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# COMMON SPATIAL DEVELOPMENT STRATEGY 2007-2027

LATGALE REGION

VIDZEME REGION

PSKOV OBLAST

LENINGRAD OBLAST



## SUMMARY



December, 2007

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Common Spatial Development Strategy (SDS) for Latgale and Vidzeme regions, Pskov and Leningrad oblasts has been developed in the framework of the Interreg III A North Priority project NIV-093 „New Spatial Development Zone for Border Regions of Latvia and Russia – Connecting Potentials of Two Countries” / Remote Access by project partners **Latgale Regional Development Agency, Vidzeme Development Agency, Administration of Pskov Oblast, Region Expo** (which represents its founder, Administration of Leningradskaja Oblast) and **Western Russia Logistics Development Centre ILOT**. Consulting company “Grupa93” provided methodological support and facilitated strategy development process.

The objective of the SDS is to form common framework for the future development of border regions involved (Latgale region, Vidzeme region, Pskov oblastj, Leningradskaja oblastj and StPetersburg) for the period of next 20 years up to 2027.

The idea beyond creation of SDS was to integrate the physical and geographic dimensions of the partners’ existing strategies. It includes commonly agreed innovative development solutions. The proposals for implementing the strategy have been prepared and a list of priority projects has been developed.

The document stresses common challenges, which can be addressed in cooperation between the border regions. Direct target groups of the strategy are the inhabitants of the area, regional, national and trans-national stakeholder groups including industry players, NGOs, service providers, social actors as well as policy makers.

The time of massive, every-single-aspect-counting-and-measuring strategies has gone. 21<sup>st</sup> century requests new approaches to the development challenges. Therefore SDS is more conceptual development framework, which shows the ways of forming cross-border relations between Latvia and Russia, the forming of new spatial development zone.

Strategy is building on the previous experience of strategic planning process and sharply focuses on 3 major priorities: **development of transportation and logistics complex, polycentric development of cities and towns and social networking**. Those priorities are based on detailed studies (regarding transportation and logistics development opportunities), case studies and practices of successful spatial development (polycentric development) and findings of project team during strategy elaboration (social networking). Strategy reflects the major task for regions involved – to ensure actions, creativity, cooperation and common projects for the cities, towns, institutions and people in the border area.

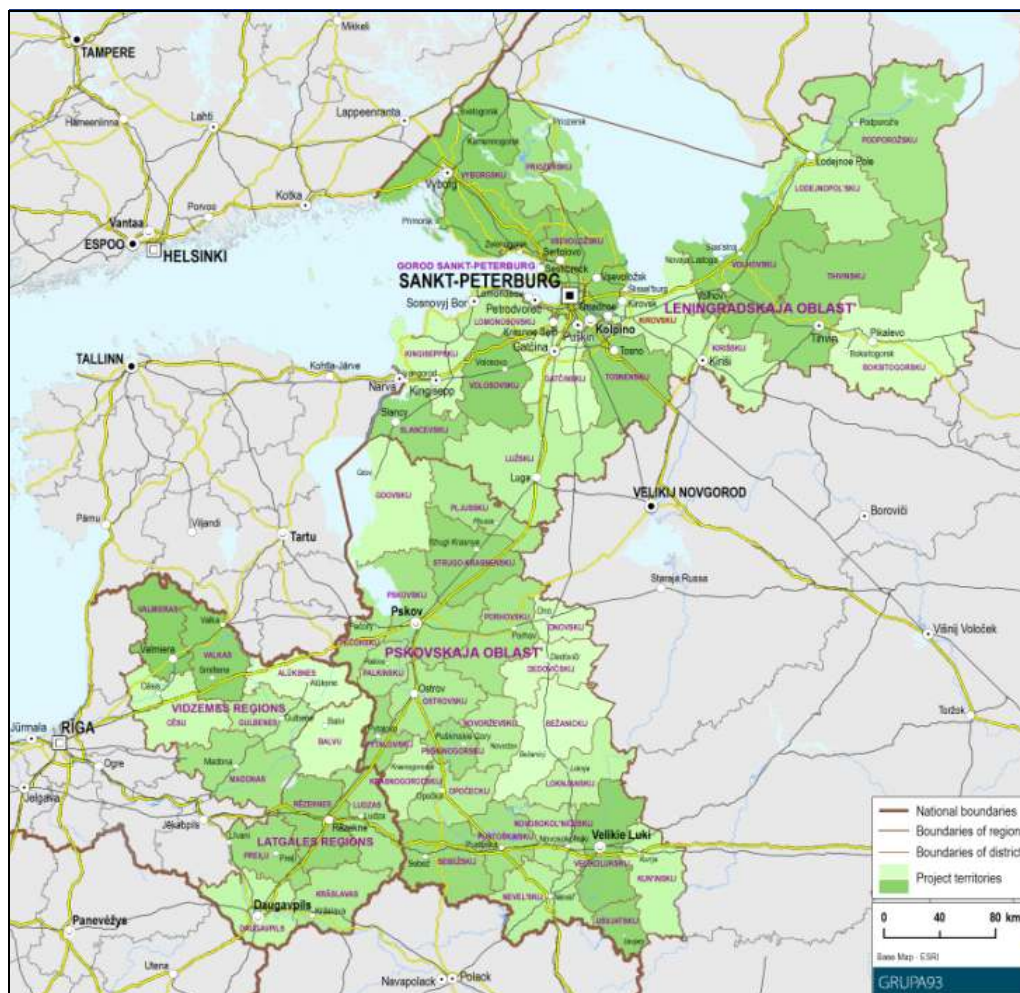
From the experience of other development zones, it is clear, that there are no process blueprints which could be directly applied in our situation. Two huge economic zones (EU and Russia) and two different legislative environments doesn’t allow for direct implementation of common plans. Some dynamics of relations exist – and it takes time and resources to develop them at all levels.

During the first six years we are looking for the changes in development policies systems, which will help to create new governance systems and relations, policy cultures – more horizontal relations instead of hierarchical ones, more collaborative, capable to creation of new knowledge and innovations, integration of different concepts and scenarios. “Added value” to the quality of the area and specific/differentiated position in the global planet (model area for EU-Russia relations).

**Maris Bozovics,**  
**Director of Latgale Regional Development Agency**



The project area comprises regions of Latgale, Vidzeme, Pskov and Leningrad oblasts, as well as St. Petersburg. This area covers the border of Russia and Latvia, and accordingly the EU, the Russian – Latvian border is 275 km long. Total project area is 171 618 km<sup>2</sup>, population – 7'551'903 people.



Picture 1. Project area

Table 1. Project area description

Region	Area	Population	GDP (thous EUR, 2005 )
Latgale	14547	359762	987800
Vidzeme	15257	243039	805583
<b>Latvian side</b>	<b>29 804</b>	<b>602 801</b>	<b>1 793 383</b>
<b>%</b>	<b>17,37</b>	<b>7,98</b>	<b>6,38</b>
Pskov	55300	724594	1170209
Leningrad	85908	1643888	6059763
St. Petersburg	606	4580620	19083011
<b>Russian side</b>	<b>141 814</b>	<b>6 949 102</b>	<b>26 312 983</b>

## LATGALE REGION

The Region of Latgale is situated in the south eastern part of Latvia, and has a long external border with Russia (214 km), Belarus (161 km) and Lithuania (91,5km). The location of the region is strategically significant in relation to the Russian and Central European markets. Internationally important transport routes, which provide access to neighbouring countries, intersect the region. It is called **Latvia's Lake District** because the region has the highest concentration of lakes in Latvia therefore it is called "The Land of Blue Lakes" (800 lakes, that are larger than 1 ha). Agricultural land covers 44% of the overall territory of the region. 18% of the region is covered by forest, mainly pine and spruce forest. Bogs and swamps occupy 5% of the region. The main mineral deposits situated in the region are dolomite, sand, gravel and peat. Latgale region is characterized by great diversity of nature and climatic conditions, which make it different from other regions of Latvia. It has a typical continental climate, more severe winters with thicker snow cover.

## Population

Currently the population of Latgale region stands at 360 thousands, of which 53% are women. Of the total population of the region, 42% live in countryside and 58% are urban population, of which more than two thirds live in two cities – Daugavpils and Rezekne.

Latgale has to cope with an ageing population. In fact, the percentage of the population over working age is 22%, of working age - 64% and 14% are under working age.

The region's population is decreasing both due to natural movement and to migration; it is true also for both cities. The birth rate in the region has almost halved since 1990. In 2005, 7.7 births and 17.5 deaths per 1000 population made negative natural movement: -9.8 per 1000 population that was double then Latvia's average indicator. Long-term emigration exceeded immigration by 13%. Latgale suffers from an exodus of its educated population to Riga and other regions of Latvia or even to abroad. The main reasons for population drain are lack of jobs and low wages.

Latgale faces the unusual situation of its ethnic Latvian citizens being in the minority in the region. At the beginning of 2006, 43.9% of the population of the region were Latvians, 39.7% were Russians, 7.2% Poles and 5.6% Byelorussians. The percentage of Poles and Byelorussians is the highest in the country. Latgale is distinctive from other areas of the country as regards the low economic activity of its population. One

of the characteristics of Latgale region is that traditionally its employees earn very low wages, indeed some of the lowest in Latvia. In 2006 the average gross wage in Latgale was 71% of the national average.

