CONTENTS

1 EXECUTIVE SUMMARY

This report contains the findings of the UK Trade & Investment (UKTI)-sponsored scoping mission to Russia to identify the status of the ports market and possible opportunities for UK companies. It also includes specially commissioned research carried out by SeaNews, a St. Petersburg-based marine news agency, and information compiled by the team at the British Consulate General.

The mission was made in September 2009 to coincide with the prominent ports conference "Beyond the Crisis – New Directions and Forces Affecting Port Development" held within the maritime exhibition NEVA 2009, which took place in St. Petersburg. Visits were also made to Moscow and Novorossiysk and meetings held with industry representatives from both the public and private sectors. As the title of the conference indicates, Russia is still in recession and there has been a significant decline in some cargo flows, most prominently containers for which plans were in place at many ports for the previously predicted steady and continuing increase in demand. However, in overall terms, the cargo throughput at Russian ports has actually continued to increase over the last year, albeit only by one per cent, largely due to increased exports of coal, grain and oil.

This report focuses on Russia's northwestern and southern ports and identifies some opportunities in the Baltic, Arctic, Black and Caspian Seas. While many of these are driven by bulk commodities (cargo at Russian ports is 75 per cent export), there is also a requirement for modernisation, often in connection with container terminals and supply-chain logistics.

The public sector, through federal unitary organisation Rosmorport, is responsible for constructing and maintaining the vast majority of marine infrastructure such as berths and navigation channels. In addition, there are several private-sector companies developing terminals at ports across the country. Public Private Partnerships (PPPs) are often referred to in meetings and it is clear that both the public and private sectors have an important role to play in the development and modernisation of Russia's ports, although the framework does not seem to be clearly defined.

Reports of delays and difficulties at Russian ports are often associated with the Customs authorities, which are powerful and have some influence on all port developments in the country.

Although funding has been cut on many port projects, the Russian Federation (RF) has set the target of increasing port capacity to a level of 774m tonnes per annum by 2015. This is an increase of 45m tonnes for each of the next five years. Even if this target is delayed as a result of the recession, it does show a substantial requirement for expanded and modernised port facilities.

When the recession ends there are likely to be many opportunities in Russia for UK companies associated with port development. Many of these will be in the private sector, because winning work in the public sector is generally a more time-consuming process.

The Russian Federation (RF) has set the target of increasing port capacity to a level of 774m tonnes per annum by 2015.

2 INTRODUCTION

2.1 Scope and Methodology

This report, which was undertaken by Ports and Terminals Group on behalf of UK Trade & Investment's Ports Unit, was written by Gordon Rankine of Beckett Rankine, a member firm of the group. It gives an overview of the current market conditions and opportunities in the Russian ports sector, focusing, on the north-west and south of this vast country. Research into ports in these two areas was carried out by SeaNews, a St. Petersburg-based marine news agency, and concentrated on identifying development projects that have been announced.

Rankine was accompanied on the mission by Andrew Thomas of UKTI. Visits were made to Russia's largest port at Novorossiysk on the Black Sea, St. Petersburg on the Baltic, as well as to Moscow. At Novorossiysk, meetings were held with representatives from the port and container-logistics businesses and included a guided tour around the port, which has terminals for most types of cargo. In Moscow, meetings were held with public and private-sector organisations including Rosmorport, which effectively owns most ship berths at Russian ports on behalf of the state. The visit to St. Petersburg was timed to coincide with the NEVA 2009 exhibition and conference "Beyond the Crisis – New Directions and Forces Affecting Port Development". This provided a useful insight into the latest trends in the Russian ports sector, as well as an opportunity to meet relevant individuals, particularly on the boat trip and reception organised by the British Consulate-General. While in St. Petersburg, meetings were also held with Russian port planners and developers. The schedule was arranged by Olga Makarchuk, assisted by Alexander Petrov from UKTI Russia. The author would like to thank the Consulate-General staff for their considerable assistance in preparing for the visit and for providing useful information.

This report contains the findings from the mission. In order to cover as many prospective opportunities as possible, information about potential projects has been included in this report without full verification. The veracity and timeframes mentioned should therefore be checked before taking further action.

