

Ukrainian container market: what's next?

The world crisis is a kind of breathing period for active development of container capacities. Ukrainian government's policy should attract investors to container ports. This statement is proved by the newest Directive (October 2009) called "Maritime Doctrine of Ukraine 2035" consisting the issue of governmental "support of container transport". However, we witness the growing investment challenges known to international and European experts in particular.

Investment challenges

Disregard of international consulting agencies' data may cost a lot to container Ukraine. MTBS (Maritime and Transport Business Solutions) gave a critical assessment of investment climate in Ukraine. It acted as independent EBRD consultant on container modernisation in Illichivsk port. Thus, we should pay great attention to the assessment of Ukrainian container prospects. The crucial factor is the positive picture of Ukrainian transshipment in pre-crisis period (15 years). The supporting factors are the following: the growth of GDP, containerization of foreign trade (high rate of development but low volumes), growing attention of international financial institutes (like EU) to Ukraine. The experts consider port investing as quite promising. Taking into account the lack of investment into the state ports it means that Ukrainian private stevedore business has the highest investment potential. Experts see the main advantage of Ukraine in its location on the Ukraine-Europe axis.

These factors are brought to nothing by the global recession. Financial crisis cancelled credit and investment programs and increased the financial claims of the remaining investors. For example, German terminal operator HHLA initiated the revision of investment share of Odessa port in the joint project for development of container capacities. Global economic crisis affected the ports: container traffic slumped, transshipment volumes decreased dramatically. These cases should not be considered as Ukrainian only. The nearest "container" neighbour of Ukraine, Turkey, also announced the curtailing of investment programs and decrease of transshipment volumes. Turklim (Association of Turkish Port Operators) admits: "First six months of 2009 witnessed the decrease of Turkish export by 30,2%, import - 40,9 %. The sea trade via Turkish ports slowed down together with the whole world. We are expecting the crucial revision of investment plans and decision-making about the delays in investments."

Ukraine suffers the Russia-Ukraine natural gas battle. It adversely affected the transshipment market in Ukraine. Red-tape also aggravates the situation. MTBS thinks that Ukrainian tender policy "impedes

the prompt, transparent and clear implementation." The implementation procedures are time-consuming involving many-many authorities - port administration, The State Property Fund of Ukraine, several ministries (of Transport, of Finances, of Justice, of Economy) and finally the Cabinet of Ministers. The requirements to participate in tender are unclear. "The authorities are allowed to request the additional documents bringing the delays and increasing the costs for buyer," says MTBS. The investment conditions may also change after the tender. "After the final trading session the authorities may amend the signed agreements leading to uncertainty and delays." There are many examples; the most large-scale is the total revision of concluded port joint venture agreements. Even if the reasons are reasonable, investors won't like it.

The other problem is the lack of efficient tools for PPP. "Creating the obstacles to port authorities in establishing of relations with private port operators and investors," described the problem MTBS. Experts see no solution. They concluded that "there is no possibility to create efficient PPP in Ukraine."

Positive factors

Experts highlighted several positive factors aimed at development of Ukrainian market of port transshipment. Among them there is further containerization of Ukrainian foreign trade requiring efficient transshipment capacities. Ukraine's accession to WTO is welcomed. It will contribute to liberalization of customs procedures as well as encourage and facilitate international trade. However, this trade is not the issue for MTBS analysis although the equal trade rights affect Ukrainian foreign balance and container flows. The expansion of production and trade in Ukraine and - what a surprise! - high potential of transshipment in the Black sea region were named as positive factors too.

The assessment of Ukrainian prospects in transshipment is performed by the company that consulted Romania, the Black sea transshipment leader, on "improvement of port infrastructure utilization." The consultations were performed in 2008 when the transshipment



volumes in Constanta crashed threefold (1 million TEU up to 0,3 million). Can we trust the recommendations within transshipment loading of our facilities taking into account that this sector is the most vulnerable amidst crisis. Transinvestservice (TIS) representative said: "I don't consider the transshipment as the remedy. Transshipment of containers is very "naughty" flow. Today we have it, tomorrow it disappears. Constanta has already experienced it. Transshipment is not the base for reliable future. It is just the factor of image. Well, if we have the terminal of 400 thousand TEU capacity and only 100 thousand of it is used, 300 thousand can be shifted to transshipment using favourable rates. For transshipment we need the most expensive crane and berth. Conditionally speaking, import container can bring USD 50, transshipment – USD 15. It is impossible to rely on transshipment although it proves the high quality facilities in port." In the context of this assessment the strive of European agency to involve Ukraine in transshipment seems like the effort to turn Ukraine into the reserve area for transshipment. Ukrainian policy on port rail and road connections development seems more reasonable.

One more positive factor encouraging Ukraine to find the solutions for its problems is the need in foreign investments for container capacities. The reason consists of the market challenges irregardless the crisis: new terminal capacities, improvement of stevedore services, satisfaction of global sea carriers.

Warning and conclusions

MTBS said that they give recommendations and promote the solutions. Ukraine obtained several recommendations on how to improve the investment climate in container transshipment. The climate is unfavourable now, thus, "terminal investors should be extremely cautious in Ukraine," says MTBS. They wished the Ukrainian authorities "successful attraction of direct foreign investments to ports." Port administrations need "to prove their abilities to attract and hold investments of international port operators" (port abilities are highly overestimated). Finally, private investors wishing to invest in Ukraine are recommended "to be cautious in their relations with the governmental bodies." You can obviously see the preferences of the experts.

The overall negative factor, which international investors will face in Ukraine, is inefficiency of regulations in the state. Moreover, there is a reverse problem:

strict state management of port tariff rates (on the governmental level, analysts point out). Undoubtedly, this negative feedback caused the warnings about the "nontransparent problem solving" and "nonconformity of contracts and agreements with international standards."

The abovementioned issues entailed the inefficient investments mainly in all the container ports of Ukraine. MTBS considers the tender on "Quarantine Quay Pier" in Odessa port as failed. Reasons: too short term to prepare for tender as well as lack of pre-selection of the candidates. We can argue these reasons. It is far more complicated to argue against the following reasons: nontransparent forming and amendment of tender conditions, unclear contract terms, too high requirements to private investments. The last accusation has the same unclear nature as the tender.

In Illichivsk port, MTBS noted the inefficiency of contractual agreement between Ukrtranscontainer and port authorities. They pointed out the port's striving to revise the terms of joint activity although it corresponds with the Ministry of Transport order to revise the joint activity in ports. Experts consider such relations between operator and port as "unhealthy". They made far-reaching conclusion that joint activity projects are unsuitable for port development. It is obvious that it is an example of destruction of Ukraine's container reputation because of the bureaucracy.

The same conclusion was made about the agreement between Yuzhny Port and TIS terminal. They highlighted that port insisted on resignation of TIS's financial claims making it the condition for operations in port. They mentioned the complicated situation when the terminal didn't have the possibility to unload the unique pier operating equipment. "Many other projects of ports and terminal development in Ukraine was called off or cancelled," MTBS said. This conclusion is in line with TIS assessment of container capacities in Ukraine although the terminal explained the situation more reasoned, comprehensively and in optimistic way.

"Ukrainian port and terminal sector is facing hard times," MTBS said and we can agree with it. However, the reasons of such situation – nontransparent and inefficient regulations – make business projects impossible to implement. Practice is the only thing able to argue this statement, although such practice has nothing in common with decision-making in "institutional" field. Apparently, this is the main challenge.

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