

**INFLUENCE OF INTERNATIONAL INVESTORS  
THE STATE OF MAIN UKRAINIAN PORTS**

**Yasynetska Y.**

4th year student in the direction «Transport Technologies»  
Educational and Scientific Institute of Maritime Business

**Onishchenko S.**

Doctor of Economics, Professor, Professor of the Department «Fleet Operation  
and technology of sea transportation»

*Odessa National Maritime University*

**Abstract.** *This study analyzes the situation with investors that will be port operators in three Ukrainian ports and tries to forecast in what direction their relation will develop, how and why they will change, which influence it will be when these investors enter the market. In all cases I analyzed the strategy and these companies generally (with help of SWOT-analysis of each company), thought that's good decision to do their business in Ukraine or not, they have enough demand or many competitors. Also, I consider situation in Ukraine with law, reforms and economic.*

*Odessa is bigger city compared to Chernomorsk and Yuzhny, and it is a region center, so it has more benefits in logistics like better situation with railways and car roads, but other two ports have their benefits, too. Chernomorsk has more investors, because of many free space, and Yuzhny can accept deeper deadweight. Each port can be hub. It's very important to future economics of Ukraine and it can even be one of the best chances to finish economic crisis in our country.*

**Keywords:** *port terminal, Ukrainian market, cooperation, infrastructure, investment, competition, hub.*

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**ВПЛИВ МІЖНАРОДНИХ ІНВЕТОРІВ  
НА СТАН ОСНОВНИХ ПОРТІВ УКРАЇНИ**

**Я.В. Ясинецька**

студентка 4 курсу напрямку «Транспортні технології»  
Навчально-наукового інституту морського бізнесу

**С.П. Онищенко**

д.е.н., професор, професор кафедри «Експлуатація флоту  
і технологія морських перевезень»

*Одеський національний морський університет*

**Анотація.** Дана робота вивчає ситуацію з іноземними портовими операторами в трьох українських портах і прогнозує подальший розвиток відносин між ними, а також характеризує ступінь їх впливу на український ринок портових послуг. За допомогою SWOT аналізуються стратегії, загрози і можливості даних портових операторів з урахуванням існуючої нормативно-правової бази, реформи і економічної ситуації в Україні, а також враховуються особливості інфраструктури розглянутих міст, до яких відносяться аналізований порти.

**Ключові слова:** портовий термінал, Український ринок, кооперація, інфраструктура, інвестиції, конкуренція, хаб.

### ВЛИЯНИЕ МЕЖДУНАРОДНЫХ ИНВЕТОРОВ НА СОСТОЯНИЕ ОСНОВНЫХ ПОРТОВ УКРАИНЫ

**Я.В. Ясинецкая**

студентка 4 курса направления «Транспортные технологии»  
Учебно-научного института морского бизнеса

**С.П. Онищенко**

д.э.н, профессор, профессор кафедры «Эксплуатация флота  
и технология морских перевозок»

*Одесский национальный морской университет*

**Аннотация.** Данная работа изучает ситуацию с иностранными портовыми операторами в трех украинских портах и прогнозирует дальнейшее развитие отношений между ними, а также характеризует степень их влияния на украинский рынок портовых услуг. Посредством SWOT анализируются стратегии, угрозы и возможности данных портовых операторов с учетом существующей нормативно-правовой базы, реформы и экономической ситуации в Украине, а также учитываются особенности инфраструктуры рассматриваемых городов, к которым относятся анализируемый порты.

**Ключевые слова:** портовый терминал, Украинский рынок, кооперация, инфраструктура, инвестиции, конкуренция, хаб.

**Introduction.** The economic fall in Ukraine which began in 2013, didn't make people living in this country optimistic as to the country is progress. But despite of this situation, our country can attract potential investors in shipping business by our advantageous position and big supply of grain, iron ore and other types of cargo [7]. Anyway, we have problems like the absence of regulation about inland waters [1]. Our government provides many reforms (related with port and shipping, too [1]), so the situation changes almost every day and you need to have many patience to do business in Ukraine.

In Figure 1. you can see that all these three ports are situated near each other. Odessa Port (in the middle) is the oldest port, Yuzhny (at the top) has the deepest water and Chernomorsk (below Odessa) has the biggest quantity of free space. All time these ports have neutral relationships. Now the situation can completely change in both ways (competition or cooperation).



*Fig. 1. Map of Odessa region*

**Literature review.** Igor Hoshovskyy [1] in his report «Top 5 trade in Ukrainian shipping» explains general points and changes in Ukrainian law about ports and inland waters. First, he talks about situation with port administration and concession: he notices future investors may have some problems because of not enough stable position due to many reforms that our government is trying to provide all together. After that, he makes a review of the situation that happened with some big companies such as «Risoyl», TIS and Delta-Wilmar. He concludes his review by the sentence that many potential investors might think Ukraine isn't a good place for investment.