## Economy

Manufacturing industry and trade have the biggest shares in the structure of gross value added of Latgale region. The next two are agriculture and transport and communication services. The region's infrastructure is rather underdeveloped in terms of social provisions and services. Furthermore, the region's relief and poor soil hinder the development of agricultural production.

The number of market sector economically active statistical units (self-employed persons, individual merchants, commercial companies, peasant and fishermen's farms) has been growing gradually during last years and have reached 40 units per 1000 inhabitants in Latgale region. Nevertheless if they are assessed by size group, 93% of them are micro units (up to 9 employees).

Latgale region has the highest number of farms – twice more then in any other region in Latvia, or 34% of the total number of the country. Average size of farms is the smallest between the regions - 17 ha, country average is 23 ha.

Rezekne and Daugavpils are important railway and road transport hubs located at the crossroads of the transport corridors that helped them to develop as economic centres. The railway stations in Rezekne and Daugavpils service domestic and international passenger trains and goods trains.

In 2006 just 26% of households in Latgale had a PC and 24% (that is half of state average indicator) had access to Internet that is the lowest rate in whole Latvia and is twice lower then average level. The situation was much better in enterprises: almost half of them (48%; state average - 59%) had a PC and 32% (state average - 46%) had Internet access while their own web page had just 6.4% (state average - 15%) of enterprises.

The environmental situation in the region is generally good and the network of protected territories ensures the conservation of natural resources, especially the region's biological diversity. Latgale's 1886.2 km<sup>2</sup> of reserves include part of the Teici reserve and numerous other areas of outstanding interest.

## VIDZEME REGION

Vidzeme is situated in the north eastern part of Latvia. It borders Estonia to the North and the Russian Federation to the East. There are no big cities or distinct development centres in the region. Two biggest towns in terms of population are Valmiera (27.5 thsd) and Cēsis (18,3 thsd), other towns have less than 10 thsd population.

Vidzeme is the largest region of Latvia covering an area of 15 257 km<sup>2</sup>, or 23.6% of the total territory of the country. More than one third of the forest resources of the country are located in Vidzeme, with wooded areas occupying 38% of the region's territory. Some 21% of the country's agricultural land is in Vidzeme and agricultural land constitutes slightly more than half (52%) of the territory of the region, while bogs cover 4% and surface waters 3%.

Peat and firewood are important local energy resources. Furthermore, a stock of explored deposits and construction materials (clay, quartz sand, peat, gravel, sapropel, dolomite) is found here. Vidzeme, especially in the uplands, is characterised by early frosts in autumn, comparatively longer winters, a late thaw in spring and large amounts of precipitation. The hilly relief causes considerable local climatic variation.

## Population

Currently the population of Vidzeme region stands at 240 thsd, of which 53% are women. The population is spread unevenly throughout the region: two districts - Cēsis and Valmiera - account for 48% of region's population. Vidzeme is the only region where more than half of the inhabitants live in rural areas: of the total population of the region, 56% live in countryside and 44% are urban population.

As in the rest of Latvia, Vidzeme region is characterised by a rather ageing population structure. 21% of the region's population are of retirement age, 64% are of working age and 15% are below working age. The region of Vidzeme has the highest proportion of people of ethnic Latvian nationality. At the beginning of 2007, 85% of the region's population was ethnic Latvians and the proportion of ethnic Russians was 10.2%.

## Economic activity

The level of economic activity and employment in Vidzeme region has been comparatively high in past years (67.5% in age 15-64 are economically active). The biggest towns – Cēsis and Valmiera, as well as Valka – are the most economically active places of the region. During

the last few years, the registered unemployment rate as well as the rate of job seekers in the region has been rather low: 6-7%. During the recent years a notable flow of qualified labour force has been striving to district centres and to capital.

In 2006 the average gross wage in Vidzeme was 78% of the national average. This was the second lowest rate between the regions for both public and private sector. The rural areas of Vidzeme, similarly as in other regions, have limited employment opportunities that lead to social deprivation as the only income for many inhabitants is a pension received by the elderly family members and children allowances.

The contribution of Vidzeme region to the total value added in the country was only 6.4% in 2004, the lowest regional figure, indicating that the economic activities in the region are based on less productive sectors. In terms of regional value added, manufacturing industries, including energy, accounted for 27% of the total value added, followed by Wholesale and retail trade and Agriculture, hunting, forestry and fishing with 15% each. Construction accounted only for 4% of the total value added. GDP per capita was 60% of country average.

The main industrial branches in the region are production of wood articles, textiles and food. In the woodworking sector there are a large number of small undertakings, which are not modernised and therefore can produce products with low value added.

Despite some natural obstacles to land utilisation such as less fertile soil, soil erosion, a hilly relief and small fields, land resources are nevertheless quite sufficient. In 2005 Vidzeme region accounted for 19% of number of farms in the country. According to the size of the farms, the region had the biggest ones with average area of 28.4 hectares. In recent years such non-traditional agricultural branches as biological agriculture, growing of vulnerable plants, breeding of ostriches etc. have been developing in the region. There are high quality tourist facilities in the region as well as a tradition of providing tourist services.

Similarly as elsewhere in Latvia, the road infrastructure in Vidzeme is more or less ensured and maintained in the direction to the capital city but the movement within the region is encumbered by lack of roads and their critical condition, especially in winter. The region has one of the lowest figures on rail road network – 3 km per 100 km<sup>2</sup>. Over the past decade, several railway lines have been closed down. The narrow-gauge railway line (the interval between the rails is 750 mm) Gulbene - Aluksne was built



in 1903. It is the only still active 32.8 km long narrow-gauge railway in the Baltic countries, ensuring passenger transportation between the two district centres. Although passenger transportation is not economically profitable it was decided to maintain and use this line in order to retain it for its historical value.

Similarly as in other regions, the use of ICT is quite restricted both due to its physical accessibility and costs not only in rural areas but also in the centres of more distant districts. Internet access is available at all district centres. In 2006 41% of households (that equals to country average) in Vidzeme had a PC and 37% of households had access to Internet (country average – 53%). The situation was similar concerning enterprises: more than half of them – 54%, that is close the country average, had a PC and 37% (state average – 46%) had Internet access. Just 5% (state average – 15%) of enterprises had their own web page.

Vidzeme is rich in specially protected nature territories (SPNT), which implies certain restrictions for entrepreneurial activity, in particular with regard to production. SPNT covers 43% of the region's territory and constitutes almost half of all SPNT in Latvia. Large part of SPNT in Vidzeme is covered by the Gauja National Park, the oldest of its kind in Latvia. Also Northern Vidzeme Biosphere Reserve is a part of SPNT.

## LENINGRAD OBLAST

Leningrad Oblast is located on the North-West of Russia. The State border of RF with Finland and Estonia is situated on the territory of Leningrad Oblast. It also borders to five Subjects of RF: Novgorod, Pskov and Vologda oblasts, Republic of Karelia and St. Petersburg. The territory is 85 908.8 sq. km with the substantial part of it covered with plains and low-lands. There are 1800 lakes in Leningrad oblast, with Ladozhskoe lake being the largest of them and the largest one in Europe (18.135 sq. km). The total length of all rivers of Leningrad Oblast is about 50 thousand km. The largest are Neva, Svir, Volkhov and Vuoksa rivers. 55.5% of the Oblast territory is covered with forests. Minerals: bauxite, clay, phosphorite, shale, granite, limestone, sand.

The population of Leningrad Oblast to the 1<sup>st</sup> of September 2007 is 1634.6 thousand people, including: urban population – 1085.0 thousand people and rural population 549.6 thousand people. According to the latest census over 80 nationalities live on the territory of Leningrad Oblast. The major part of population are Russians – 90.8% followed by Ukrainians – 3.0%, Belarusians – 2.0%, Finns – 0.7%, Tatars – 0.5%, Veps –

0.3%. The other nationalities are Gypsy, Jews, Karelian, Chuvash, Estonian, Pole, Azerbaijani, Uzbek – 2.7%.

Being self-dependent Subject of Russian Federation, Leningrad Oblast includes 17 Municipal rayons and 1 Urban district – Sosnovy Bor. These rayons include 204 rural settlements and urban-type municipalities, with 31 town and 34 urban-type villages across Leningrad Oblast.

## Motorways

Length of hard roads – 13.4 thousand km, density of public hard roads – 123 km per 1 thousand km<sup>2</sup> of the area. The motorway network of the region is based on the 7 federal and 6 regional highways. Highways Scandinavia – 18, Russia – 105, Narva – 20, St. Petersburg – Pskov – 95 and Kola are part to the European highway network, and highways Russia and Scandinavia are part of intermodal corridor

Operational length of the railway transiting in the region comprises 2.4 thousand km, and 1.5 thousand km of those are electrified. Density of public railways in the region comprises 33.4 km of tracks per 1.000 km<sup>2</sup> of the area (5<sup>th</sup> in density in the RF). Major railway junctions of the region are: Tosno, Gatchina, Mga, Volkhovstroy, Tikhvin, Vyborg, Lodeynoye pole, Svir, Veymarn. There are 3 border railway terminals operating in the region: Buslobskaya – Luzhayka, Svetogorsk (Russian-Finnish border) and Ivangorod – Sala (Russian-Estonian border).

