

Development of the Latvian Maritime Policy; A Maritime Cluster Approach

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ABSTRACT: Latvia is a maritime nation although most of its inhabitants are unaware of the importance of maritime activities to the economy. For policy makers and also for stakeholders of the maritime clusters it is important to understand which factors contribute for the sustainable development of the companies in the cluster. Therefore the aim of this paper is to analyse the economical value, which gives the possibility to assess the importance of maritime resources for country. On the basis of this analysis, the authors conclude an integrated approach should be applied which is based on knowledge about the economical importance of the maritime sectors, their economical links and their strategic tradeoffs for future development.

1 INTRODUCTION

Latvia is a maritime nation due the local maritime resources like ports, seafarers etc. However, there is a lack of awareness in the community about development prospects of Latvia's maritime sector. Does Latvia need maritime resources? This is a frequently asked question made by in the public opinion. There seems to be a lack of information about maritime resources and their contribution to country's economy. There is no updated study on the importance of Latvian maritime resources and their contribution for Latvian economy at present and how valuable for Latvian economy they can be in the future.

Looking to present situation, the current maritime knowledge infrastructure is not supported by a deliberate policy to strengthen the stakeholders within this sector of the Latvian economy. It is merely based on legal principles, most of them to accommodate the standards set by the International Maritime Organisation (e.g. STCW) and translate to country specific rules and regulations. Having an effective policy requires much more as the policy is a way to influence business, living and social climate with the aim to push the economy in the right direction. Up until now, the Latvian government has been steerless in this respect. If governments do not know what is the game played on the high seas, it is difficult to manoeuvre your own little boat through safe havens...

This article will explore the economic value of seafarers for the Latvian economy thereby striving to create awareness and initiate an action plan to develop a coherent maritime policy to support sustainable development of the maritime cluster and companies within.

2 LATVIAN MARITIME CLUSTER IN CONTEXT OF M. PORTER'S CLUSTER THEORY

2.1 *The cluster concept*

The cluster concept tries to put into the frame a business environment and considers the possibilities of the development. Therefore it can be concluded that cluster itself is an environment. Regarding the Porters definition for a cluster it does not put strict margins on a cluster as such and it is based on empirical studies from different industries.

M. Porter (1998) stated that: "Clusters are geographical concentrations of interconnected companies, specialised suppliers, service providers, firms in related industries and associated institutions (for example, universities, standards agencies, and trade associations) in particular field that compete but also cooperate." Actually there still is going an on-going debate on what constitutes a cluster, both among academics and among policymakers, and there are a multiple perceptions of the kinds or the categories of

the clusters (Andersson, Schwaag Serger, Sörvik, Hansson 2004). However, as most important factors for determination and investigation of cluster can be mentioned geographical concentration, critical mass of companies, multiple actors and active business channels between stakeholders which involve cooperation and competition.

2.2 Cluster concept in perspective of the Latvian maritime cluster

The Latvian maritime cluster is not defined in any official policy document. With regard to the presence of the maritime cluster it can be seen that the building stones for the maritime cluster within the business environment of Latvia exist. There are numbers of companies active in different maritime business sectors located in Latvia. The European Cluster observatory distinguished a number of sectors, which together make up the maritime cluster. All of these maritime sectors are represented in Latvia.

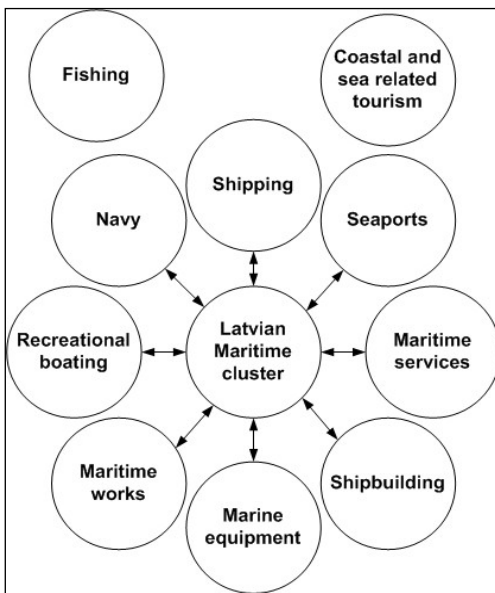


Figure 3: Latvian maritime cluster according to the methodology of European cluster observatory

However, the links between those maritime sectors are weak and the maritime cluster is deemed to be underdeveloped. Some of the sectors are more developed than others. Shipping, seaports, shipbuilding and maritime services can be considered as being the most observable sectors in the Latvian maritime cluster.