Konstantin Ilnitsky [2] wrote an article «Grain terminals in Ports: who, where, what builds». The main points of his work are forecasts and analyses of future demand in grain loading-discharging equipment and grain throughput. But he said nothing about the problem with railway facilities: throughput of

many ports could achieve 120 million tons by 2020, but analytics are not sure railway stations can serve at least 50-60 million tons [1].

Catherine Hrebenyk [3] in her article «Hutchison Ports: who created the biggest port operator in the world» was talking about one of investors that want to build its terminal in the port Chernomorsk. This company works with containers. Alexander Denisenko [4] also was talking about one of investors that is DP World. This company works with containers, too. The journal «Economic truth» [5] announced Chinese company Sinohydro wants to invest in the port Chernomorsk and analyzed the problems, why they can't begin their work right now. Moreover, I want to discuss the situation with Cargill that's discussed in another Catherine Hrebenyk's article [6]. Finally, to better analyze the situation I took some data from the article «Cargo trade of Ukrainian port in 2015: general trade» [7].

However, I can't totally agree with Igor Hoshovskyy, because the situation with the companies didn't influence the economic stability of the country and some people can explain that as a way to compete. Anyway, it was fixed by our government and his opinion is too critical. Also, he was talking about grain terminals, but, as for me, Konstantin Ilnitsky better highlights this issue in his article.

## **Results**

### *Cargill's case*

In the middle of 1990s this American company started to do its business in Ukraine in Donbass area. In 2000 when its plant began to work, they said that was the best decision and the best project in CIS. From that moment Cargill became leader on the grain and sunflower oil market. Not all their beginnings were successful, they failed with their strategy, recycling, transshipment and even financial sector.

First their problem was they didn't account for Ukrainian export (in the end of the 1990s it decreased a lot), but they solved these problems by building the plant that processed grain and sunflower. Unfortunately, this plant doesn't work now because of the situation in the east part of Ukraine. Next, as their main strategy there was built a plan in selection and seed production (in cultivation of hybrid seed culture and exchange of experience with ex-soviet scientists more exactly). Anyway, this strategy failed because American scientists didn't take into account all aspects of Ukrainian climate and, furthermore, Cargill had different views with their potential collaborator [6].

By 2005 they had their office in Kiev (capital of Ukraine) and did business in such sectors as vending grain, oils, seeds of oil culture etc. Many Ukrainian analytics didn't admire Cargill's politics. On the one hand, they used their big experience in many segments of the market, so they decided not to be leader, but at least to operate with little volume of the market (this thought made some agrarians unhappy, because this company was a core enterprise in

the market of grain and could change the price what even they wanted). On the other hand, they made people all the time think Cargill isn't just a simple company, they are an American company, so they all the time use their political support and even the company used its government relationships to achieve some of their purposes [6].

But their position of on American company not all the time was really good for even themselves. They had some problems in 2006 when our government limited export of grain (because of that, Cargill forced to pay for staying ships and handing cargo in the port without work). Also, the company had the problem with entering the port and building there its terminal. They had three failed attempts [6]. They explained they had many competitors and entering port (they decided to enter the port of Chernomorsk, because this port has many free place to build a new terminal). Such a big company will make many people feel uncomfortable in the market. All projects considered good plans, new technologies and attempts of different pieces of land, but anyway it was a fail.

The last challenge for them was a full breakdown of one of Ukrainian banks «Delta». They constituted 30 % assets of this bank. However, Cargill is interested even now in banks, because due to that they can help their agrarians finance the harvest.

Now they have also some problems as they have no their own terminal. For such a big company it's more convenient to have its own one and not to wait when it'll be free. As for me, they decided to work in a very good way, because the biggest cargo trade in Ukraine it's grain [7], and moreover the company considers now logistics situation's to their advantage. Anyway they're the third the biggest company that works with grain export in Ukraine and they are near their competitors, so the situation can immediately change. Let's consider SWOT-analysis that's presented in Table 1.

Table 1

SWOT-analysis of Cargill

<b>Straights</b>	<b>Weaknesses</b>
<ol style="list-style-type: none"> <li>1. Good strategy with their managers.</li> <li>2. Choice of good product with which to work.</li> <li>3. Worry about their suppliers.</li> </ol>	<ol style="list-style-type: none"> <li>1. Not enough knowledge about their cooperator.</li> <li>2. Lack of experience in doing business in Ukraine when they began it.</li> </ol>
<b>Opportunities</b>	<b>Threats</b>
<ol style="list-style-type: none"> <li>1. Main office in the capital of Ukraine.</li> <li>2. Presence of relative cargo trade.</li> </ol>	<ol style="list-style-type: none"> <li>1. Bad situation with economics of the country.</li> <li>2. Political crisis.</li> <li>3. Many reforms that can change every moment.</li> <li>4. Lack of their own terminal in one of Ukrainian ports.</li> </ol>

Strategy Analysis is shown in Table 2.