The length of waterways running across the region territory comprises 1.863 km, density of waterways – 22 km per 1 thousand km<sup>2</sup>

## Water transport

Major water transport routes in the region are section of the Volga-Baltic Route, Saimaa channel, the rivers Luga and Volkhov. Main river ports of the region are the Leningrad and Podporozhye ports.

Transportation and technological maritime complex infrastructure of the Leningrad region by early 2007 included 4 maritime trade ports: Primorsk, Ust'-Luga, Vysotsk and Vyborg.

At present, enterprises and population of the region use services of St. Petersburg airport Pulkovo. Directly in the regional area there are 3 alternate airfields: in Vyborg and Lodeynopolsk districts, and in the town of Tikhvin.

Industry is considered to be the main direction of economic development of Leningrad Oblast as well as the main source of filling of the oblast budget. The payroll



number of employees within industrial branch of economy reached 159.2 thousand people in 2006, i.e. 29% of all people employed in the Oblast economy. Industrial complex of Leningrad Oblast is represented by three main types of activities: mining/extraction of fossils the open pits extracting natural construction materials (ceramics and fire-proof clays, limestones, dolomite, macadam, sand and gravel), processing industries and production/distribution of electric energy, gas and water.

The rapid development of industrial sector of economy, the growing transport infrastructure, development of tourism and recreation sector places the anthropogenic pressure nature environment of Leningrad Oblast. The total indicator of anthropogenic impact on nature and man-caused environments together with sanitary and ecological situation in Oblast are estimated as rather stable and moderately strained.

### PSKOV OBLAST

The territory of the Pskov Region comprises 55.3 ths km<sup>2</sup>, more than a third of the territory is occupied with forests, meadows (16 %), swamps (14 %). There are more that 3700 lakes in the Region, the biggest of which is the Pskov-Peipsi Lake. More than 30 river flow into the Lake and the Narva River flows out of it. All the rivers are referred to the Baltic Sea basin. The longest river is the Velikaya River (430 km.)

the Region is divided into 24 districts, 9 of which are on-border ones, and accommodates 14 cities and towns, two of which are relatively large economic centers: Pskov (202.7 ths people, as of census 2002) and Velikiye Luki (104.9 ths people, as of census 2002). The Region is inhabited by 747.3 ths people.

The primary natural resources of the Region are timber, peat and raw materials used for the construction industry (ceramic clay, limestone, gypsum, molding sand, sand for glass manufacture, non-ore construction materials).

The basis of the regional economy are industry (19,5%), agriculture (12%), trade and catering (20,5 %), transport and communications (16,5%).

The industry of the Pskov Region is represented by 13 branches, incorporating about two thousand enterprises and manufactures, and yields 18.5% gross regional product (in 2003). The regional industrial capacities are mainly focused in the cities of Pskov and Velikiye Luki, and Dedovich district.

The major volume of the regional industrial output is that of machine-building and metal-processing industry, food industry and power industry. About 40% of machine-building is electrical industry.

There is a well-developed transport infrastructure in the Region. The general extent of the railways is 1100 km., highways with hard pavement – 9900 km. The Pskov Region pays special attention to further development of transport infrastructure that means upgrading existing infrastructure and constructing new facilities. It is caused by the reason that 10% of Russia's freight flow passes through the Region.

In the Pskov Region territory there is an extensive railway network (total length of rail tracks is 1.055 km), 112 railway stations (4 of them are large railway junctions: Pskov, Velikiye Luki, Dno, Novosokolniki), 5 border crossing points (1 with Estonia, 2 with Latvia and 2 with Belarus).

Pskov airport is a 4<sup>th</sup> class international airport equipped for servicing domestic and international flights.

## STRENGTHS

- **Cultural** variety, joint historical background; common language – Russian – spoken among most of the population (30+ years);
- Good **geographical** location with road and railway connection, crossroads of strategic transport corridors of international importance and transit traffic routes;
- Diversified **industrial** capacity with high innovation constituent (first of all, in St.Petersburg), industrial capacity at two biggest Latgale cities – Daugavpils and Rēzekne
- Existing **transit** flows through railway and motorway infrastructure;
- The largest **cultural** and tourist's centre of Russia (St.Petersburg, Staraya Ladoga, Pskov, etc.); Latgale is popular travel destination for Latvian and foreign tourists;
- Developed **agriculture** and forest industry (mainly in Vidzeme);
- Well developed **primary** infrastructure (electricity, water, gas supply);
- Existence of general **education** facilities in the area (universities and vocational institutions);
- Clean and diverse natural **environment** and great biological and landscape diversity as a basis for environmentally friendly tourism potential in rural areas;
- Strong transport and technological centre of RF including: largest seaports of Russia; river ports; motorway and railways included in the structure of international transport corridors (North – South and paneuropean corridor #9); airport “Pulkovo” - the largest one at the North-West of Russia; developed net of pipelines.

## WEAKNESSES

- Decreasing and ageing **population**, low life expectancy;
- Lack of qualified **workers** and engineering and technical personnel to provide functioning of existing and new industrial, transport and logistic, and other objects of economic of the Region;
- Insufficient capacity of **transit corridors** (especially at LAT-RUS boarder crossing) and low quality of motorways;
- Weak **SME** sector, low economic activity of population;
- Underdeveloped **logistic** constituent of transport and technological complex of the Region;
- Poor and outdated condition **infrastructure** (e.g. large share of gravel roads, insufficient cross-border transportation links);
- Shortage of **services** for transit and logistics in many parts of the Project's area;
- Poor **linkage** between vocational education system and enterprises;
- Underdeveloped **cooperation** among state institutions and municipalities and private sector;
- Insufficient **administrative** capacity of the public sector in administrating and managing development activities.

## OPPORTUNITIES

- Increasing **political** cooperation between different stakeholders on both sides of the border;
- **Cities and towns** – potential development engines for the whole area - formation of network (polycentric development);
- Increase usage of different ICT solutions in municipal and business affairs;
- Development of **logistics and transport** services;
- Development of value-added **processing industry** based on local resources;
- Development and launch of common **tourism products** and interregional tourist routes;
- Increase of capacity of existing **border** crossing points and opening of new border crossing points;
- Building linkages between the main markets and knowledge **centres**.

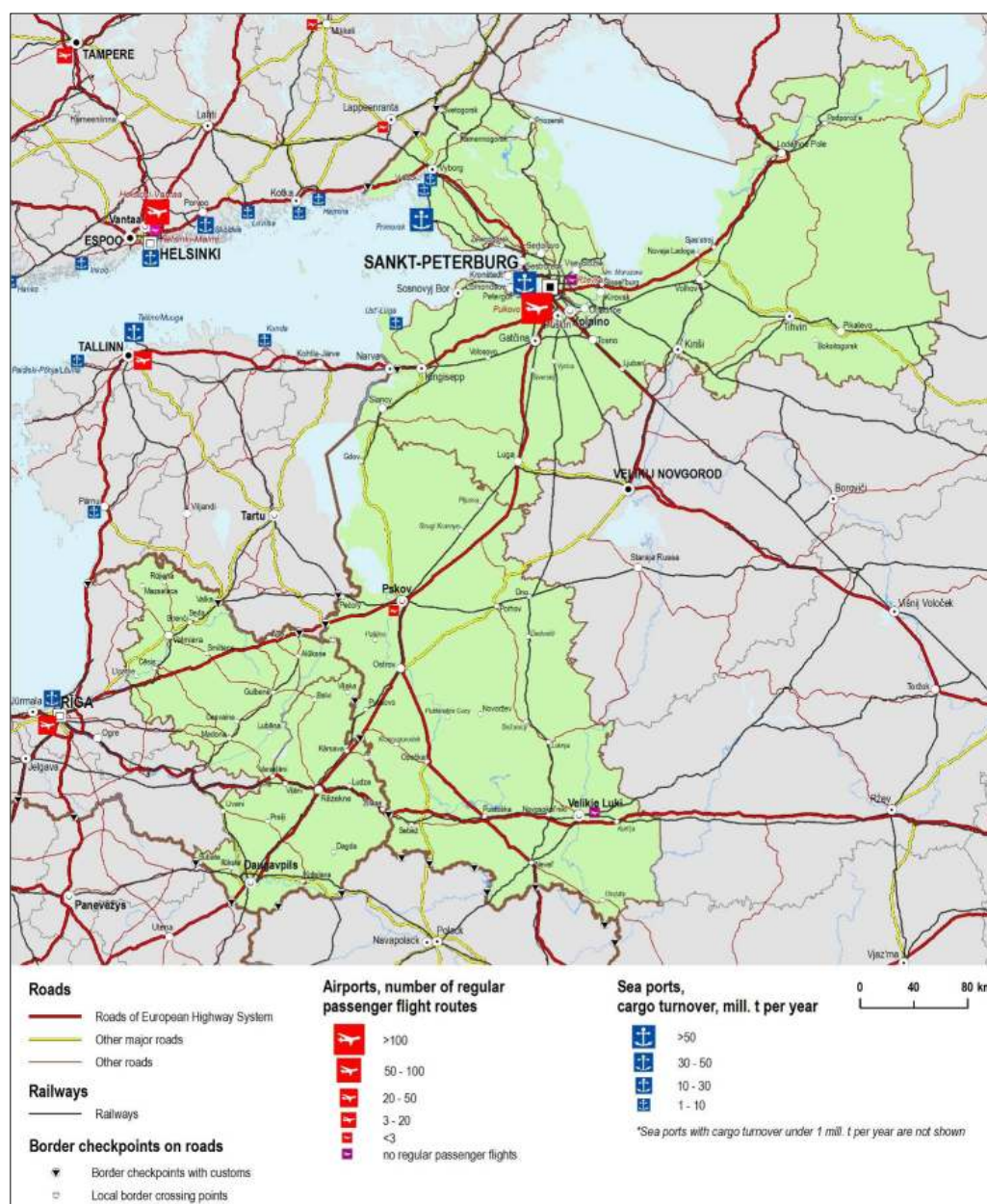
## THREATS

- Continuing low birth rate and sparse and ageing **population** in the border areas;
- Growth slowdown/downturn of world **economy** (EU, USA, etc.) that would lead to cargo turnover and transit slump;
- **Emigration** of people from border areas to the central locations or other countries;
- **Globalisation** impact on traditional sectors – loosing competitiveness;
- Socio-political **destabilization** in EU and the USA, predicated by expanding terrorism, major natural disasters, etc. resulted in axe of tourist inflow activity to the Region;
- Economic **crisis** in Latvia due to large current account deficit that among others could affect transport industry.