2.1 About the Author

Gordon Rankine is a director of marine consulting engineering firm Beckett Rankine and has over 30 years' experience of planning and designing ports and marine infrastructure around the world. He has specific experience of working on development projects at Russian ports, including container, RoRo, oil & gas and timber terminals.

3

AN OVERVIEW OF RUSSIA AND ITS PORTS

3.1 Overview

The Russian Federation is dependent on its seaports to enable growth and to deliver foreign revenue, particularly from exports of minerals, hydrocarbons and other commodities that it has in prodigious quantities. Although Russia has coastlines on five different seas, many of them are not as developed as might be expected for such a powerful nation. This is because the coasts are generally in remote and difficult places that are not readily suited to the construction of ports, suffering as they do from winter ice, limited land or shallow water. Furthermore, with the break-up of the Soviet Union, many of the natural port sites were lost to other countries.

Cargo throughput at Russian ports is expected to have increased to nearly 500m tonnes in 2009 (based on figures up to the end of November). This would be a nine per cent increase following the equivalent one per cent increase in 2008. However, these overall figures mask some difficult trends. Exports of coal, grain and oil have increased, while the throughput of fertilisers, timber and containers has decreased. Combined with the start up of new port capacity, this caused starkly contrasting performances between different ports in 2009. Cargoes at St. Petersburg, for example, declined, while the new port at Ust-Luga continued to expand.

The northwest of Russia handled 45 per cent of cargoes, compared to 36 per cent in the south and 19 per cent in the east. Some 75 per cent of cargo tonnages through Russian ports are for export.

While this report does not cover inland waterways, it is noted that Russia has a number of substantial rivers with important navigation routes. There is a desire to expand navigation and improve the ports on these waterways.

One of the biggest and most recurrent issues surrounding the prospects for redeveloping ports in Russia is the relationship with Customs. Slow and complicated paperwork, discrepancies, constant updates and lack of electronic interaction make Russian Customs procedures very difficult to accommodate in an efficient port-operating framework. The Customs authorities have considerable influence, having the power, for example, to control cargo flows by restricting or closing borders or ports. They also collect large amounts of revenue, although during the recession they have collected less and are therefore looking for other sources of income. However, there are some signs of improvement, with attempts to consolidate Customs posts at the borders from more widely dispersed offices.

The use of containers is at a lower level in Russia than in many other countries, although this can partly be explained by the well-developed overland international transport routes. However, there are other factors, such as fines that have to be paid for all containers not exported within six months of the date of import. As these have to be paid by the receiving agent, there is a resultant lack of interest in sending containers up country. Moreover, confusion is caused through the Customs regulations being unclear on whether a container is actually part of the truck or whether it is itself classed as goods.

3.2 Russia's Coastline

Baltic Sea

St. Petersburg has for many years been the dominant Russian Baltic port, boasting a vast maritime heritage. However, its much-needed expansion is restricted by the close proximity of the city and the limited water depth. The authorities are now seeking a transformation, with more focus on cleaner cargoes such as cruise, containers and cars, as well as land redevelopment. Some cargo developments have been stopped because they are environmentally undesirable.

Newer ports are therefore being promoted where there is more space away from the congestion of St. Petersburg and yet close enough to serve its needs and to tie in to the main road and rail infrastructure. The new port at Ust-Luga is the most advanced of these developments, with several terminals already in operation, but there are also some other new ports being considered. On the northern shore of the Gulf of Finland, for example, there are the ports of Primorsk, Vysotsk and Vyborg, with the former two having been constructed quite recently.

Arctic Ocean

The Arctic Ocean is one of the most challenging places for port development, not only because of the severe constraints associated with operating a port and shipping in icy conditions, but also because of the remote location and short periods of warmer weather. However, there are significant rewards for those who can work with the elements and secure a foothold in this region.