3 MAIN MARITIME SECTORS IN LATVIA AT A GLANCE

3.1 Shipbuilding sector

Shipbuilding in Latvia is represented by four enterprises predominantly active in the ship repair sector (additionally there are some small enterprises, largely associated with in house servicing of fishing or small river vessels). As the shipbuilding is active in ship repair activities there are weak economical links between shipping and shipbuilding sectors as the Latvian ship owners are not purchasing their ships at Latvian shipyards.

3.2 The port sector

There are 3 big and 7 small ports. Approximately 70% of all cargoes going through Latvian ports are transit cargoes. Due to the cargo flows through Baltic area and related business which directly focuses on those cargo flows, like road transport, rail transport, shipping agencies, ferry services from Latvian ports, freight forwarding etc. it can be assumed that the ports' role in logistic cluster is important. However, as the logistic cluster is almost independent of the rest of the maritime cluster it is difficult to define the real value of the ports in the logistic cluster and induced effects on rest of the maritime cluster.

3.3 Merchant shipping

The merchant shipping sector can be characterized with a number of small shipping companies. According the data from Equasis and Sea Web (Lloyd List data base) there are located around 30 shipping companies which operate fleet of about 150 ships with total GT 1,408,243. However, only about 40 ships are owned by national ship owners. The rest of the ships are owned by foreign owners, which has located their shipping companies in Latvia. Latvian Shipping Company which owns around 21 ships can be considered as the main player. With regard to the available data the size of national fleet during last 18 years has considerably decreased (see table 1).

Table 1 Number of ships owned by national ship owners

Year	1992	2000	2010
Number of owned ships by Latvian shipowners*	110	80	40
Number of owned ships by LSC	89	60	21

* Estimated number of ships considering the number of companies owned by national owners

The national seafarers can be considered as the other part of merchant shipping sector. There are around 13,000 seafarers of whom around 12,000 are

active at the merchant fleet. However the number of the seafarers during last 6 years has decreased (see table 2).

Table 2 Changes of the number of the number of Latvian seafarers working on merchant vessels (2005-2011)

	01.01.2005	01.01.2011	Difference
Ratings	8500	6616	-22%
Officers	5734	5691	-1%
Total	14234	12307	-14%
Deck officers	2383	2541	7%
Engine officer	2541	2625	3%
Non conventional officers	679	552	-19%

The main decrease has been on account on the number of ratings. According the data from Latvian Seamen Registry the decrease of ratings has been 22% in comparison with number of ratings in 2005. The decrease of ratings is linked with increased competition with ratings from Asia and economical growth of Latvian economy during (2004 -2007) when part of rating switched to work ashore in construction companies. The decrease of officers during this period is not so considerable and is linked with decrease of number of non conventional engine officers like electrical engineers and gas engineers. The decrease of non conventional engine officers is linked with lack of maritime education programs for them. However recently the maritime education program for electrical engineers has been re-established and the first graduates joined pool in 2010. The impact of this programme on number of non conventional engineers will have effect in closest year. The positive aspect is that number of conventional officers both deck and engine has been increased during this period.

3.4 Maritime services

There is a wide range of maritime service businesses in Latvia. The maritime services can be separated in to the two groups – services which focus on shipping sector with core subject of business “ship” like shipbroking, maritime law, maritime insurance, and services which focus on shipping sector with core subject of business “seafarers” like maritime education and training, crewing agencies etc. The first group of services with focus on ship is not developed as the shipping sector itself in Latvia is not developed.

Due to the weak home demand from Latvian shipping companies for those services the services are not internationally competitive.

The other part of the maritime services with focus on “seafarers” can be considered as well developed.

All services which seafarer would need are available. As an example there are established around 50 crewing agencies and 8 training centres, which are considerable numbers for such a small country as Latvia is. The crewing agencies not only provide recruit Latvian seafarers but also recruit seafarers from Belorussia, Ukraine, Russia therefore adding value for Latvian maritime cluster.

4 ECONOMICAL VALUE OF SEAFARERS

Economical value gives possibility to assess the importance of maritime resource for the country.

