

Ports in Russia and the Former Soviet Union : Some Economic and Policy Issues

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1. Introduction

In order to understand the current economic situation of the ports industry in Russia, and in the other former republics of the USSR now independent since 1991, it is necessary to appreciate at least the following three features of that industry and its recent development. The first is that the Soviet maritime industries (including ports and in common with many other industries but perhaps in an even more extreme form) were part of an all-Union integrated scheme of things. This had a profound effect on the way in which the sector was able to respond to the needs of integration into a market economy. The second point, which is related to the first but which

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appeared in a particularly acute form as far as ports are concerned, is that when the Soviet Union collapsed Russia lost most of its ports. A third important point to recognise, especially for anyone used to the super-ports of Asia is that, despite having the largest the longest national coastline in the world, and despite the fact that shipping is among its most important industries (there are eight shipping companies in Russias top 100 companies, see Blasti, Kroumova and Kruse (1997)), Russias seaborne trade is tiny. Accordingly, its seaports, both those which remain in Russia and those which are now located in independent states - are quite small by world standards.

The plan of this paper is firstly to develop some of these points in more detail and then to in a final section to assess the current situation and perhaps to speculate on future developments.

2. The role of ports in the Soviet system

It is well-known that, for many industries, the planning system of the USSR resulted in the creation of huge all-union enterprises in which all or a significant proportion of the output of a particular commodity was produced at perhaps just one or maybe a small number of plants. A similar effect operated in the maritime industries. Maritime transport, including seaports, was centralised under the control of the Ministry of Merchant Marine and within that structure specialisation was the guiding organisational principle. Thus, typically, as Hans Peters of the World Bank noted each carrier and port has been developed and was to be managed for specific purposes in support of all-Union trade... investment decisions, service arrangements, productivity targets and service charges were centrally determined and each unit in the waterborne transport system had to follow corresponding instructions (Peters 1993, p268).

The consequence was an extreme degree of port specialisation. Examples of the pattern of specialisation include Ventspils and Novorossiysk in oil; Riga in containers; and Muuga (Tallin) in grain. The degree of specialisation can be seen in Table 1 in

the Appendix where of the twelve ports listed only Odessa had a significant cargo turnover in all categories of cargo.

Moreover, the ports were organisationally and managerially linked to national carriers (shipping companies) and hence were specialised by routes as well as by commodities. The situation is well-described by Peters (1993): the seaports were subordinated to the regionally-based national carriers..... the central authorities decided the role a port had to play and directed predetermined types of ships and cargo to each port. Their rationale was that ... there was no efficient freight forwarding system in place for the cargo positioning required. As a result most ports became highly specialised, there was little scope for diversification, and the prevalence of centrally-assigned carriers created a management environment in which questions of competitive strategy and service improvement hardly ever arose (pp273-4)

Also, in common with their industrial counterparts, Soviet ports were hugely overmanned in comparison with similar Western facilities in part because they were obliged to undertake and provide a wide range of social and other services. Again, according to Peters (1993) something like 40% of a ports activities [were] totally unrelated to trade and transport..[but were devoted to] a variety of communal needs and social services such as operating schools and hospitals, and managing farms and factories that cater for their employees and their families (p273). For example, according to the National Maritime administration of Sweden (1992) Baltic states ports employed 185 workers per tonne of throughput as compared with only 37 in a comparable Swedish port.

Thus, it could be fairly argued that both in the period leading up to the break-up of the USSR in 1991 and afterwards the ports of Russia and of the other countries of the FSU were not well-placed to act as independent entities in a global market economy. In fact, the explicit organisational link of seaports to carriers was removed in January of 1991. However, during that year and during 1992 the ports continued to be centrally administered by the Department of Maritime Transport (at least for Russia) which decided on all aspects of port management, ranging from investment policy to fixing the schedule of service charges. It is interesting that the schedule of port charges was used as an explicit instrument of commercial policy to further

Russian national advantage by discriminating between the tariffs applied to national and foreign carriers and ships flying the flag of countries with whom Russia [had] preferential trade agreement (Peters (1993) p274). This policy can be seen as a partial continuation of the former Soviet policy of, whenever possible, exporting CIF and importing FOB with the objective of thereby favouring the use of Soviet carriers.

3. The break-up of the Soviet Union and its aftermath

The effect of the collapse of the Soviet Union in 1991 was particularly traumatic for the maritime sector and for the ports industry in particular. Simply put, the Russian Federation lost more than half of its port capacity to the newly independent states. Table 1 in the appendix indicates the scale of the problem. a more complete analysis reveals that of the 25 principal commercial ports of the Soviet Union 16 were lost. These 16 accounted for 172 million tonnes of cargo in 1990 while the nine which were retained, accounted for about 112 million tonnes of cargo. Most notably, in the Baltic, Riga and Ventspils were lost to Latvia (as was the naval port of Liepaja); Tallin was lost to Estonia and Klaipeda to Lithuania, while in the Black sea region Russia lost Odessa to the Ukraine as well as a number of smaller ports. Only in the Russian Far East did the Russia Federation retain all of its former port capacity.