Russia and its Ports

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With the polar icecap apparently diminishing as a result of global warming, more credence is being given to the prospect of the Northern Sea Route opening up as a shipping lane for cargo between the Far East and Europe/North America. This will require considerable support infrastructure, including ports. Also, the huge quantities of gas and oil reserves in the north will shortly be exploited, with the offshore Shtokman field already under development and the even more remote Yamal to follow. There are also many other minerals in this region, all of which will require substantial shipping and port facilities. Murmansk, with its ice free and well-projected harbour, is strategically well placed, although other locations are also being promoted.

Black Sea

When considering the size of Russia compared with other countries around the Black Sea, Russia's coastline is relatively short. It is also difficult to develop new ports on this coast, because in many of the locations where the extensive mountainous terrain does not extend to the seashore, towns have been built up as holiday resorts along the water's edge. Even Novorossiysk, Russia's largest port, and Tuapse are both constrained by space.

Although the Sea of Azov, linked by the Strait of Kerch to the Black Sea to the south, has several ports, these are fairly small with shallow water depths. Following the break-up of the Soviet Union, Ukraine ended up with more large ports and even the base for the Russian Navy's Black Sea fleet. The Russian Federation would like to consolidate cargoes through ports on Russian territory.

There are environmental sensitivities to consider on the Black Sea because of its great depth and because it is, despite its size, a confined water area. Apart from the coastal services, all vessels serving these ports have to pass through the Bosphorus, which is subject to stringent environmental and safety restrictions.

Russian Black Sea port developments are planned for Sochi, for passengers and projects associated with the 2014 Winter Olympic Games; Tuapse, for oil; and Novorossiysk, for various cargoes as well as the Navy. Moreover, a new port is planned at Taman, for Russian cargoes to Ukraine.

Russian Black Sea port developments are planned for Sochi, for passengers and projects associated with the 2014 Winter Olympic Games

Caspian Sea

The Caspian Sea is another area where offshore oil and gas fields are being discovered and exploited. The Volga River provides the main link with the inland waterway system and there are plans to build up port facilities in this area rather than expanding the present port of Makhachkala, which is in the politically sensitive Caucasus region.

Pacific Ocean

Russia has three significant ports in the Sea of Japan and another further north in the icy conditions of Sakhalin Island. While these ports have not featured in this study, there are some developments planned, specifically the expansion of grain export facilities.

3.3 Rosmorport

Rosmorport was established in 2003 by a Russian Federal Decree to improve the state administration of Russian seaports. It has 20 branches across Russia covering 68 seaports, which together had a cargo throughput of 453m tonnes in 2008. The organisation's role is to act as the owner and developer of state property in the ports, including almost all of the ship berths, and to provide safe navigation for vessels using the ports. During the first nine months of 2009, Rosmorport worked on 56 state contracts worth 9,700m RUR. To fund these projects, Rosmorport collects all revenues, such as port dues and commercial leases from port property. It is encouraging investment from the private sector, including overseas investors.

3.4 Public / Private-Sector Investment

Major transport-related projects in the Russian Federation are financed either by the state or with private capital. The state usually undertakes financing of large-scale projects with specific budget allocations. Many of these have PPP elements and are therefore not totally public. The most important strategic projects are supervised and controlled by state-appointed officials. State-financed projects look more secure, especially under crisis conditions, as investments planned in the budget are certain to be allocated and must be used by contractors. The negative side is that projects involving state participation are sometimes slow as every step has to be agreed upon and approved. Moreover, rather complicated payment procedures for state financing can cause project delays.

Winning a contract in a state-financed project is very difficult, particularly for foreign companies.

Apart from the larger-scale state-invested projects in ports there are also smaller projects being developed by private companies. These usually involve the construction of new facilities or the redevelopment of existing terminals on the land of the existing private-sector operators. The current status of these projects is rather ambiguous, as many have been suspended or cancelled due to the global economic recession, declining trade and dwindling cargo flows. However, private companies are more flexible than state bodies and the projects they start are usually aimed more at solving their immediate problems than at achieving far-off goals. When choosing a contractor, private companies are more business oriented, with profit being the main criterion.