It was important within the Project to understand trends relating to transport flows occurring in the region and to summarize how the potential presented by these flows can be realized, considering local resources and capacity. This summary provides findings of the project studies as well as provides main data.

## STRATEGIC CONTEXT

The region is situated on the crossing of two significant multi-modal transport corridors Warsaw – St.Petersburg and Ventpils – Moscow. The region's Russian part is crossed by the 9<sup>th</sup> Pan-European transport corridor (Finland – Crete). However major modal interchange points that create logical basis for logistics centres (ports, international airports), currently exist only in Leningrad oblast and St.Petersburg.



Picture 2. Project area - transport and logistics

The region can be characterised by well developed industry due to historical traditions and low labour costs. The tables below provide SWOT analysis of the project area.

Table 2. SWOT analysis of Leningrad and Pskov oblasts

**STRENGTHS**

- Seaside cross-border location – contact zone with EU (Finland and Estonia);
- Favourable investment and entrepreneur climate in the Region – the progressive legislative base of all three subjects of the Region;
- Diversified industrial capacity with high innovation constituent (first of all, in St.Petersburg);
- Strong scientific, innovation and educational potential providing staff training and retraining and innovation development of the Region / country;
- The largest cultural and tourist's center of Russia (St.Petersburg, Staraya Ladoga, Pskov, etc.);
- Strong transport and technological center of RF including: largest seaports of Russia; river ports; motorway and railways included in the structure of international transport corridors (North – South and paneuropean corridor #9); airport “Pulkovo” - the largest one at the North-West of Russia; developed net of pipelines

**WEAKNESSES**

- Ageing of population;
- Lack of qualified workers and engineering and technical personnel to provide functioning of existing and new industrial, transport and logistic, and other objects of economic of the Region;
- Underdeveloped logistic constituent of transport and technological complex of the Region;
- An acute lack of port capacities and rail/motorway connecting the ports with relevant designations against continues growth of cargo flows, including national transit;
- Competition inside the regions for investments in development of industrial and transport and technology complex to the prejudice of cooperation.

**OPPORTUNITIES**

- Development and implementation of existing programmes, i.e. the projects on development of transport and technology complex of the Region;
- Completion of Ring Motorway construction and technical arrangements;
- Construction of passenger port on Basil Island, St. Petersburg;
- Increase of capacity of Large St. Petersburg trade port;
- Construction of “Western speedway diameter” and other motor/railways facilitating the access to the Large St. Petersburg trade port;
- Construction of the second Ring Road (around St. Petersburg) in Leningrad Oblast;
- Construction of port buildings in Ust-Luga and other LO ports;
- Development of , passing through the territory of the Region in North-South and West-East directions;
- Location of new high-tech and power-consuming productions (motor-car construction, non-ferrous metallurgy, etc.);
- Development of special economic zone in Ust-Luga;
- Development and launch of interregional tourist routes

**THREATS**

- Price slump for hydrocarbon products in the world result in investment reductions for opportunities of implementation of various projects;
- Development of alternatives of transport corridors, going a roundabout Russia;
- Growth slowdown/downturn of world economy (EU, USA, etc.) that would lead to cargo turnover and transit slump;
- Socio-political destabilization in EU and the USA, predicated by expanding terrorism, major natural disasters, etc. resulted in axe of tourist inflow activity to the Region;
- Stronger competition, including unfair play, for transit cargoes and tourist flows performed by interested countries/regions;
- Intensification of ecological problems, related to rapid development of industrial and transport and technology branches of economy of the Region



**Table 3. SWOT analysis of Vidzeme and Latgale**

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Industrial capacity at two biggest Latgale cities – Daugavpils and Rezekne;</li> <li>• Existing transit flows through railway and motorway infrastructure;</li> <li>• Developed agriculture and forest industry (mainly in Vidzeme);</li> <li>• Latgale is popular travel destination for Latvian and foreign tourists.</li> </ul>	<ul style="list-style-type: none"> <li>• Population decrease and ageing in Latgale and Vidzeme regions;</li> <li>• Lack of qualified workers;</li> <li>• Weak SME sector, low economic activity of population;</li> <li>• Insufficient capacity of transit corridors (especially at LAT_RUS boarder crossing) and low quality of motorways;</li> <li>• Lack of investments in transport infrastructure development.</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>• Increase of capacity existing of border crossing points and opening of new border crossing points;</li> <li>• Further development of various industries in Daugavpils and Rezekne (especially Rezekne special economic zone);</li> <li>• Investment plans for improvement of quality of transit routes;</li> <li>• Further utilization of tourism potential in Latgale;</li> <li>• Potential for development of multimodal logistics centre at triangle Rezekne – Daugavpils – Jekabpils.</li> </ul>	<ul style="list-style-type: none"> <li>• Decrease of transit flow through Latvia due to political reasons;</li> <li>• Economic crisis in Latvia due to large current account deficit that among others could affect transport industry.</li> </ul>

St.Petersburg and Leningrad oblast are positioned for long-lasting economic growth due to prospective development of transport and logistics complex, as well as industry.

Pskov oblast of Russia as well as Latgale and Vidzeme regions are set for modest industrial growth, subject for availability of the Human Resources, investment and improvement in the labour productivity, as well as introduction of advanced production technologies, Cargo flow East-West is predominantly by rail, and West – East primarily by road.

## GLOBAL AND REGIONAL TRADE FLOWS

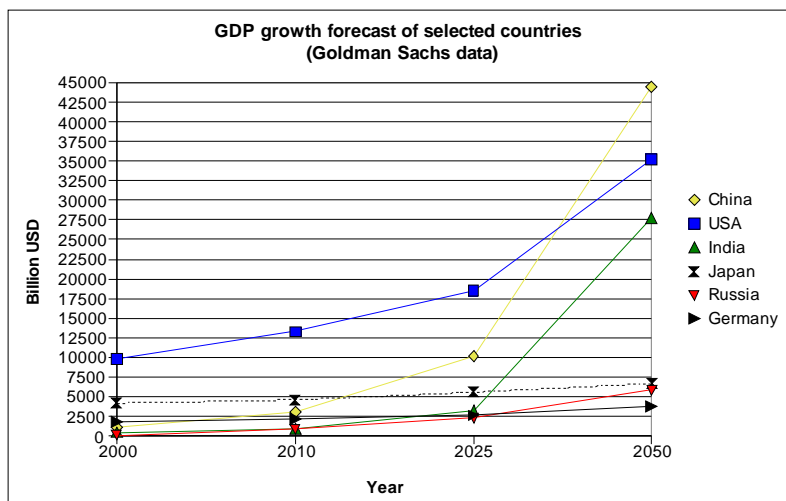
Cargo flows that cross the region occur primarily between the European Union countries and Russia. Trade between EU countries and Russia is swiftly increasing – trade volume in 2005 was nearly 177 billion USD, which is 2.8 times greater compared to 2000. It is envisaged that the trade volume will triple between 2007 and 2020.

Table 4 and Picture 3 show GDP growth forecasts in the world's biggest economies.