The effects of the break-up were traumatic for all sides and, of course, were compounded by, and in part conflated with, the general economic collapse of the FSU which started even before the political collapse in 1992. Thus for both Russia and the Commonwealth of Independent States (CIS) as a whole, real GDP has fallen in every year from 1990 to 1996 and this has been accompanied by a collapse of traditional trade.

The sources of disruption and uncertainty have been political as well as strictly economic. In the Baltic states, for example, there was initially considerable uncertainty and apprehension about the continuing presence of Russian troops in these countries. the troops issue was fairly speedily resolved but there has been continuing uncertainty concerning the longer term status of large Russian minorities in Latvia

and Estonia.

Uncertainty affected both sides. In Russia there was considerable uncertainty about the long term viability of traditional routes and effort was devoted to switching to alternative routes. At the same time the ports which were now in newly independent states faced uncertainty about sources of cargo. Thus, at this time, the loss of the Baltic ports led to proposals for a new super-port at Ust Luga, about 70km south-west of St. Petersburg, to replace Ventspils and Riga in particular at estimated costs in the region of US\$4.5 billion. In fact the new port has not been built - in part because the funds were simply not there, but more significantly because the urgency of the perceived need diminished. In the first instance, cargoes were switched to Finland but more recently relations with the Baltic states have normalised and many cargoes have reverted to their traditional ports

With the break-up of the Soviet union cargo which hitherto was simply trade following a certain route overnight became transit trade and as such had to cross new borders where often it was subject to new customs duties, export taxes, regulations, railway tariffs and other distortions to trade. No-one who has had occasion to cross some of these borders can doubt their potential for holding up traffic! These distortions have been particularly acute in the Ukraine where, in 1995 at a combined total of 22.9 million tonnes dry and liquid bulk Russian and CIS transit cargoes were only 34% of their level in 1990. This may be compared with export, import and coastal traffics in the same region which in 1995 were at 53%, 63% and 67% of their 1990 levels. The latter figures reflect the continuing internal economic problems of Ukraine but the transit figures represent switching to alternative routes both in the Black sea region but also further afield to Latvian and Lithuanian ports in the Baltic.

In the Baltic similar problems have appeared but on the whole have been shorter-lived and the recovery has been much stronger than in the Ukraine. For example developments in the freight turnover at the three Latvian ports of Ventspils, Riga and Liepaja (former Soviet naval base which is now in the process of conversion to commercial use) is given below:

Cargo turnover at Latvian ports (m tonnes)

1988	1989	1990	1991	1992	1993	1994	1995	1996
45.2	44.2	36.2	33.1	27.5	27.6	35.0	38.5	46.0

Source: *Latvian Ministry of Transport*

The decline in cargoes associated with the various factors discussed above is clearly evident but even in the worst year, 1992, the decline is not as severe as for the Ukraine and, in any case, throughput surpassed its 1990 level by 1995 and had even surpassed the 1988 peak by 1996. Moreover, by 1996, 90% of the bulk cargoes shipped through Latvian ports represented Russian and CIS transit trade and from Table 2 of the Appendix we can see that as far as container cargoes are concerned, Riga, for example, had, by 1995, far outstripped the 1989 volumes of Russian bound container cargo.

4. Post-Soviet Union developments: commercialisation and privatisation

The principle task facing all FSU states was to transform their economies into ones which could operate in the global market economy. This meant first commercialisation of enterprises and then privatisation. In the ports sector, everywhere there has been commercialisation. In some cases there has been municipalisation ie the local authority or municipality has taken over nominal ownership of the port

However, there have been significant differences by country in the pace and form of privatisation. In Russia, for example, ports have participated in the Russian mass-privatisation scheme which has left them, as with much of the rest of industry, typically in the hands of insiders with a varying residual of state interest. Thus, in Russia for example the port of St Petersburg is a joint-stock company in which the state retains 49% of the shares while 20% is owned by employees and 31% is in outside private hands (including foreign investors). On the other hand in Vladivostock the state share is only 20%, while Nakhodka, which is also free

economic zone, appears to be 100% owned by upstream shippers - namely metals suppliers. However, in Russia, the Ministry of Transport has retained a degree of control of port tariffs - the objective being to influence shippers choice in the national interest. In addition, the Russian central authorities have attempted to use railway tariffs for similar purposes.

