
ЕКОНОМІКА ПРИРОДОКОРИСТУВАННЯ



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ECONOMIC PROSPECTS FOR INVOLVEMENT OF INVESTORS TO RESOLVE ECONOMIC PROBLEMS OF BIG SEAPORTS AT THE WESTERN BLACK SEA OF UKRAINE

На основі проведеного SWOT аналізу досліджено економічні перспективи участі інвесторів у розв'язанні економічних проблем великих морських портів у західній частині Чорного моря України.

Ключові слова: SWOT аналіз, інвестори, морські порти, навколишнє середовище, соціальні проблеми.

The research of investors' involvement economic prospects to resolve economic problems of big seaport at the western Black Sea of Ukraine has been performed applying SWOT analysis.

Keywords: SWOT analysis, investors, seaports, environment, social problems.

Strong points

The prospects for mobilization of investments into the port complex of Ukraine are stipulated by their capacities and successes in economic activity.

Ports characteristics. At present Ukraine has 20 sea commercial ports. In Ukraine, there were issued total 680 licenses for shipping companies. The greatest number of licenses was issued for the subjects of economic activity in the Crimea: 186, 150 of them being in Sevastopol [1]. All the transport-refrigerated cargo fleet of Ukraine is based in that city, which comprises 4% of the world refrigerated cargo fleet. There are two specialized seaport, five shipyards, four oil terminals, 22 mooring bases for ships based on the maritime economic complex of Sevastopol.

In Odessa region, over 70 percent of all enterprises of the maritime economic complex of the country are concentrated. The biggest Ukrainian ports at the Black Sea are Odessa (34.6 million tons of load handling), Yuzhny (21.7 million tons), Ilyichevsk (18.9 million tons). In recent years the transportation and transit potential of Odessa oblast has substantially grown due to the work of Euro-Asian transport corridor, development of new capacities in ports and, above all, construction and commissioning of such important facilities as the oil terminal 'Yuzhny' and autobahn 'Kyiv-Odessa'. The Odessa port management forwarded the significant part of its profit to renewal of its basic assets. Investments in capital development exceeded 8 325 thousand UAH, in updating – 7596 thousand UAH. The port has purchased portal crane of 3 075 thousand UAH, loaders (2 648 thousand UAH), trucks (380 thousand UAH), tools and equipment (1 237 thousand UAH).

Despite the world economic crisis, in 2008 the marine commercial ports have handled over 132 million tons of various cargoes, which is by 6.8% more than in 2007. Growth of export was 11.3%, that of import – 18.8% and coasting – 5%. However, transit dropped by 0.7% [2]. Table 1 presents the dynamics of load handling by seaports of Ukraine in the recent twenty years.

Involvement of strategic investors into development of sea economy is performed through two directions:

- construction of new terminals;
- construction of new ports.

Table 1

Load handling by seaports ¹ [3, p. 236]

	1995	2000	2001	2002	2003	2004	2005	2006	2007
Total loads handled, thous. tons	53210	91943	98658	120601	126962	131761	138986	140610	157919
export	21916	42704	49310	62197	56171	65436	70698	68391	63860
import	4270	6840	7404	7605	10955	11675	13331	15231	18784
transit	24461	37351	37120	45715	55147	50004	50556	53198	69167
internal	2563	5048	4824	5084	4689	4646	4401	3790	6108

¹ Since 2000, including load handling performed by industrial enterprises that have their sea berths.

I. Construction of new terminals can be financed both by state funds and private investors. The analysis demonstrated that the investment activity in that segment of economy is restrained by unavailability of Ukraine unified policy of new terminals' construction. In experts' opinion, the following issues require their solutions [2]:

1. Unresolved is the issue of how to distribute the so-called 'dirty' loads – either in all ports or some of them. The experts propose to concentrate terminals for such loads in one or two bays, as it used to be in the former Soviet Union or the way it is done in Bulgarian seaport Varna, where all the polluting cargoes are concentrated in Varna-West port located at the distance of over 50 km away from settlements.

2. In the times when there was deficit of capacities for grain loading, grain terminals were constructed in almost all ports, though they are used by 30% even in the years of plenty.

3. Taking into consideration the fact that capacities of the existing terminals are only used by half, the expediency of construction of universal berths is under question. The experts propose to re-profile and reconstruct capacity existing in ports that already have significant infrastructure, including electric power supply systems, access transport communications and highly qualified workforce and engineers staff.

4. There is necessity in reconstruction and development of Ukrainian ports in compliance with the needs of the world market due to disappearance of some loads and appearance of principally new freight flows. This issue resolution requires thoughtful and efficient policy both on the state (branch-wise) level and on the regional one, for instance, within Odessa oblast.