**Table 4. GDR forecast (bln. USD)**

	2000	2010	2025	2050
China	1078	2998	10213	44453
USA	9825	13271	18430	35165
India	469	929	3174	27803
Japan	4176	4601	5567	6673
Brazil	782	668	1695	6074
Russia	91	847	2264	5870
Great Britain	1437	1876	2456	3782
Germany	1875	2212	2604	3693
France	1311	1622	2095	3148

*Goldman Sachs data*



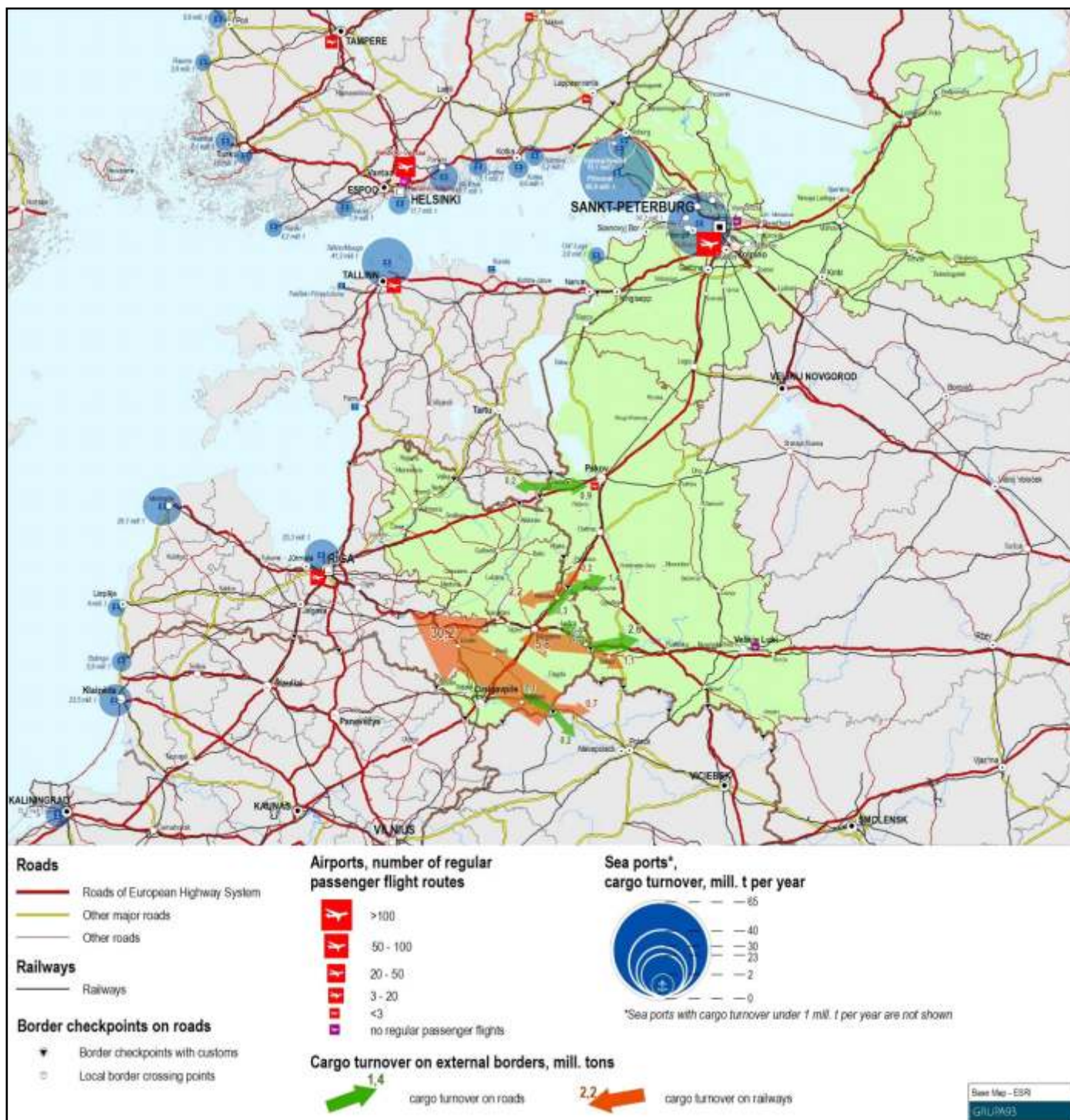
**Picture 3. GDP growth forecast of selected countries**

These forecasts show that **Russia's** importance in the region and worldwide will grow and this country has a potential to leave behind largest EU countries in terms of GDP. At the same time, the importance of India and China in the world economy will also increase which means increasing trade and transport flows. Considering these trends as well as cargo flow dynamics in the region, the volume of cargo is very likely to increase and provide the region both with opportunities to benefit from servicing these flows and threats related to infrastructure overload and environmental pollution. Considering increasing trade as well as priority to develop own ports, ports infrastructure is developing swiftly in Russia, especially in the North-Western region. These development pose a challenge for operations of Baltic country ports, especially if Russian companies will not have direct interest in the operation of stevedore companies.

## CARGO AND PASSENGER FLOWS IN THE PROJECT REGION

### International cargo transportation

The Picture 4 below indicates main cross-border cargo flows.



**Picture 4. Cargo turnover through the Latvian external border with Russia and Belarus and Baltic Sea ports**

As shown in the map, the transit cargo flow from Latvia to Russia and Belarus happens mostly by road and in the opposite direction – by rail.

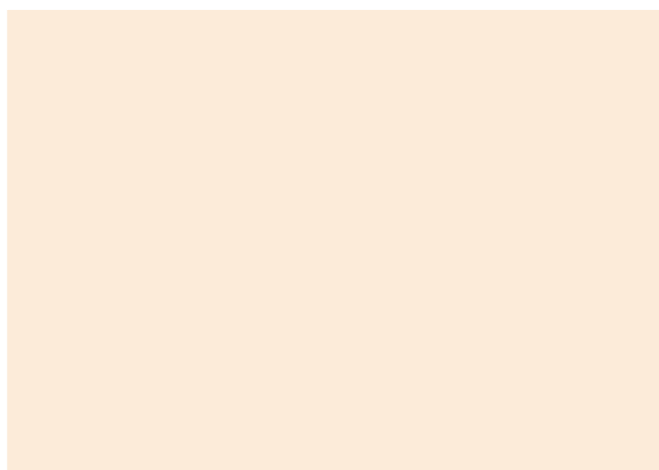
The Table 5 below show data on cross-border cargo flows in the project region.

**Table 5. cargos transported by road and rail (thous. tons)**

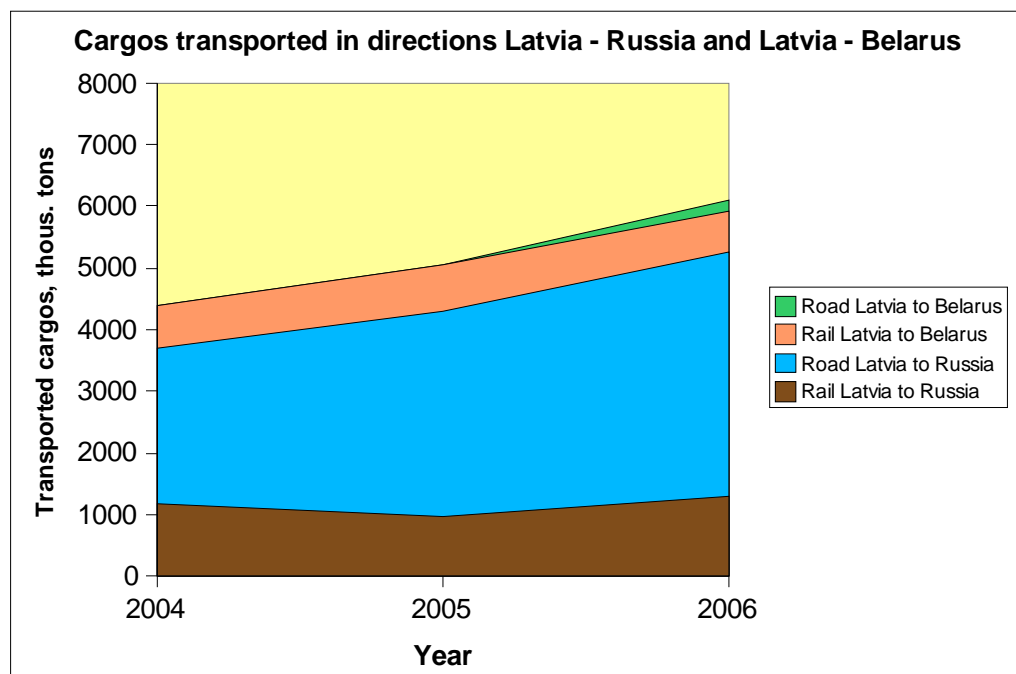
	2004	2005	2006
Direction Latvia > > Russia			
Rail (Karsava/Pitalovo + Zilupe/Sebezh)	1169	967	1300
Road (Grebnevo/Ubilinka + Terehovo/Burachki)	2528	3343	3949
<b>Total cargos in direction Latvia &gt; &gt; Russia</b>	<b>3697</b>	<b>4310</b>	<b>5249</b>
Direction Russia > > Latvia			
Rail (Karsava/Pitalovo + Zilupe/Sebezh)	19126	12417	8002
Road (Grebnevo/Ubilinka + Terehovo/Burachki)	765	1127	859
<b>Total cargos in direction Russia &gt; &gt; Latvia</b>	<b>19891</b>	<b>13544</b>	<b>8861</b>
Direction Latvia > > Belarus			
Rail (Indra/Bigosovo)	706	729	685
Road (Indra/Bigosovo)	no data	no data	156
<b>Total cargos in direction Latvia &gt; &gt; Belarus</b>			<b>841</b>
Direction Belarus > > Latvia			
Rail (Indra/Bigosovo)	24389	32499	30163
Road (Indra/Bigosovo)	no data	no data	127
<b>Total cargos in direction Belarus &gt; &gt; Latvia</b>			<b>30290</b>
<b>Road Estonia &gt;&gt; Russia</b> (Luhamaa / Shumilkino + Koidula / Kunicihina Gora)	<b>390</b>	<b>747</b>	<b>931</b>
<b>Road Russia &gt;&gt; Estonia</b> (Luhamaa / Shumilkino + Koidula / Kunicihina Gora)	<b>168</b>	<b>255</b>	<b>246</b>

The Table 5 demonstrates that cargo flow in direction Latvia – Russia has a tendency to increase by 20-30% per year and the trend is likely to remain. At the same time cargo flow from Russia to Latvia is decreasing, which is explained by Russian port development policy. According to the transport experts, approximately one third of cargo flow in Western – Eastern direction is targeted for St.Petersburg.