3.5 Current Status on Port Projects

The Russian economy can experience considerable fluctuations, not all of them positive. In fact, the global trade recession has had a negative impact on both state-driven and privately developed projects, many of which have had to be suspended. The projects mentioned in this report, and those on the summary schedule in Appendix C, have been listed to include as many "announced" projects as possible, with the view that, as the economic situation gradually gets back to normal, many of the developments currently suspended may well be re-started.

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The Russian Federation transport strategy includes an aim to increase the share of foreign trade handled by the country's ports. According to the Ministry of Transport, this will require expanding Russian seaport capacity and improving the inland waterways infrastructure by building new ports and reconstructing the existing berths and cargo terminals. By 2010, the plan is to expand seaport capacity to 542m tonnes of foreign trade cargoes. The "Maritime Transport Sub-Programme" envisages that Russia's seaports should be capable of handling 774m tonnes per annum in 2015 (i.e. an increase of approximately 45m tonnes each year).

Federal funding for the port industry is distributed between top-priority projects defined by the:

- Transport Strategy of the Russian Federation until 2030 (adopted 2008); and the
- Federal Target Programme for "Russia's transport system development in 2010-2015.

The state authorities have already announced plans to reduce funding for transport projects and have identified top-priority projects. In 2009, federal funding for seaport infrastructure modernisation projects was to have been 16,000m RUR. However due to the downturn in the global economy and the need to squeeze the federal budget in December 2008, the RF government made a decision to cut investment in the ports by 15 per cent, although it was stipulated that the projects actually underway should be completed. At the beginning of 2009 the funding was decreased by another 15 per cent and a decision taken not to start any new projects with a timeframe of 12 months or more. This affected berth reconstruction, dredging and other projects aimed at renovating the state infrastructure in almost every Russian seaport. These projects are likely to be re-started as the economic situation improves.

Despite the downturn, federal property development is continuing at a number of seaports, including, for example, at Novorossiysk, Ust-Luga and Sochi. Furthermore, projects that have been commissioned by the RF President or the RF Vice Premier will be continued, for example the BPS-2 terminal projects at Ust-Luga and Sochi.

Some of the scheduled Maritime Transport Sub-Programme projects have been suspended for the time being. This has affected the reconstruction of federal port property in St. Petersburg, Murmansk and Vyborg, while the state-owned Sochi Cargo Area 2 was cancelled despite having budget funding.

Private-sector port and terminal development projects are also suffering, with most being delayed because of the decreasing cargo traffic and the reduced need for new capacities in the near future. At present, only previously placed orders are considered certain to be delivered.

The "Maritime Transport Sub-Programme" envisages that Russia's seaports should be capable of handling 774m tonnes per annum in 2015 (i.e. an increase of approximately 45m tonnes each year)

PORTS IN RUSSIA

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4.1 Baltic Sea

At the head of the Gulf of Finland and on the River Neva, the Greater Port of St. Petersburg is strategically well placed to service the city, with strong connections to the road, rail and other infrastructure. There has been a port at this location for several hundred years and now it is Russia's second-largest port, with over 30 stevedoring companies handling all types of cargo from over 70 berths. St. Petersburg has a massive marine tradition and infrastructure, boasting extensive facilities for the support, repair and construction of ships. Navigation continues all year, although typically from December until March Nevsky Bay is covered with ice and vessels sail with the assistance of ice-breakers.

The main terminal operators are:

- **Sea Port of St. Petersburg:** this is the largest operator and includes the first, second, third and fourth stevedoring companies. With a total quay length of 6,000m of quay and over 34 berths, the terminal can handle most types of cargo, including containers. Vessels up to 60,000dwt with a maximum draught of 11.0m can be accommodated. In 2008, the overall cargo throughput was 11m tonnes. Sea Port of St Petersburg is owned by Universal Cargo Logistics Holding BV (Netherlands), which also has interests in Taganrog and Ust-Luga.

- **Petrolesport:** a privately owned terminal, with 10 berths stretching over a length of 1,500m. They handle containers, RoRo, forest products, general cargo and refrigerated goods.