5. For Ukrainian port, the vital is construction of container terminals. In Odessa. the preliminary project development for construction of two new container terminals have been made:

the container terminal with berthage of over 1600 meters on the rearranged coast. It is designed for acceptance of heavy-load container ships and rolling loads of Ro-Ro type. Its capacity is 850 thousand TEU a year. It is provided for the terminal to have its own access road connected to the main motor road. The approximate date of realization is 2012-2015;

the container complex on the unequipped coast of the 5th terminal with capacity of 120 thousand TEU a year with berthage of 240 meters and depths of 12.5 m. The approximate date of realization is 2011-2013.

6. The promising development direction for Ukrainian ports is the creation of highly efficient terminals for bulk cargoes providing environmental safety and people's health protection.

The analysis of metallurgy development proves persistency of demand for imported ore, just as to the time and volume. Now the large-tonnage vessels with deadweight of 100 thousand tons and more arrive to the Romanian port Konstantsa. Deficit of capacities for handling bulk cargoes in the Black Sea ports is going to be seen in the nearest time. As of today, there are two big projects for construction of bulk cargoes terminals in Ukrainian ports.

Odessa Ilyichevsk port has planned to bring its capacities for handling iron-ore concentrate and pellets, ores of non-ferrous metals on the first stage up to 3.5 million tons a year, and on the second stage to increase it by 4.5 million tons a year. The complex is supposed to be built in Yuzhny port. Its freight turnover will be 1.2 million tons a year. In conditions of port capacities' deficit for operating bulk cargos, final construction of coal and ore terminal by the private company 'Transinvestservice' looks promising. The terminal capacity with three deep berths can reach 10 million tons a year.

II. The example of affecting the ecological system of the Black Sea in the Crimea can be the project of the new port construction in Yevpatoria 'Crimean port-industrial complex 'Donuzlav'. The necessity to construct the new port is stipulated by the fact that the level of loading with oil and oil products transshipment turnover in ports of Odessa and Crimean ports (Kerch, Feodosia, Sevastopol) does not allow to increase volumes without reconstruction and big investments. Therefore, the decision on construction of the new oil transshipment complex in the Crimea is under consideration.

The project is at the stage of concurrences and initial designing. The big port-industrial complex 'Donuzlav' will powerfully affect all the components of the natural environment. It is related with the fact that the bulk, loose cargoes (like iron-ore concentrates, pellets, bauxites), raw oil and its treatment contain serious hazard of polluting the atmosphere, soils and adjusting water area of Donuzlav lake and the Black Sea. In accordance with the existing construction norms and rules, it is required to perform the complex ecological expertise of the project, both state and independent public one with obligatory chapter 'Environmental Impact Assessment'

Opportunities

The increase of investment involvement in order to resolve the economic and ecological problem of Ukrainian big ports is facilitated by the documents that determine the conditions of functioning and development of the port complex of Ukraine. Those documents include 'Strategy of Ukrainian seaports development for the period up to 2015' adopted by the Cabinet of Ukraine on July 16, 2008. The document provides for the change of port management structure, including terms and conditions of involvement of private investments into reconstruction and development of ports. It is proposed to apply various forms of governmental and private partnerships (leasing, concession, cooperative activity, investment agreement) depending on the specific conditions (the level of the facility readiness, the scope of required investments, their share in the whole cost of the facility, provision of transport and communications).

At present it is not possible to use the above-mentioned forms of collaboration of the governmental and private partnership as there is no available normative basis for successful and mutually beneficial cooperation with private capital, the involvement of which into the industry is the integral part of its development provision.

With the purpose of stimulating the innovation activity, there was developed the project of the Law of Ukraine 'On Special Economic-Legal Regime of Facilitation of National and Foreign Investors and Employment of the Area of Sevastopol City'. The project states the total governmental measures required to be implemented in order to radically change the situation on port complex of Ukraine:

1. Allow privatization of the state-owned ports, primarily non-profitable, and give access for the private investors to invest into development of Ukrainian ports.

2. Completely separate functions of the governmental supervision and provision of safe navigation from the commercial activity of the ports.

3. In perspective sea cities, form the regional bodies for complex management of the facilities of state and communal ownership (water area, berths, coastal areas, and realty facilities) with the

purpose of providing conditions for active investment processes into maritime economic complex of Ukraine.

4. Reserve the coastal area in industrial zones of sea cities for the purpose of ‘Construction of facilities of maritime economic complex’. At present the land in the ports’ areas is being fast long-leased for various facilities not related to the maritime economic complex, which can result in unavailability of spacious sites [4].

Port privatization is the vital problem for Ukraine. Lack of efficient ways to resolve it negatively affects the involvement of strategic partners to that sector of economy and does not allow to resolve arising economic problems. Therefore, adoption of appropriate laws providing seaport management assisted by state-owned and municipal companies with participation of private capital will positively result in port development and elimination of ecological problems.

