

INVESTMENT in Ports of Ukraine



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Investment is rather a wide concept covering all issues related to commercial transactions beginning from simple credit and ending with complex forms of participation in the property and business affairs of a company. A person having available financial or material resources (investor) transfers them to another person (investee) to implement some project with a view to obtaining benefits. Let's try to make some assumptions as to the ways through which Ukrainian port enterprises can get access to foreign financial and material resources to develop their port economy regardless of whether they are state ports or private handling terminals. Port economy means the whole property complex serving the basic intended purpose of any port, namely, to handle cargo.

It is no secret that the existing port economy system is to serve the interests of Ukrainian enterprises exporting the results of their activity like raw materials, metal and agricultural products. In this case the only task of the port economy is export reduction in cost and, accordingly, there is no any question as for its development or such question may arise in case when it is not able to serve the interests of Ukrainian exporters.

At the same time due to its geographical location the port economy shall sooner rather than later serve not only interests of Ukrainian export, but the interests of transit. This provides reasonable explanations as for adoption of various state programs on the development of Ukraine as a transit country. These programs will remain unrealizable until a new



understanding comes according to which the port economy is an independent and quite profitable type of economic activity, not a subdivision (work shop) of Ukrainian exporter enterprises. It is supposed that the global economic slowdown and reduction in Ukrainian export are to speed up that process; however, the lack of free and cheap domestic resources for development of the port economy shall inevitably lead to an appeal for investments applications towards foreign financial organizations and private investors.

The only publicly available way to find a foreign investor is a tender, which is any proposal to be accepted. Ukrainian legislation

stipulates, instead of the foreign word "tender" in the abovementioned meaning, another foreign word "offer", while the word "tender" is used in the meaning of public sales related to purchase of goods, works and services for state money. Hereinafter, so as to avoid any misunderstandings we shall use the term "commercial offer" in the meaning of proposition for acceptance instead of "tender", which is a well known term in Ukraine.

To receive investment into the port economy any port enterprise has to set out a commercial offer, the subject of which is an investment project, and to inform potential investors about such of-

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fer and choose the most acceptable among them. It does not depend upon the essence of the project: whether it is construction of a new port or terminal or reconstruction, expansion or modernization of the existing one. It should be kept in mind that any investment project is an article of trade and it is a unique article of trade in such sector as the port economy that can be sold in any case though the cost may differ greatly. That is why a commercial offer to be accepted on the most profitable conditions for the port enterprise should meet specific requirements, namely:

Profitability

A commercial offer has to provide some profits received by the investor, for example, interest on investment, interest on the share of profits that the port enterprise and investor can share between them or, in the long run, discounts or benefits the investor can decidedly rely upon implementation of the project. Accordingly, the investment project specified in a commercial offer should be profitable in all cases. Even so, the rate of return has to be quite definite and available for the investor even at the stage of receipt of the commercial offer. The low rate of return is in itself not an obstacle to receiving investment; however, it will require additional guarantees from the port enterprise and will have an influence on the investment value.

Cost and term

A commercial offer should contain an investment project value expressed in a definite amount of money which needs to be spent within a definite term to implement the project. The investor should know that the investment project value is quite definite upon receipt of the commercial offer. If the project value cannot be expressed by a fixed amount due to some objective causes, then the exact criteria should be indicated according to which the amount

shall be calculated. The same relates to the terms for execution of the project. Neither is uncertainty in the value and terms an obstacle to receiving investments, but it does influence their value and requires either guarantees or risk-taking as for the rise in cost of the project and extensions of terms of its implementation.

Feasibility

A promise of profitability contained in the commercial offer for a definite value within some definite term does not guarantee receipt of investment unless the investor is persuaded in the project feasibility. In this case, feasibility of the project means not real implementation of the project being capable to put it to the tests that are impossible for a port enterprise when drawing up the commercial offer, but a practical possibility to implement the project on the basis of the circumstances known to the port enterprise. Thus, the investor should be informed about all circumstances that can in any way influence implementation of the investment project.

Implementation criteria

Considering that practically each investment project is supposed to be implemented within quite a long period beginning from the granting of investment and ending with their return together with the promised profits, the commercial offer has to contain some specific requirements according to which the efficiency of the project shall be controlled. The choice of criteria depends upon the type of project and can be expressed, for example, in fleet tonnage or volumes of cargo handled. However, such criteria are to be strictly defined to avoid any reproaches as to inefficiency and other misunderstandings between the investor and port enterprise.

Alongside the requirements related to the content of commercial offer, we should dwell on the conditions to be met by the port enterprise wishing to receive in-

vestments. The conditions are general and consist of reasonableness and respectability. If the business reputation of the port enterprise is not known to potential future investors receiving its commercial offer, they are to be provided with the corresponding confirmation. A due diligence report issued by an independent expert is a well-known and quite sufficient document in such cases.

When announcing a commercial offer to potential investors and choosing the most acceptable among them one should remember that each serious foreign financial institution takes care of its business reputation. Thus, procedures for commercial offer announcement and choice of the investor are to meet requirements for honesty, openness and clarity. Any uncertainty or ambiguity in choice of the winner even from small number of potential investors that can cause doubts as for honesty or suspect collusion, influences the business reputation of the winner that will withdraw a commercial offer to protect its reputation.

The search for the most acceptable investor is a rather labor consuming process and requires special skills and experience. That is why quite often a commercial offer is entrusted from the very preparation and till the signing of the investment agreement to specialized organizations which have the required skills and experience. Due to the deep knowledge of international sea and transport services markets, on the one hand, and new technologies in financing, on the other hand, they successfully consult state and private companies of sea and transport sectors on issues related to the prospective development of business and financial transactions all over the world. And, perhaps, Ukraine should not "reinvent the wheel" in organizing tenders and auctions to attract serious investment in a port, the only thing to do is to make use of international experience and practice.

**The Ukrainian
PORT Sector
is LOSING
private sector
INTEREST as
there is NO
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BUSINESS
ENVIRONMENT
for private
entrepreneurs
to INVEST IN**