

With the EU an eastern neighbour and its largest trading partner and market, Ukraine should be viewed as an important link in a trade corridor across the Black Sea, the Caucasus and the Caspian Sea to the Central Asia says **Arthur Nitsevych**

Does Ukraine offer the next container terminal investment opportunities?

Within the Black Sea and Azov Sea region there are a number of important container ports comprising Constanta (Romania), Ilyichevsk (Ukraine), Odessa (Ukraine), Novorossiysk (Russia), Poti (Georgia), and Varna (Bulgaria) of which the throughput of Constanta is greater than the two combined Ukrainian ports. This situation is not acceptable in the long run, especially when taking into account the advantages of Ukraine and its transshipment potential.

The Ukraine ports' throughput was around one million teu in 2007 and although 1.5m teu was predicted for 2008, the impact of the economic crisis reduced this to 1.254m teu.

Despite this, the aim is to improve service levels and increase container capacity in Ukraine's ports in order to win some of the containers that are currently transhipped at Constanta for Ukrainian

and Russian ports.

In 2008, 99% of Ukraine's containers were handled in Ilyichevsk and Odessa, the rest in Mariupol and Berdyansk. In Ilyichevsk which handled 670,556 teu, containers are

handled by the privately-owned National Container Company (NCC) subsidiary Ukrtranscontainer, where in November 2007 phase one of the US\$500m terminal has been completed, and by the state-owned port authority.



The Port of Odessa handled 572,170 teu in 2008

Odessa city port

In the Port of Odessa, which handled 572,170 teu in 2008, the major operator is HPC-Ukraine, a subsidiary of Hamburg Port Consulting. The problem with Odessa is that there is almost no chance of handling more containers as the Port is located in the centre of the city, although it is hoped that the development of a dry port reached by a new by-pass to the city outskirts will help.

Last year, Odessa witnessed a number of

changes: CMA CGM announced its participation in the Brooklyn Kiev Port joint venture project within the port of Odessa; the Privat Group's Peresyp project was frozen; MetalsUkraine resumed box handling. Ilyichevsk fishing port was sold for potential container development while APM Terminals made no significant impact on the operation in the port of Ilyichevsk.

According to Arthur Nitsevych, a Royal Haskoning maritime expert, large dredging works, navigational restrictions, undeveloped infrastructure of inland transport, ecological restrictions and poor cost-efficiency of construction and operations are among the factors why a range of Big Odessa's projects were cancelled, frozen or delayed.

Elsewhere in Ukraine, the construction of a new container terminal at the Port of Yuzhny is underway and phase one of the Transinvestservice (TIS) 430,000 teu capacity terminal is scheduled to begin operating in August 2009.

Furthermore, in the Port of Ochakov, an ambitious plan aims to turn the Port into a huge container handling facility with an annual throughput capacity of up to 5m teu. While this plan has been 'adopted in principle by the Ministry of Transport and Communications of Ukraine' a number of new container terminal projects have also been declared for the Ports of Sevastopol, Nikolaev and Kherson, although they are all



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too vague to even qualify for sensible discussion at this time.

Unacceptable levels of interference

One of the problems for Ukraine's ports is that there is no container handling price competition, as nearly all tariffs are set by the Ministry of Transport and Communications. As a result performance, productivity, customer service levels and the reliability of hinterland delivery routes are key factors for success. In addition, Ukraine's legal environment for port investment is 'far from perfect.' The need for a framework of laws and

regulation for public private partnerships and transparent tender procedures are vital for future success.

Matters have not been helped by the controversial decision in May 2008 of Ukraine's Cabinet of Ministers to reserve the right to approve port investment contracts. It is argued that not only is this legally questionable, but it has already resulted in a slowing down of incoming port investment. Conversely however, the Port of Odessa's

Quarantine mole project to construct a one million teu container terminal at a cost US\$500m which has stagnated for years, was suddenly granted preliminary approval by the Cabinet of Ministers at the beginning of March 2009.

With current spare capacity, the liberalisation of the customs regime for imported goods due to WTO membership and the potential to offer transshipment services to other countries of the Black Sea basin, many feel that in an uncertain world market where low costs are vital, now is the time for Ukraine's ports to concentrate on increasing container handling.

According to Nitsevych, the global operators already in Odessa and Ilyichevsk with 'proper' terminal facilities have an advantage with their good reputations and service levels, in a market where conservatism rules and winning new clients takes considerable time and effort.

However, there is need for more foreign investment. While potential investors may be wary of the perceived political risks, they should also consider the country's strategic importance and revenue-earning potential. Thus "despite the global political and economic problems, Ukraine's Black Sea ports will continue to attract foreign investment," Nitsevych concluded. ■

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