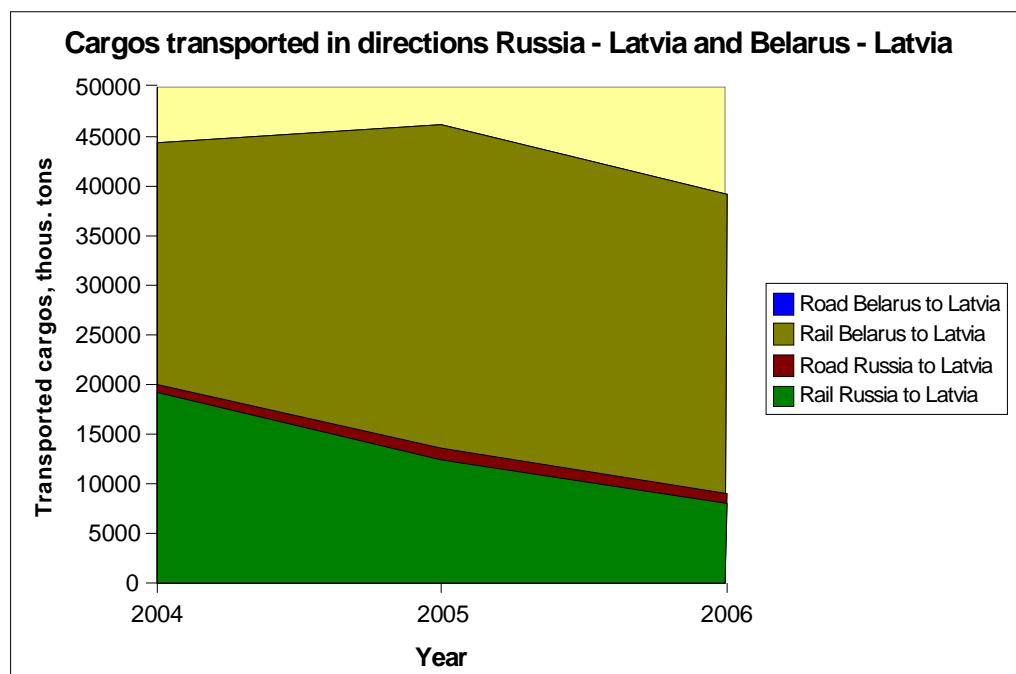
The Picture 5 and Picture 6 below provide illustration for the above figures (Table 5) relating to Latvia – Russia and Latvia - Belarus border.







*Picture 5. Dynamics of transportation of cargos entering Russia and Belarus from Latvia*

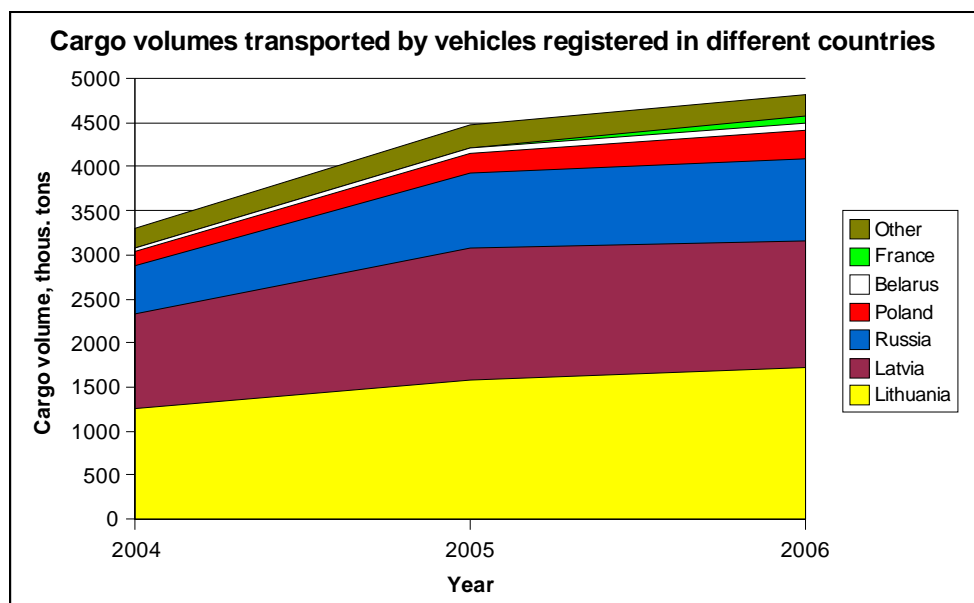


*Picture 6. Dynamics of transportation of cargos entering Latvia from Russia and Belarus*

Most of the cargos transported by road via Latvian – Russian border are transit shipments and Lithuanian transportation companies transport the biggest share of the cargo volume (36% in 2006). They use Latvia border due to difficulties with transit through Belarus as well as certain benefits in customs clearance that occur if transporting goods by road through Latvia.

The Picture 7 below shows the share of cargo volume transported by vehicles registered in a certain country.

The Picture 7 below shows the share of cargo volume transported by vehicles registered in a certain country. .



**Picture 7. Cargo volumes transported by vehicles registered in different countries**

The data shows that volume transported by vehicles registered in Latvia decreased by 4% comparing with 2005, at the same time trucks registered in Lithuania and Russia transported more cargos (9% and 11% increase, respectively).

It should be mentioned that the biggest share of goods brought into Russia in 2006, according to the Latvian customs administration, were sent from Latvia and Lithuania. This means that given peculiarities of customs procedures, major part of EU export goods are declared as transit goods sent from Latvia and Lithuania.

The next Table 6 shows main categories of goods that are transported over border by road and rail.

**Table 6. Main goods categories in cross-border transportation**

	Latvia- Russia direction	Russia- Latvia direction
<b>Road</b>	Cars and trucks; Frozen meat; Trailers and semi- trailers; Beverages, spirits, wines; Live trees and other live plants; cut flowers and ornamental foliage; Ceramic products (building bricks, flooring blocks); Cheese, curd, butter; Cell phones and other electronic goods; Shoes, leather items.	Wood and articles thereof; Plastic and articles thereof; Furniture;prefa Prefabricated buildings;Melons. Melons
<b>Rail</b>	Ferrous metals; Sugar, grain; General cargo.	Coal and lignite; Oil and oil products; Mineral fertiliser.

Passenger flows across the border are mainly between the cities of Riga, St.Petersburg and Moscow, passenger flows between Pskov, Rzekne, Velikie Luki, Pskov are negligible.

## TRANSPORT INFRASTRUCTURE

### Border crossing infrastructure

Presently significant bottlenecks are found in the border crossing infrastructure, with trucks waiting at the border crossing for 2-3 days in the direction Latvia – Russia. The Table 7 presents data on the number of trucks that crossed the Latvian – Russian border.

**Table 7. Number of trucks crossing border crossing points Terehovo/ Burachki and Grebnevo/ Ubilinka in the direction of Russia**

Border crossing point	Year		
	2004	2005	2006
Terehovo / Burachki	98 720	118 253	138 398
Grebnevo / Ubilinka	50 951	58 540	76 250
<b>Total</b>	<b>149 671</b>	<b>176 593</b>	<b>214 648</b>

Expansion of two existing border control points and introduction of two new border control points for cargo vehicles is planned, increasing the border crossing capacity (see Table 8).

**Table 8. Throughput capacity of border crossing points Terehovo/ Burachki and Grebnevo/ Ubilinka**

Border crossing point	Maximum planned capacity (per day)	Maximum actual throughput (per day)	Maximum estimated throughput capacity after realisation of planned measures (per day)
<b>Terehovo/Burachki</b>	350	450 – 500	600
<b>Grebnevo/Ubilinka</b>	200	300	400

In accordance with the existing border crossing point development programme and taking into account opening of new points (Vientuli / Ludonka and Opuli / Mogili), it is planned to increase throughput capacity of border crossing points five-fold compared to 2006 situation.