- **Cruise Terminal:** recently constructed on the 100ha of newly reclaimed land at Vasilyevsky Island. This is the first part of the "Marine Façade" project that is planned to include seven cruise terminals with 2,100m of quay, as well as housing, offices and other commercial space on 467 hectares of new land.

St. Petersburg is a mature port that has gradually evolved around the coast and estuary of the River Neva. The success of the port and expansion of the city have resulted in congestion in the built-up areas, causing delays to road and rail connections. The extensive bureaucracy has become difficult to modernise. With commercial pressure on increasing vessel size and environmental pressure against dirty cargoes, new ports and terminals are being considered further down the Gulf of Finland. These include Lomonosov and Kronshtadt, inside the new flood barrier at Kotlin Island, and Bronka, immediately on the seaward side of the barrier. The new flood barrier will have a 200m-wide main navigation channel to accommodate 100,000dwt-capacity ships.

The way forward for St. Petersburg is for expansion and modernisation around cleaner port operations and cargoes. There is already a focus on cruise, containers and RoRo.

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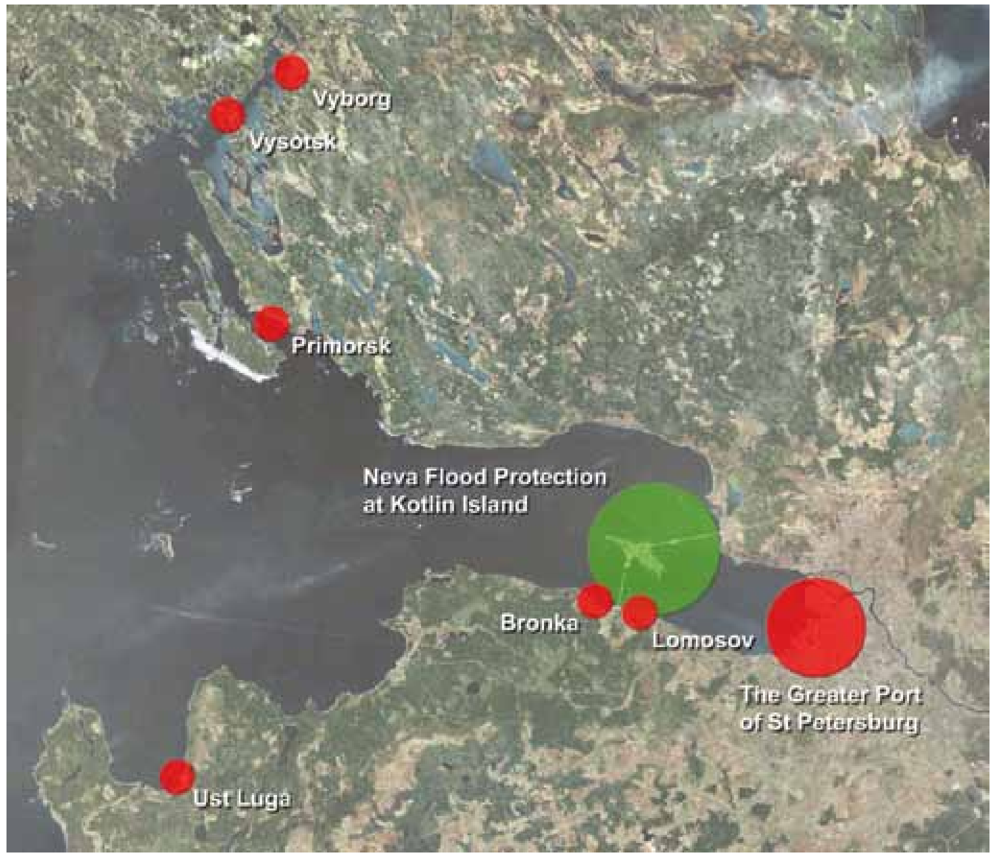

Ports around St Petersburg

Commercial Sea Port of Ust-Luga is by far the most successful of the new ports vying for northwest Russia cargoes. Ust-Luga Company JSC acts as the port developer and has established joint-stock companies to develop separate terminals within the port on the basis of one company for each terminal. This philosophy also extends to the port infrastructure, such as road and rail connections.