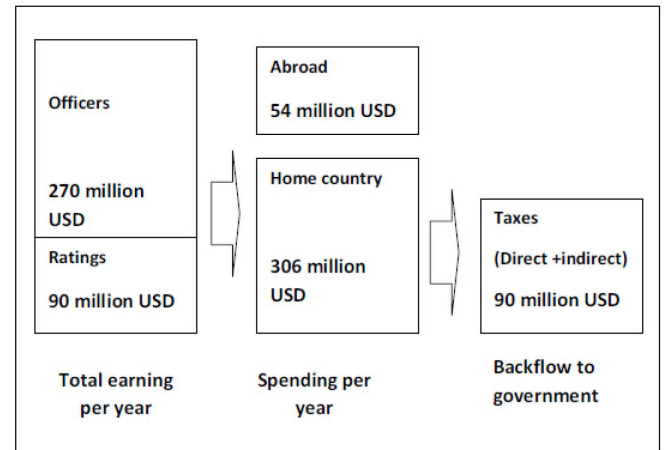


Figure 4: Economical value of the seafarers

According the authors’ analysis, the pools of seafarer positively contribute to Gross National product of Latvia and other economical processes in country due to money which they spend in Latvian economy. The total contribution to Gross National product is around 1.3 percent in 2010. Comparing with average employee in Latvia ship’s officer earn around 4.5 times more than average employee in Latvia while average rating earn only 1.3 time more than average employee. This lead to conclusion that officers are much more valuable for Latvian economy, even they are less in number than ratings.

Regarding the considerable number of the seafarer resources it can be seen that the subcluster is formatted around them. The seafarers cluster included crewing companies, maritime education centres, nongovernmental associations, training centres and other stakeholders who benefit from presence of large pool of seafarers.

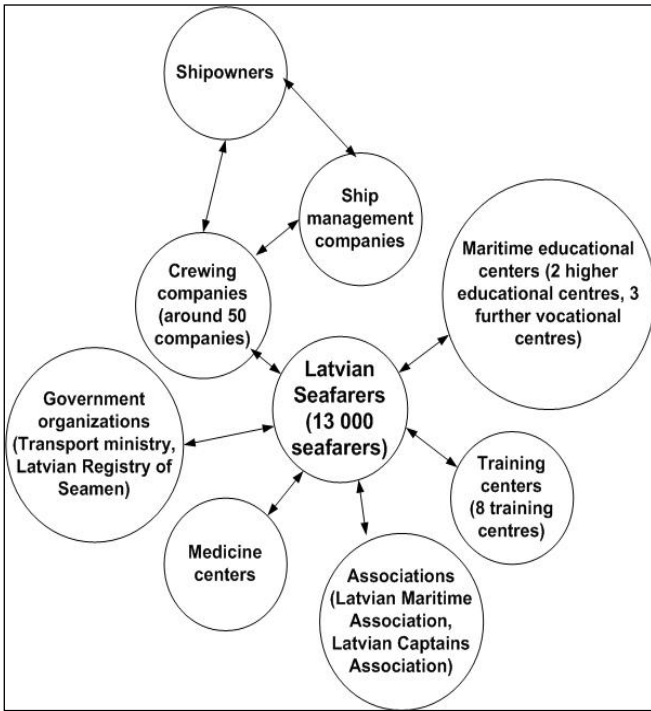


Figure 5: The seafarers cluster in Latvia

Considering the present economical value of the national seafarers it can be concluded that they are an important driver for Latvian economy especially during the time of economical recession of national economy as they are bringing money from foreign shipowners and spend their earnings in Latvian economy.

5 LINKS BETWEEN MARITIME SECTORS IN LATVIA

Demand and supply links, the so-called factor conditions according the Porter's Diamond model interlink the maritime sectors within a cluster. So for the maritime cluster it is important to have those demands/supply links between the players of the maritime cluster as the growth in one sector will induce the growth in other sectors as well. Considering the general maritime cluster, the shipping and related industries like (navy, cruise shipping, fishing) are main demand generators in the rest of maritime sectors. However, nowadays shipping are losing its links with the other maritime sectors on their home market due to the globalisation. Shipowners operate their ships far away from their home country and are free to order their services in any country as long as it is cheap and convenient.

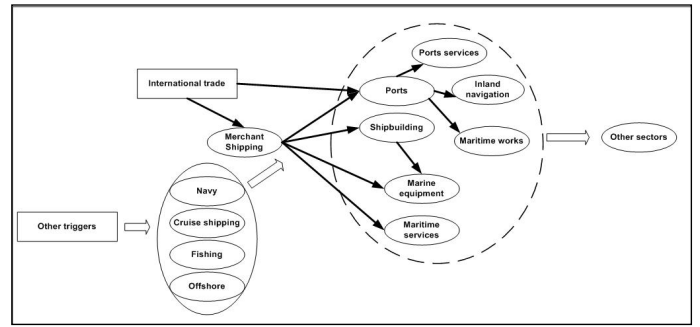


Figure 6: Demand supply relationships in maritime cluster (general model)

Also the Latvian maritime cluster is not an exception to this rule of thumb, considering the most observable sectors it can be seen that ports depend on the local transit cargo flows, but the shipping sector is not attached to these cargo flows. Therefore it leads to the situation that the two most important sectors in Latvian maritime cluster have different interests and weak links. Due to lack of critical mass in shipping sector the links between ports and shipping sector is limited. The port sector and related sectors are almost independent from shipping sector and other maritime sectors. The shipbuilding also is not linked with shipping sector as the shipbuilding focuses on ship repair activities and Latvian shipowners cannot order their ships through Latvian shipyards.