In the other republics privatisation has been slower than in Russia and port privatisation has almost everywhere been slower than many other sectors. However, even where ports as a whole have not been privatised many individual port activities, such as stevedoring, have been. For example at Ventspils the developments of the 1990s have seen the port change from a single facility, that combined all port functions in a single administration, into a set up in which different functions are performed by separate companies eg Ventspils Nafta is concerned with oil conveyance which, Ventamonjaks deals with shipping of ammonia and other liquid chemical cargoes, New Ventam specialises in bulk-ferro alloys, and so on. Some of these are fully privatised companies, though not yet Ventspils Nafta which, as the company responsible for oil transportation, is by far the biggest. However, Ventspils Nafta is a joint-stock company with private shareholders and it is interesting to note that up-stream suppliers eg oil companies in Russia hold a significant block of shares. This fact, no doubt, in part accounts for the rather rapid recovery of traffic volumes at Ventspils and for the plans to construct a third oil pipeline.

Riga port is not yet privatised, nor is Tallinn, though both have private stevedoring companies and, in the case of Riga, 30% of its container terminal is Dutch owned. Everywhere there is a shortage of capital and foreign investment is eagerly sought.

5. Some current issues

With the possible exception of the Ukraine ports, most of the important ports of the FSU have made reasonable progress in coming to terms with a market economy. Huge problems remain - in 1996 Russian the volume of freight transport in general was 38% down on its level in 1991. This is indicative of the depression of the economy as a whole and of the transport sector in particular. Infrastructure remains poor throughout the region - in 1992 a \$3.3b Russian Port Development Programme

was conceived but to date less than 3% of the budgeted funds have been received.

Progress has been made in diversification of cargoes, though there remains a serious imbalance in the nature of cargoes. Exports are almost entirely bulk cargoes - liquid and dry, while with the exception of grain imports are containerised. Virtually, no Russian exports are as yet containerised.

Progress has been most noticeable in the ports of the Baltic states where cargo turnover is now surpassing the peaks of the late 1980s. However, there are problems on the horizon even for the Baltic ports arising from the competitive situation in the region. Even at present there is severe competition for transit cargoes - however, given current plans this is likely to be much exacerbated in the not too distant future. For example, new container terminals at Riga (300,000TEU), Tallin (200,000TEU), St Petersburg (150,000TEU) and Klaipeda (160,000TEU) are either under construction or in the pipeline. The current size of the Russian market is estimated at 500,000TEU. The figures speak for themselves but they even understate the extent of the potential problem since in addition to the former FSU ports in the Baltics shippers have other options - Finland has already been mentioned but others include Polish Baltic ports and then rail or the Baltic can be altogether by-passed by using road or rail directly from Europe.

Finally, perhaps one should say something about free ports or economic zones which remain something of a buzz word in the context of port development. Nakhodka in the Russian Far East already is one and another, straddling Russia, China and North Korea has been proposed on the Tumangan River. Here is not the place for a full analysis but surely the principal effect of such a zone is to displace activity from outside the zone - as such it would be good for a port located within a zone but of possibly marginal significance for the economy as a whole, unless of course the diverted activity came from a different country. But then of course one may run into a problem of competition in free zones!

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<Appendix>

Table 1: Cargo turnover and breakdown in selected key ports in FSU (1990)

		Total cargo (mt)	Liquid cargo (mt)	Dry cargo (mt)	Bulk cargo (mt)	Container cargo (mt)
Russia	Novorossiysk	43.6	34.5	9.1	6.9	-
	Tuapse	14.6	12.0	2.6	2.2	-
	Vostochny	11.6	-	11.6	8.8	2.0
	St Petersburg	10.9	-	10.9	7.1	0.9
Other FSU	Ventspils (Lat)	31.7	26.6	5.1	3.7	-
	Odessa (Ukr)	26.7	17.1	9.6	7.8	0.4
Republics	Klaipeda (Lit)	15.5	7.1	8.4	2.0	-
	Ilychevsk (Ukr)	14.5	-	14.5	5.4	1.0
	Marioupol (Ukr)	10.9	-	10.9	9.0	0.3
	Yuzhnyy (Ukr)	10.3	-	10.3	10.1	-
	Riga (Lat)	6.1	-	6.1	4.6	0.7
	Tallin (Est)	3.3	-	3.3	2.4	0.2

Source: Peters (1993)

Table 2: Baltic Sea Container Ports: Throughputs 1989-1996

Port	1989		1991		1995		1996	
	TEU 000s	Russian traffic (%)	TEU 000s	Russian traffic (%)	TEU 000s	Russian traffic (%)	TEU 000s	Russian traffic (%)
St Petersburg	107	100	61	100	92	100	100	100
Helsinki	247	10	219	10	338	10	362	3
Kotka	46	-	45	5	131	55	174	60
Hamina	-	-	-	-	28	95	60	95
Tallinn	-	-	-	-	39	45	48	70
Riga	20	60	10	10	120	40	140	50
Klaipeda	-	-	-	-	30	20	35	20

Source: *Containerisation International* January 1997