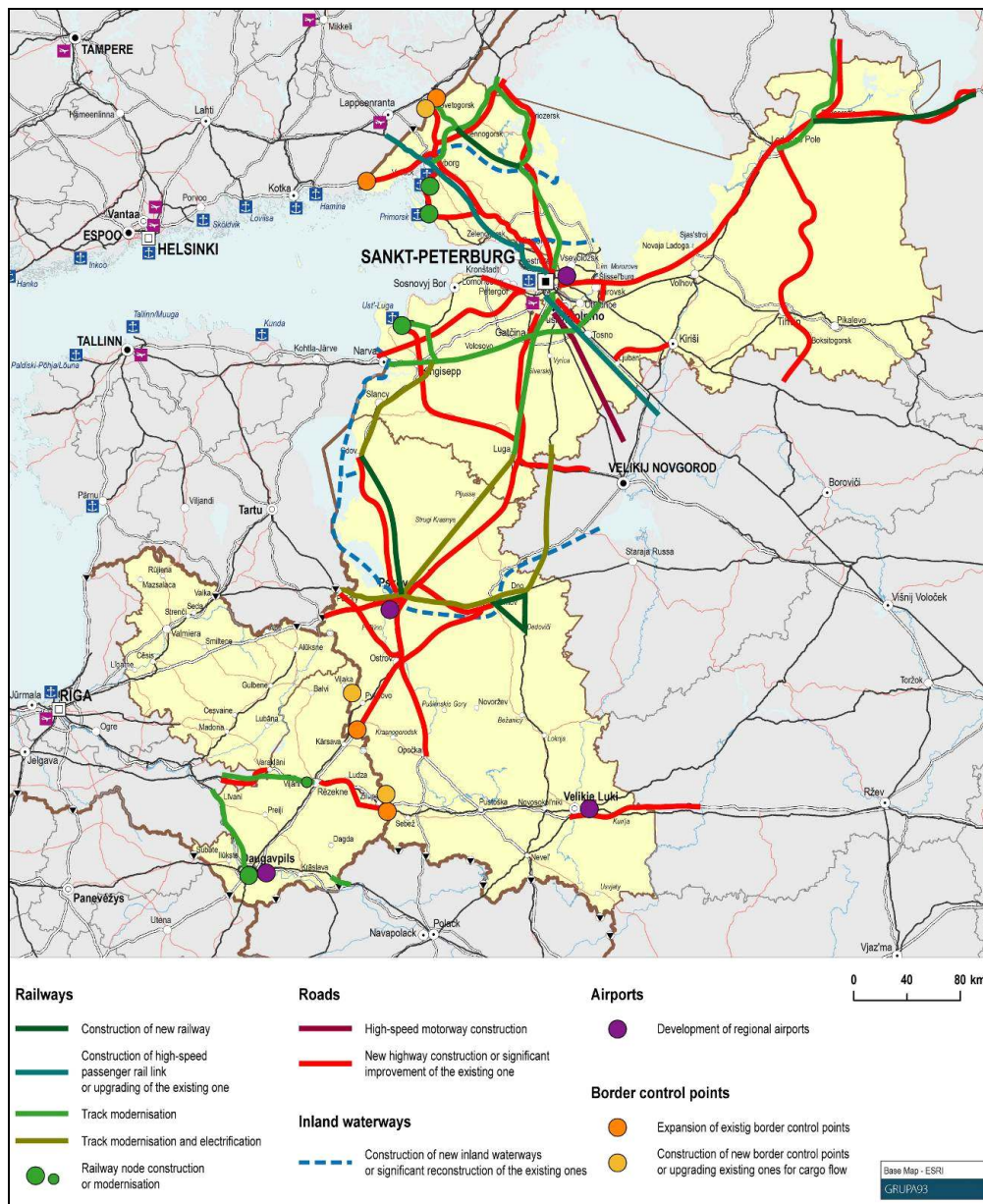
## ROAD AND RAIL INFRASTRUCTURE

Existing road network in Latgale region allows doubling goods turnover by road, subject to road surface improving and stretch Ludza – Terehovo reconstruction. Investment programme in expanding border crossing capacity and parallel development of transit through Belarus is likely to result in significantly improvements in border crossing time, however there is uncertainty involved.

Presently the railway track infrastructure is not a bottleneck limiting the freight flow through the region. Free capacity reaches 50% on some stretches in the East-West corridor. There are plans to expand railway track capacity, subject to increasing freight flows. Limiting factor in increasing the freight flow by rail is availability of rail platforms used to transport containers. This deficit is likely to persist in the coming 10 years.

Infrastructure developments in Pskov, Leningrad oblast and St.Petersburg are aimed at developing infrastructure of Baltic Basin ports and adjacent infrastructure, and only to a very limited extent the infrastructure for land transit to Latvia

The map below shows planned infrastructure improvements in the project region (see Picture 8).



Picture 8. Existing and planned transport infrastructure in the project region



## INITIATIVES TO DEVELOP TRANSPORT AND LOGISTICS SERVICES IN THE TARGET REGION

Main initiatives to develop transport and logistics services are concentrated around the ports in Leningrad oblast and St.Petersburg.

Developments in Latgale include initiatives of private investors to benefit from transit traffic flows by offering service for the truck drivers, as well as initiatives to develop industrial parks, indirectly related to logistics.

## INITIATIVES TO DEVELOP TRANSPORT AND LOGISTICS SERVICES IN THE NEIGHBOURING REGIONS

In **Latvia**, there are two streams of developments in Transport and Logistics services: container terminals and logistics centres near bigger cities or ports. Container terminals in the ports of Riga, Ventspils and Liepaja as well as inland CEAG terminal in Krustpils aim primarily at Russian import cargos as well as potentially East Asia container cargos to the EU. Logistics centres near Riga or Jelgava, such as Dominante park or Eirkele are aiming at servicing big consumer markets, act as distribution hubs for the 3 Baltic states as well as hosting industrial facilities.

In **Russia** the developments are centered around port areas and reflect the federal initiative to direct most of the Russian import and export to the Russian ports. The developments include terminals for energy materials (oil, oil products, coal), other raw materials as well as container terminals.

In **Finland** most transport and logistics related initiatives are aimed at developing port areas or inland terminals for transit of Scandinavian and EU cargos to Russia, mainly containers. Fast-speed railway connection is being developed between Moscow, St.Petersburg and Helsinki.

Developments in **Lithuania** are aimed at servicing big industrial centres as well as transit facilities primarily for containers.

Strong competition is expected among existing and newly built container terminals in attracting Russian/Chinese cargos, despite the increasing amount of trade.

## SUMMARY OF REGION'S POTENTIAL

Based on the results of the studies elaborated within the framework of the project, the potential for the transport and logistics services in the project region can be summarised as follows:

- EU-Russia import offers opportunities for repackaging of goods, collecting and distributing to different locations, customs clearance, given location of the region on the crossroads of several key transportation routes. Moreover, Latvian customs legislation is favourable for EU and third countries goods export document processing in Latvia, which makes the region attractive for various operations with cargoes.
- Transport infrastructure presents opportunities for local producers to capitalise on opportunity to offer just-in-time delivery. Location on the EU-Russia border offers opportunities for non-EU companies to establish their final assembly facilities in the region, benefiting from favourable customs free regime. Air transportation will make the region even more accessible.
- Opening of new border crossings and improvement in road infrastructure in Vidzeme will allow development of new perspective transport corridor Russian border – port of Salacgriva.
- Broad opportunities lay in cooperation with goods senders and operators working on the transit path Kaliningrad – Kaunas – Daugavpils – Russian border – Moscow / St.Petersburg.

## VISION - 2027

In year 2027 the project area will be **the model area for EU - Russia cooperation** with smart integration of physical infrastructure (roads, transport, ITC, etc.) and services. **Polycentric network of cities and towns** will ensure lively contacts and active process of the economic and social cooperation therefore forming the base for sustainable development of whole project area.

## PRIORITIES

## PRIORITY 1

Transport and logistics complex

## PRIORITY 2

Polycentric development

## PRIORITY 3

Social networks

## PRIORITY 1 – Transport and logistics complex

## 1. Creating partnerships with the private sector

In order to promote development of logistics business in the region, the partnerships with the private sector should be formed.

## 2. Improvement of border crossing capacity and road infrastructure improvement

The strategy supports re-opening of the border crossing point Vientuli-Ludonka and construction of new border crossing point Opoli-Mogili for cargo transportation and stresses the need to create the network of local contacts. The strategy suggests developing of new transit corridor Russian border – Vidzeme coast, in order to partly unload highway Riga – Moscow as well as promote regional development.

## 3. Pilot projects

Support for creating logistics centres, the development of airports and surrounding areas. Support for the creation of logistics centres: Daugavpils airport – air cargo terminal; Tosno region (industrial zones “Krasnoborskaya” and “Ulyanovka”) - refrigerated cargo terminal; Pskov – multi-modal logistics centre; Velikie Luki – multi-modal logistics centre; Vientuli – Ludonka border crossing – towing truck interchange terminal; Rezekne Special Economic Zone – multi-model logistics centre.

## 4. Creation of regional competence

Cooperation with educational institutions in creating study programmes to train logistics specialists for the target region. Municipality personnel capacity building in the field of logistics. Support for advanced technologies use in logistics (RFID, telematics).

## 5. Regional image promotion

Biannual cross-border cooperation conferences, activities to establish region recognition and on-going marketing effort to attract to the region cargo owners: manufacturers, wholesalers as well as logistics companies; joint activities to establish image recognition and create marketing offers in the East and Central Asian economies including India and China; participation in transport and logistics related projects, for example Baltic Tangent 2; networking between transport and logistics stakeholders.

## 6. Development of transit direction Kaliningrad – St.Petersburg

Cooperation network should be created to facilitate development of cargo transportation in direction Kaliningrad - St.Petersburg through Latgale and Pskov oblast by road and rail. The cooperation network should involve municipalities, LDz, RZD, Lithuanian rail, Russian railroad operator companies, Russian, Latvian and Lithuanian logistics companies.

**PRIORITY 2 – Polycentric development**

Polycentricity - the concept of networking as a synonym, aimed at joint development activities between towns and localities. Polycentric means connecting a number of places so that they form a network. By operating together they achieve a new critical mass that can sustain and grow businesses, services and facilities.

