Estonia Freight Transport Report Q1 2011

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Abstracts

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The EU's Commissioner for Transport, Siim Kallas, said that switching over from the Russian (1,520mm) to the European (1,435mm) rail gauge would be a better option for Estonia, reported World Cargo News. He added that further development of the 1,520mm broad gauge was not required in Estonia as there would be no major west-east traffic through the Baltic States' railways over the course of the next five years. He also emphasised the drop in Russian transit cargo traffic through Estonia, which is primarily due to Russia's policy of 'Russian ports for Russian cargoes'. The European Commission, which is set to fund 50% of the Rail Baltica project, had been pushing for standard gauge (1,435mm), which is the gauge that is used in the majority of EU states.

The Baltics, however, with their proximity to Russia and their historic connection to the country, share the same broad-gauge system, which means that freight to or from the Baltic States into Europe must change gauges. The Rail Baltica project is aimed at connecting the railway networks of Poland, Lithuania, Latvia, Estonia and Finland. The first stage is to be completed by 2013 and the second by 2015. The project will further integrate transport links between Eastern and Central Europe.

After a severe recession in 2009, the Estonian economy began to stabilise from the second half of 2010 onwards. BMI's view, however, was that the recovery would be a slow process as the country tried to correct the serious underlying imbalances in the economy. We expected the labour market, manufacturing, construction, and domestic credit all to be holding back the recovery. We also saw significant political risk with elections due in early 2011; our forecast was that the balance of probabilities favoured the centre-right coalition under Prime Minister Andrus Ansip renewing its mandate, but this was by no means guaranteed.

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Estonia was also expected to join the eurozone, a long-term positive that would nevertheless limit the government's monetary policy responses on the short term. As a result of our analysis, BMI estimated 2010 GDP growth at only 0.2% (following on from the massive 14.1% GDP contraction the previous year). Our outlook for 2011 was for low-to-moderate GDP growth of 2.2%, rising to 3.3% in 2012. In the five years to 2015, we expected growth to average 3.1% per annum, significantly lower than in the pre-2009 period.

At the Port of Tallinn, Estonia's largest, we are predicting moderate to strong growth in 2011, with cargo volume up by 6.9% to 39.09mn tons. This comes after an estimated gain of 15.8% in 2009. The development of Russia's own Baltic sea ports at Ust Luga and elsewhere remains an important threat to Tallinn, but BMI also sees a variety of new opportunities opening up. In terms of cargo volume, we are predicting continuing small falls in tonnage carried by Estonian Railways as a result of the fall in Russian transit demand. In 2011, we expect volumes to fall 0.3% to 34.47mn tonnes.

Despite the mixed fortunes of other freight transport modes and the muted performance of the Estonian economy over the next few years, BMI still sees road freight as a growth area. In 2011, we expect total road tonnage volume to increase by 2.9% to 33.018mn tonnes, following a 6.6% gain in 2010. In real terms, Estonian trade slumped by one-fifth (19.3%) in 2009, had a standstill year in 2010 (estimated growth of 1.1%) and is set to experience low-to-moderate growth in the five years to 2015 (+4.1). In nominal terms, we are expecting import growth of 3.5% in 2011 to US$13.84bn, with exports also growing by the same percentage to US$14.62bn. In the five years to 2015, average import growth in real terms will be 3.9% per annum, ahead of exports at 3.6%.

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