Weak points

The low economic perspectives of investors’ attraction to resolve the problems of the Black Sea ecosystem include, first, needs in great volume of investments into reconstruction of existing ports and construction of the new ones, second, failure to implement program documents approved by the state and regional management bodies.

I. The given below data prove the requirement of big amounts of investments required for the port complex of Ukraine.

1. Per preliminary calculations, the reconstruction of all berths and development of port capacities of Sevastopol port, there will be required about 4.5 billion dollars of direct investment that would create 60 thousand jobs.

2. 48 million US dollars have been spent since the start of realization of ‘Transinvestservice’ Ltd. project ‘Construction of terminals for bulk cargoes in Yuzhny port’,

3. The company ‘Smart-Holding’ (Kyiv) is going to invest 1.581 billion euros into the reconstruction of Ochakov seaport (Nikolayevskaya oblast). In particular, for construction of coal and ore loading complex there will be allocated 663.102 million euros, 774.639 million euros for construction of containers loading complex and 143.710 million euros – for construction of grains handling complex. The modernization of Ochakov seaport is supposed to be finished in 2011. The company is planning to make the seaport deep-water one (15-17 meters), construct the terminal for transshipment and storage of iron ore with the expected capacity of 15 million tons a year, and coking coal with the capacity of 5 million tons a year, rearrange the terminal for having annual capacity of 5 million tons, and the terminal for transshipment of containers with the capacity of 3 million TEU. That project will require of alleviation of 40 hectares of the area, construction of about 75 railway and 50 km of motor roads [5].

II. The example of failure to fulfill the program documents approved by the state and regional management bodies is the Ukrainian state program on protection and restoration of Azov and Black seas. That program is not the governing document for realization of the governmental policy in that region. The program provides for implementation of safe types of activities and decrease discharge waters of enterprises. The volumes of pollution from those sources only, as well as annual 20-30 cases of oil spill in waters of both seas have substantially exceeded the restorative power of maritime ecosystems to restore. For instance, on November 11, 2007, in the area of Kerch sea channel, four ships sank, six ran aground and two tankers were damaged. As a result, about 1.3 thousand tons of mazut and seven thousand tons of sulphur were spilt into the water.

The like catastrophes bring to irreversible processes, decrease of fish resources. Fish catch in recent years is only 20% against the results of 70-s. Annually in waters of both seas just Ukraine does not catch fish products up to the amount of 75 million dollars. The recreation territories of the Azov and Black seas regions are also under threat. On the whole, Ukraine annually loses 1.7 billion UAH, about 200 million dollars, because of the Black and Azov Seas ecosystems pollution.

Threats

Among the threats of decreasing investments, the following political, economic and social problems of the Black Sea ecosystem should be focused on:

1. The political ones refer to: negative international rating of Ukraine; political instability; absence of political will to create favorable conditions for involvement of investors; authorities' corruption; unavailability of the governmental-private partnership; high political risks; no state guarantees for foreign investments that could be defended in court.

Almost in all important ratings, Ukraine takes the lowest places. So in economic freedom rating, the country takes the 133rd place (Ukrainian economy is considered to be only half-free). Just within a year Ukraine has lost 8 positions and, according to experts, the country is facing the brand of disgrace as 'economically not free country' [7].

The international rating agency Standard&Poor's confirmed the Ukraine's ratings per its debentures in foreign and national currency on the level «BB-/BB». The rating prognosis is negative [8].

The main factor of instability in Ukraine is stable and regular in itself. It is connected with elections and frequent change of the government.

2. Economic problems of investors' involvement for resolving problems of the Black Sea ecosystem consist of the following:

- economic crises;
- imperfection of taxation system, tax inspection defects (big taxes and collections, subjective interpretation of the acting laws);
- high taxation load;
- availability of schemes for embezzling budget funds;
- lack of stability of currency rates;
- high credit percentages in banks;
- no warranties;
- high risks;
- weak normative-legal basis;
- instability and ambiguity of laws;
- lack of effective mechanism for own funds involvement into investment process.

Under conditions of economical regress, the economic situation existing in Ukraine does not facilitate inflow of private investments.

In order to attract the foreign capital to economy, Ukraine is collaborating with international financial organizations. In November 2008, the IMF took the decision to allocate \$16.4 billions to Ukraine as stand-by credits. There have already been allocated three tranche to the total amount of \$12 billion. The fourth one was suspended because of presidential runs and political instability.

According to NBU, the gross external debt burden has grown up to \$104.376 billion by the end of November 2009. According to the World Bank, the foreign debt of Ukraine was about 84% of its gross domestic product (GDP) in September. Per results of 2009, the Ukraine's debts may be over 90% of its GDP.