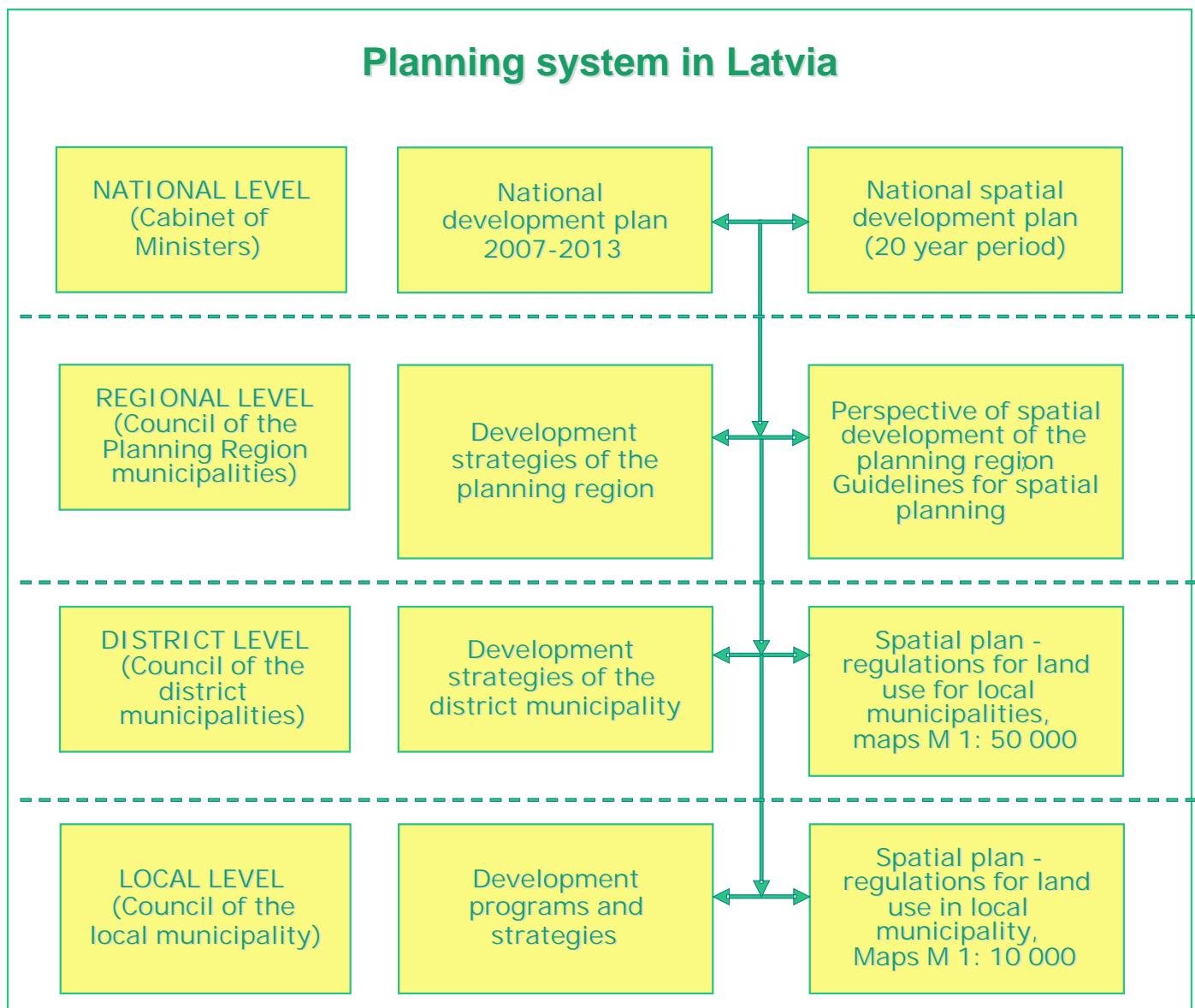
<b>1. Creation and strengthening of networks between cities</b>	Sport projects, educational projects, cultural projects, entrepreneurial etc projects.
<b>2. Better governance of the area</b>	Development and implementation of spatial development plans at local and regional level (knowledge transfer and support in system development).
<b>3. Sustainable use of area</b>	Regeneration of cities districts, waterfront development, brownfield re-development, etc.
<b>4. Development of common</b>	Development of common tourism products/routes.

**PRIORITY 3 – Social networks**

<b>1. Building of social networks</b>	The ground for building of social networks in the project area is rather favourable as people on both side of the border speaks Russian. Nevertheless, common history in Soviet time formed both positive and negative memories; still there are controversial views and feelings, the number of existing contacts/level of trust are not enough for achievement of stated development goals. Therefore major challenge for next 3 to 5 years is to develop large, thorough social network in border region. Such network must lay basis for innovative business, social and culture environment in border region.
<b>2. Development of social networks</b>	Activities must include international discussion groups (historians, students, artists-artists, etc); setting up of delegations/ representative offices; experience exchange trips; experience of art and culture; the historic development of the area; Latvian-Russian competence centre, based on knowledge of local industries to balance migration of workforce; exchange of staff between partner organizations.

Planning system in Latvia determines two kind of planning documents – **strategic planning and spatial planning** documents. They are interconnected; though their legal adjustments and legal status are different:

- Strategic plans and development programs are more like a programming tool. They set a vision, goals, priorities, tasks and measures up to the investment plans, specific projects and fund rising activities. Plans are approved by the responding level legal body (Cabinets of Ministries, regions' councils, district and local municipalities);
- Spatial plan determines building, land use etc. restrictions and come in force as the binding regulations issued by the responding level legal body.



Picture 9. Planning system in Latvia



Planning system as it has been now has developed from the 1994 when Territorial planning regulations and Territorial development planning Law (1998) were adopted. Now these legal acts has been developed and changed according to the developing understandings of market economy and legal framework of EU (public hearings, environment impact assessment, Sectoral and hierarchical harmonization and integration, functions of the municipal and state bodies, juridical issues, etc.). The roof legal act is Territorial Planning Law (2002).

There are **four levels** of planning system in Latvia – national, regional, district and local level. On every level plans have their own specific tasks and scale:

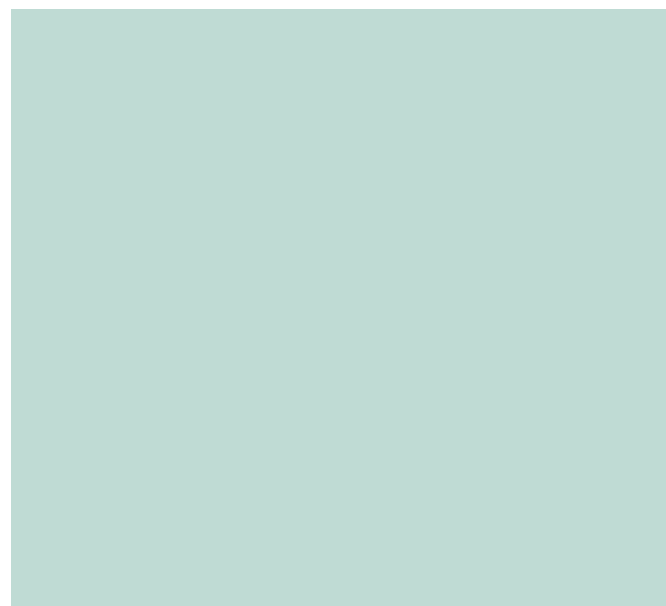
- 1) National spatial development plan (Regulations on National Spatial Planning, 2002). Plan has not been elaborated; separate Regulations of Cabinet of Ministers has been approved for agriculture lands of national importance.
- 2) Regional spatial development plan (Regional Development Law, 2002; Regulations for the Spatial Planning of a Planning Regions, 2005). All five regions plans have been elaborated.
- 3) District spatial development plan (District Municipality Spatial Planning Regulations, 2005). 24 plans of 26 districts have been approved.
- 4) Municipalities' spatial development plan (Local Municipality Spatial Planning Regulations, 2004). 7 republic importance cities has been approved their plans; 385 out of 520 local municipalities has been approved their spatial plans.

Plans in the hierarchy (see Picture 9) have to be harmonized, i.e. every plan has to include what has been determined by the upper level plan.

Sectoral planning has led to the situation that there are more than 800 planning documents at state level. Their prioritizing and integrating has been done during the elaboration of the National development plan. Still spatial aspect is weakly reflected, lower levels not always correctly includes the goals set at the national level. To determine development planning system, its principles and mechanisms, the bill of Development Planning System Law has being railroad through the parliament.

Long period main weaknesses of the system were lack of the finances for implementing development plans. The forming regional municipalities, as they have no tax grounded budget, are still in the position of high dependency from state and local municipalities budgets. Main role of the councils of the planning regions has been uniting the interests of the group of municipalities, representing and coordinate acting.

Now, when Latvia is at the front of regional and municipal reform, regional functions, role and competencies are





**BSR INTERREG IIIA PROJECT NIV - 093 COFINANCED BY EUROPEAN UNION**

**INTERREG IIIA/ TACIS project NIV-093 "New Spatial Development Zone for Border Regions of Latvia and Russia — Connecting Potential of Two Countries"/Remote Access**



**Latgales reģiona attīstības aģentūra**

Rīgas iela 2, Daugavpils LV-5401

Mājas lapa: [www.latgale.lv](http://www.latgale.lv)

E-pasts: [latgale@latgale.lv](mailto:latgale@latgale.lv)

Tālrunis: +371 54 28111

Fakss: +371 54 28111