Gothenburg. Most of the ten biggest ports were located in the eastern part of the Baltic, and four of these were located in the Gulf of Finland (Primorsk, St. Petersburg, Tallinn and Kilpilähti/Sköldvik).

Fig. 1. Cargo handled in the Baltic Sea ports by country and annual growth rate (%) in 2010



Source: Baltic Port List 2011

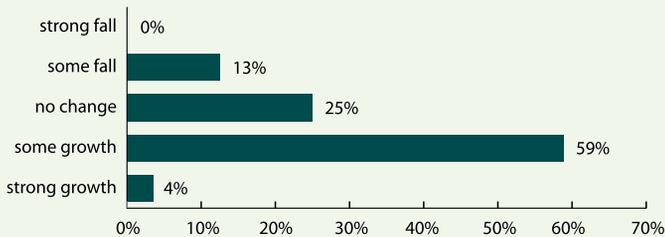
In 2011 the economy was developing favourably in all of the Baltic Sea countries. Especially the first half of the year seemed encouraging, but towards the end of 2011 the expectations for growth have weakened. After the summer general uncertainty in the global and European economies started to deteriorate both companies and consumers' trust towards economic growth significantly. Recovery from the previous downturn caused by the global financial crisis is still going on in the Baltic Sea region; each BSR country has proceeded somewhat at its own pace when it comes to economic development. GDP growth for the nine Baltic countries together is forecasted to be 3.3% this year and 2.3% next year (IMF forecast, September 2011).

In Q1 2011 the amount of maritime cargo traffic in the Baltic Sea continued to rise. Total volumes handled by the 20 biggest ports increased in January-June 2011 by approx. 7.5% yoy. Most ports are expecting higher volumes to be handled this year than in 2010.

According to the new Baltic Port Barometer, the ports have cautious, yet optimistic, expectations for the year 2012. Modest growth is

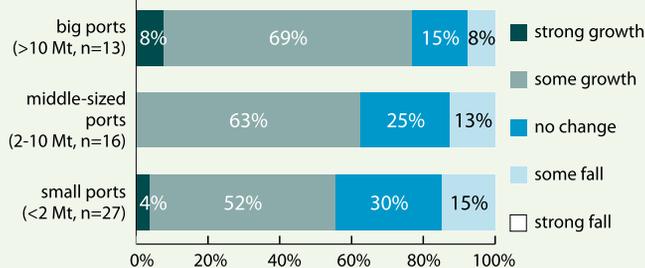
forecasted in cargo volumes and the brightest outlook is seen among the ports located in the eastern part of the Baltic Sea. However, expectations for the upcoming year are clearly more cautious compared to predictions given in 2010 for the year 2011. The Baltic Port Index (BPI), which gives an overview of the ports' expectations for the year to come, has halved from last year. The BPI is now at 21 (last year at 50), meaning that, although weakened, expectations remain positive.

Fig. 3. Expected development of total cargo volumes in respondents' ports for 2012



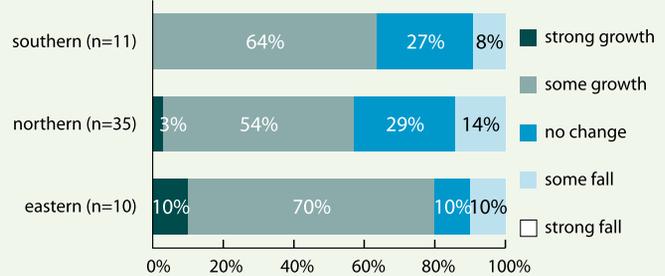
Source: Baltic Port Barometer 2011

Fig. 4. Expected development of total cargo volumes in respondents' ports for 2012, ports by size class



Source: Baltic Port Barometer 2011

Fig. 5. Expected development of total cargo volumes in respondents' ports for 2012, ports by location



Source: Baltic Port Barometer 2011

The volumes of all cargo types are expected to increase in the Baltic Sea, but the outlook for bulk cargoes is more modest compared to non-bulk cargoes (e.g. containers and ro-ro traffic). Within the last group growth is expected especially in containers.

Elisa Holma, researcher

Sakari Kajander, Head of unit, Research and Consulting Services

CMS, University of Turku

The annual market data package 2011 published by the Centre for Maritime Studies at the University of Turku includes three publications: Baltic Port List, Baltic Port Insight and Baltic Port Barometer. Of these three, Baltic Port List 2011 includes detailed port statistics on 2010 and time series since 2006, Baltic Port Insight gives an overview of the current year in the Baltic Sea countries and ports, and Baltic Port Barometer provides information on Baltic Sea port development trends by assessing the business and traffic prospects across the BSR over short-term, year-on-year. Read more at: www.balticportlist.com or <http://mkk.utu.fi/en>.

New BPO statement on IMO's sulphur regulations

The challenging environmental legislation (port reception facilities for sewage, nitrogen oxides, sulphur oxides) in the Baltic Sea causes higher port and ship operating costs than in other European areas and may tend to relocate business activities to markets with less costly standards.

On the 8th of November 2011 the Baltic Ports Organization issued a second statement on the IMO MARPOL Annex VI regulations on reducing sulphur oxide emissions from ships to 0.1%, to take effect from the 1st of January, 2015 in SECA areas.

BPO still considers the IMO MARPOL Annex VI regulations and upcoming new EU Sulphur Directive as a crucial legal framework having long-term consequences for the transportation and industry sectors in the Baltic Sea region. Baltic Ports Organization supports the reduction of sulphur content in marine fuel and the emission from shipping in general as well as welcomes the EC initiative in the Commission Staff Paper of 16th September 2011, supporting shipping industries and ports to meet the challenge of new IMO requirements (including LNG) through various financing tools (TEN-T/MoS, Marco Polo, state aids, EIB financing assistance). In fact Baltic ports are taking a leading role in the whole EU in developing the infrastructure for LNG as they recognize LNG as the fuel of the future. However, the organization still finds the timetable for enforcing the SOx limits in marine fuel to be unrealistic due to technical and operational obstacles. BPO has called on HELCOM to recommend its member states and the European Union to postpone or set up a more realistic transition period for the IMO regulation coming into force until the necessary port infrastructure, ship technology and technical solutions are in place. Enforcement of the regulation should await proper policy initiatives and legal incentives in order to avoid an inexpedient modal shift from sea to land transport. BPO has also called on HELCOM and IMO to recommend its member states and the European Union not to make the new nitrogen oxide (NOx) regulations come into force in the Baltic Sea region before comprehensive studies on the operational consequences for the transport industry clearly demonstrate that justifiable technical and financial solutions are found for the enforcement of the regulation without a backshift for sea transport in favour of road transport. Furthermore, BPO finds it important that the new NOx regulation is not limited to the present ECA areas but is introduced to the whole of Europe and within the same timeframe.