Table 2

*Strategy Analysis*

	S	W
O	<ol style="list-style-type: none"> <li>1. Continue exchange with managers.</li> <li>2. Use the opportunity with cargo trade.</li> </ol>	<ol style="list-style-type: none"> <li>1. Focus on searching relative co-operator, using the opportunity of main office in Kiev.</li> <li>2. Try other sector of business to have more experience.</li> </ol>
T	<ol style="list-style-type: none"> <li>1. Continue to worry about their suppliers to not to lose them, because of the situation in the country.</li> <li>2. Try to enter one of Ukrainian ports to not to wait in others terminals.</li> </ol>	<ol style="list-style-type: none"> <li>1. Focus on searching relative co-operator to avoid new instability.</li> <li>2. Not to decide anything that has a big risk to the company.</li> </ol>

We think that the best strategy is WT, because the company now is not in so good a situation and can totally lose its positions in Ukraine.

*Hutchison Ports' case*

Also, a good example of the company that was trying to enter one of Ukrainian ports. But unlike Cargill, Hutchison Port will have built their terminal in the port of Chernomorsk by the end of this year. They also had some failed attempt, but their strategy is completely different: they don't like to hurry up, first they collect information about a new potential market, they do the research about their customers and after that, they define the best strategy to achieve the leading position in this market. Therefore, before entering the port, managing director of European Department met our Minister of Infrastructure and officially visited the port of Chernomorsk. Moreover, Hutchison Port signed a memorandum about cooperation with Ukrainian government on the port Chernomorsk's development.

Our analytics forecast is that this company will attract cargo trade in Ukraine by their brand terminal. Likewise, the company administration announced they wanted to make this port a big logistic hub due to Ukrainian good transit capacity. But now they are just researching the technologic situation of the port [3]. In our opinion, from one hand, it's a good and convenient cooperation to all (company and country), because we have not so many companies that work with containers, so it'll be easy to enter the market. But, on the other hand, container trade takes the last position in cargo trade of our country [7], so it can make some problems to find the cargo to export.

Let's consider SWOT-analysis that's presented in Table 3.

Table 3

*SWOT-analysis of Hutchison Port*

<b>Straights</b>	<b>Weaknesses</b>
1. Strategy of not to hurry up. 2. World known company.	1. The cargo they want to work is not so tradable in Ukraine. 2. Lack of experience in doing business in Ukraine.
<b>Opportunities</b>	<b>Threats</b>
1. Memorandum with the government of the country. 2. Cooperation with the port administration.	1. Bad situation with economics of the country. 2. Political crisis. 3. Many reforms that can change every moment.

Strategy Analysis is shown in Table 4.

Table 4

*Strategy Analysis*

	<b>S</b>	<b>W</b>
<b>O</b>	1. Continue to analyze port facility before enter. 2. Use the port administration to have some benefits.	1. Try other sectors of business to have more experience. 2. Change cargo or have more types of cargo they wanted to work with.
<b>T</b>	1. Continue their strategy to avoid potential risks. 2. Use some money from other their business to cover some problems done by performs.	1. Change cargo or have more types of cargo they wanted to work with. 2. Use some money from other businesses to cover some problems.

In our opinion, the best strategy is ST, because the company have many sectors in which they're working and also they can build new cargo trade of containers in Ukraine.

*DP World's case*

This company trying to enter the Ukrainian market for the first time and is doing that now really successfully: their first project is Odessa port fleet. They think Odessa port has a really good (even the best in Ukraine) port fleet, because all maintenance and repair work they can do exactly in the port [4]. Not all are happy by the decision our government has taken, but it happened: The Minister of Infrastructure signed another memorandum with DP World about cooperation and development of port fleet in Odessa port [4]. Some ana-

lytics think it can be a big problem that Odessa port will have no port fleet of its own, so the port will lose one profitable way to earn money and this situation will provide monopoly in pilot service, but others think that's even good, because we have examples in some ports of our country.

Also, the administration of DP World wants to realize some projects in the Yuzhny port by building there their terminal, but now we have not enough reliable information to say they will be in that port. Moreover, our government thinks this company can attract some cargo trade by its brand name in Ukraine. Anyway, this port operator wants to work with container trade and, like Hutchison Port.

Let's consider SWOT-analysis that's presented in Table 5.

Table 5

*SWOT-analysis of DP World*

<b>Straights</b>	<b>Weaknesses</b>
1. Strategy of trying their best in not so important way just to have experience. 2. World known company.	1. The cargo they want to work is not so tradable in Ukraine. 2. Lack of experience in doing business in Ukraine.
<b>Opportunities</b>	<b>Threats</b>
1. Memorandum with government of country. 2. Cooperation with port administration.	1. Bad situation with economics of the country. 2. Political crisis. 3. Many reforms that can change every moment.