In 2009, according to IMF, the Ukraine's economy has lost 14 percent of GDP and in 2010 it is going to grow by 2.7 percent only. In 2010 situation will not improve but it might be even worse. According to of the World Bank assessments, the state debts and collateralized loans in the current year will reach 41.7% of GDP. However, the Bank experts also forecast that Ukrainian companies will normally pay their debts and the total liability will be increased up to 82% of GDP.

3. The analysis of social problems of investors' involvement in order to resolve the ecosystem problems of the Black Sea has been performed based on questionnaire performed in September 2009 within the frame of the international project named SESAM. The project aim is the assessment

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of the coastal and maritime ecosystems of south-European seas. The project is financed by the European Union. The population of the cities of Sevastopol, Yevpatoria, Yalta, Odessa, Nikolayev and Kherson were questioned.

Table 2 gives the answers to the question ‘What do you consider the most important social problem of your country?’ The choice of 4 versions of the answer was proposed with rating from 1 to 4 according to their importance: 1 – the most important, 2 – average importance, 3 - important enough, 4 – least important.

Table 2

Distribution of answers to the question
‘What do you consider the most important social problem of your country?’

	1	2	3	4
Unemployment	95	60	49	42
Criminality	36	61	42	57
Natural degradation of the western part of the Black Sea	25	34	31	37
Public health system	50	57	73	49
Power corruption	81	65	40	43
Air pollution	15	26	43	48
Education	4	8	18	21
Mass migration of Ukrainians	1	1	11	18

It follows from the Table that the greatest number of questioned people indicated unemployment as the most important for the country problem (95) and power corruption (81).

In December 2009, in Ukraine, according to the State Committee of Statistics of Ukraine, the unemployment level was 1.9% - 531.6 thousand people. The highest level of unemployment in 2009 was registered in January and February: 3.2%.

The level of unemployment in Ukraine (calculated per methodology of the International Labor Organization) in the 1st quarter of 2009 grew up to 9.5% compared with 7.1% in the previous year. That figure means that about 0.5 million of Ukrainians have been deprived of jobs within 12 months before March 2009 [9, 10].

Per results of the fifth ‘World Review of Economic Crimes’ performed by the international auditing company PricewaterhouseCoopers, Ukraine is the sixth top in the world criminality rating. 45% of all national enterprises participating in questionnaire informed that within at least 12 months they encountered economic abuses. As to that index, Ukraine follows Russia (71%), South African Republic (62%), Kenya (57%), Canada (56%), and Mexico (51%).

The specificity of Ukrainian economic criminality is bribing and illegal seizure of property, i.e. seizures by raiders and robberies. The main factor for Ukrainian economic criminality growth is corruption and threat of firing during crisis times. Those companies’ losses because of economic fraud has been evaluated by over half of businessmen working in Ukraine as equaling to over 100 thousand dollars.

Per data of the State Committee of Financing Monitoring of Ukraine, in 2009 the law-enforcement bodies transferred 933 cases on financial operations that may be related to laundering of incomes obtained by criminal ways. They are grounded on 150 reports about doubtful financial operations, the greatest number of those locating mostly in eastern and southern regions of the country. According to the result of the previously submitted by the Committee materials, 400 criminal cases have been initiated. 116 of them were forwarded to courts and 85 had convictions [11].

The performed SWOT-analysis allows for making some propositions on activation of the western Black Sea port economy of Ukraine:

- the mechanism of formation and movement of investments, considering the development of the Black Sea ecosystem under conditions of insufficient development of Ukrainian financial market, needs correction and improvement. The main efforts should be directed to improvement of the state financial, crediting and tax policy, which would provide for economic attractiveness of investments into resolving environmental problems of the western Black Sea ports.

- perform audit in Ukraine by the International Maritime Organization at UNO. The audit will allow for Ukraine to take certain positions in the International Maritime Organization, which determines norms and standards for all activity directions at sea;

- implement standards of safety management in maritime economic complexes according to the international normative basis;

- develop organizational and economic mechanism and normative base for realization of the 'Strategy of Development of Seaports of Ukraine for the Period up to 2015';

- support the proposition of Odessa Social and Ecological Union on assessment of the existing anthropogenic impact on the Black Sea ecosystem considering construction of new oil and gas terminals. That assessment should reveal the ability of the sea self-purification and define the maximal allowable loading upon the various parts of its ecosystem;

- develop an Agreement on carbon credits for all countries of the basin, which is urgent for the Black Sea safety. Support the Concept of development of carbon credits (quotas) for all European countries of the Black Sea basin based on its assimilation volume. The Concept is based on the idea of cooperation using natural resources of the Black Sea by those countries.

In the countries of the Black Sea coast there should be unified the measures on protection and rehabilitation of the Black Sea; when forecasting and modeling the ecosystem changes of the Black Sea, it is required to take into consideration the role of strategic investors in strengthening of ecosystem loading by seaports.

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