6 CONCLUSIONS

Latvia is a maritime nation as it can be derived from the local maritime resources like ports, seafarers and related business activities. However, there is a lack of awareness in the community about development prospects of Latvia's maritime sector. This article provides an updated overview of the maritime sectors and placed these economical activities in a conceptual framework based on the Porter's cluster theory. Most important elements of a well-developed cluster are: geographical concentration, critical mass of companies, multiple actors and active business channels between stakeholders who are in cooperation and competition with each other. This article explores the economical value of Latvian seafarers in order to assess their contribution to the Latvian economy, thereby striving to provide awareness and sense of urgency for future development of the maritime cluster in Latvia.

Latvian maritime cluster is lacking some key elements like critical mass in shipping sector, shipbuilding sector and maritime equipment sector, therefore the links and cooperation between those sectors are weak.

One of the problems for the maritime cluster development is lack of the successfully performing maritime policy. This factor impedes the process of the development of maritime cluster. There also is no shared vision, mission, goals and strategy among the stakeholders of Latvian maritime cluster. The cluster mindset is not developed in maritime community and therefore it is important to understand what is cluster and which factors can contribute for successful cluster development.

In line with Porter's cluster theory, there is a task of the government to set a policy which aims to create an environment where companies can build critical mass to create inner dynamics for the maritime cluster development. This would increase the economical value of cluster and increase the backflow for government. The other aim for strengthening maritime cluster is to establish policy measures which would help to interlink them in a better way. As the policy as paper is living document it should be subject of periodical review to diminish risk for policy to become outdated and for nation to lag behind other nations.

At the first stage the maritime policy should be written down explicitly. As the maritime cluster is a complex business environment, an integrated approach should be applied based on knowledge about the economical importance of the maritime sectors and their economical links.

6.1 *Factors which should be integrated in maritime policy*

6.1.1 *Focus strategy*

The focus strategy of the Latvian maritime cluster probably can be Short sea shipping in Baltic/Nordic region or transit cargoes towards Russia, but this does not imply that other areas in maritime cluster do not get attention in the new policy. Important activity of Latvian maritime cluster is supply of seafarers for EU shipowners therefore Latvian maritime cluster can be linked to EU market as a new broader home market which would help to develop home demand conditions (according model of Porter) in the Latvian maritime cluster;

6.1.2 *Stimulation*

The maritime policy should focus on the stimulation of the "home demand condition" which would influence the factor conditions. The stimulation of the "home demand" is essential as the main problem of the Latvia maritime cluster is lack of critical mass of the companies. The home demand conditions can be stimulated by making available capital through a finance system like KG ship finance structure in Germany and by linking home demand to other EU

countries, which requires the cooperation between countries at international level.

6.1.3 *Attractiveness of the Latvian maritime cluster*

It is recommended to develop Latvian maritime resources to stimulate local maritime business and attract foreign users to use those resources through benefits for companies and seafarers stimulating economic activity of the maritime cluster.

6.1.4 *Communication and cooperation*

It is recommended to set up maritime cluster organisation which would provide an environment for communication and cooperation between policy-makers and the rest of the stakeholders.

6.1.5 *Support for innovation and education*

Although the role of innovations has not been topic of this research, is obvious that support for innovations and maritime education is essential. The innovations can help in creation of the special factor conditions which would serve as unique competitive advantages. Therefore it is recommended to set up innovation policy to support creation of the research and development centre. The support for maritime education is essential as the maritime knowledge is inherited and embedded in the maritime education of the country. The available maritime knowledge can provide maritime cluster with the unique competitive advantages and serve for sustainable development.

6.2 *Further research*

Further research is required to gain more knowledge and information about the economical importance of the different maritime sectors. Due to the limitations of this article, only the economical importance of Latvian seafarers has been assessed. The same quantification needs to be done for other maritime sectors.

A second part of such research should focus on the economical value of the links between the maritime sectors, i.e. what is the purchase value of one sector to the other and what is the import and export value of maritime services from Latvian based maritime companies. This should help to comprehend how the development policy of maritime cluster can be set to achieve the proposed aims.

Based on the economical value of the maritime cluster as a whole and the understanding both the linkages, governments should work out its policy instruments in line and in close cooperation with business strategies of companies acting in the cluster. Authors put strong emphasis on the sustainability of the maritime policy. The effects of these policy instruments should be subject to a longitudinal monitoring survey, measuring the economical value, sup-

ply and demand on maritime employment and education and innovation in the forthcoming years.

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