Strategy Analysis is shown in Table 6.

Table 6

*Strategy Analysis*

	<b>S</b>	<b>W</b>
<b>O</b>	1. Continue to collect experience in other businesses to understand the whole situation. 2. Use port administration to have some benefits.	1. Use memorandum to have more opportunities in other projects. 2. Change cargo or have more types of cargo they wanted to work with.
<b>T</b>	1. Try to achieve their goals step by step. 2. Cooperate with other countries to have cargo trade.	1. Continue to collect experience in other businesses to understand all the situation. 2. Cooperate with others countries to have cargo trade.

The best strategy is ST, because the country is not in such a good situation and instability can influence this companies activities.



*Extra case: Sinohydro*

Sinohydro is a state company that works with hydrotechnical equipment. They have their representatives in many countries, but their homeland is China (they built there 70 % of hydrotechnical equipment and infrastructure), and now they want to collaborate with Chernomorsk port.

But the main problem is they are a state company and they are not allowed to work with private companies. Because of that, our government has begun an experiment, as they say, of concession. Also, because of that our government has decided to redo the law about it, so it'll spend a lot of time before Sinohydro begins to do their business. But they have many alternatives and big interest in that port, so their director of Europe Department now is in discussion of all details of future cooperation [5].

Let's consider SWOT-analysis that's presented in Table 7.

Table 7

*SWOT-analysis of Sinohydro*

<b>Straights</b>	<b>Weaknesses</b>
<ol style="list-style-type: none"> <li>1. Good reputation in China.</li> <li>2. Big importance in Chinese hydro-technical equipment and infrastructure that can prove they are good in their business.</li> </ol>	<ol style="list-style-type: none"> <li>1. Company is not allowed to cooperate with non-state companies.</li> <li>2. Lack of experience in doing business in Ukraine.</li> </ol>
<b>Opportunities</b>	<b>Threats</b>
<ol style="list-style-type: none"> <li>1. Good choice of port they want to cooperate with.</li> <li>2. Reforms in Ukrainian law about concession.</li> </ol>	<ol style="list-style-type: none"> <li>1. Political crisis.</li> <li>2. Many reforms that can change every moment.</li> </ol>

Strategy Analysis is shown in Table 8

Table 8

*Strategy Analysis*

	<b>S</b>	<b>W</b>
<b>O</b>	<ol style="list-style-type: none"> <li>1. Tries to influence the situation with hub port.</li> <li>2. Waiting till the end of reforms in concession.</li> </ol>	<ol style="list-style-type: none"> <li>1. Waiting till the end of reforms in concession.</li> <li>2. Cooperate with the port administration to have more benefits.</li> </ol>
<b>T</b>	<ol style="list-style-type: none"> <li>1. Waiting till the end of reforms in concession.</li> <li>2. Use all their experience in doing business in China to feel more stable in crisis.</li> </ol>	<ol style="list-style-type: none"> <li>1. Waiting till the end of reforms in concession.</li> <li>2. Not to hurry up with doing business in Ukraine for not losing money because of unreliable cooperator.</li> </ol>

In our opinion, the best strategy is WO, because the company needs to wait till the end of reforms in concession.

Advice to investors

Our point of view is the following. Cargill need to focus on their main problem: they trust not adequately good and reliable companies and people. Not all suppliers are happy that the company is a core enterprise, but, furthermore, now Cargill's trying to improve their strategy to have better relationships with them. We think they need to analyze the market and find people that are really reliable.

About Hutchison Port, they know what to do and have big plans. Just one thing that can be a problem, their strategy: they have a big competitor in DP World that can attract Hutchison Port's consumers or suppliers.

However, DP World need to hurry up with entering port like container port operator or build strong relationships with potential suppliers and consumers that can help them to compete with Hutchison Port.

Finally, Sinohydro: they need just to wait till the situation with the law about concession is over and after that they can try their best in one of Ukrainian ports.

**Conclusions.** Many port operators will enter Ukrainian ports by the end of this year, all are really known in the world, so they can bring in potential investors and costumers to our country. If Hutchison Port achieve their goals, Chernomorsk will be hub port, but anyway these three ports are situated near each other, so cooperation cannot take place in that relationship. Cargill have many competitors because of really big sector of the market, but now it can't influence so much in the situation of these three ports. DP World should compete with Hutchison Port, so relationships with Chernomorsk and Yuzhny ports will be competition. Also, on the side of Chernomorsk port is Sinohydro company that'll raise the status of this port. About the ports of Odessa and Chernomorsk, I think they'll cooperate in the same way as Odessa and Yuzhny, because Odessa is a regional center and has a better railway infrastructure.

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