Ust-Luga has been planned as a multi-user port to handle over 20 types of cargo, with an overall capacity of 120m tonnes per annum and six terminals already in operation. It is located close to the border between Russia and the EU, about 100km from St. Petersburg. The navigation channel of 3.7km is significantly shorter than for St. Petersburg Port, and therefore less ice breaking is required in winter. Ust-Luga, which has a water depth of 16m, is the only Russian Baltic port capable of accommodating both dry bulk vessels up to 75,000dwt and oil tankers up to 120,000dwt. Moreover, road and rail connections avoid the congested hubs at St. Petersburg, with more infrastructure being planned. There is additional land available for further development to the north in the Soikinsky peninsula.

Ust-Luga Company JSC was originally established to develop the port in the Luga Bay in 1992. However, for several years the project did not proceed. In the early 2000s, a decision was made to restructure the large-scale port investment project, segmenting it into terminal investment projects to be financed by major shippers and exporters. Initially Ust-Luga Company JSC had shares in all the terminal projects under development, later selling most of them to the main stockholder.

Rosmorport is responsible for the port basin development and is the developer of the port facilities that are funded by the federal budget. These are:

- Channels and fairways;
- Port basin;
- Territory and berths of the ferry terminal;
- Vessel traffic system;
- Border crossings;
- Navigation aids.

The customer/developer is Ust-Luga Company JSC and investors for most of the projects have already been selected. The general contractor for construction is OAO Promyshlenno-stroitelnoe tovarischestvo (Industrial Construction Society JSC).

Primorsk is 120km northwest of St Petersburg and linked to the Baltic Pipeline System. It has been operating since 2001 as one of Russia's crucial oil-export ports. Throughput volumes have been building up from an initial 12m tonnes per annum to the current annual level of 75m tonnes. The port is capable of loading four tankers at a time, with sufficient water depth to accommodate 150,000 tankers.

Vysotsk is 160km northwest of St. Petersburg and has facilities for handling dry bulk and oil, mainly for export.

Vyborg is close to the border with Finland and there is scope for modernising this multi-purpose port. However, the berths are old, the water depth is limited and the land is restricted to a narrow strip for cargo handling and storage. Because the town surrounds the port there is no space for expansion, except by land reclamation from the sea.

Further to the west and in its own enclave of Russian territory, Kaliningrad is one of the few Baltic ports that remained in Russian hands after the break-up of the Soviet Union. It is, however, isolated, being geographically separated from the rest of the country. Ships have been visiting Kaliningrad for several hundred years, but it was slow to grow as a port because the channels leading to the harbour frequently silted over. Although it is now quite a large port, with more than 30 berths over 3,000m of quayside, the 22 nautical-mile entrance channel restricts vessel draught to 8m and therefore relatively small vessels. Cargoes handled include containers, RoRo, general, bulk and oil.

4.2 Arctic Ocean

Murmansk, run by Murmansk Commercial Sea Port JSC, is located on the Barents Sea and is currently the fourth largest port in Russia. There are 17 berths in operation over 3,000m of quayside, which are able to accommodate vessels up to Panamax size (80,000 dwt), with a maximum draught of 15.5m and length of 265m. Murmansk, which handles substantial quantities of metals and dry bulks, is the main transhipment port for coal in the northern basin. With such a long maritime tradition, it has substantial supporting infrastructure, including repair facilities and a base for the Russian nuclear-powered ice-breakers.

Murmansk has the significant advantage of remaining ice-free throughout the winter. It is also in a prime position to provide support for shipping in the Arctic region, an area that is likely to develop substantially over the next few years.

Arkhangelsk Sea Commercial Port is located on the White Sea. It is a multi-purpose port, with berths over 3,300m of quayside, but is restricted to vessels with a draught of 9.2m and suffers from ice in the winter.

The **Yamal Peninsula** on the Kara Sea has some of the largest hydrocarbon reserves in the world. So far, there are very limited port facilities because thick ice covers the sea for up to nine months of the year. Currently, there is a small jetty for condensate exports at Tambay and a much larger oil-export facility at Varanday. This recently opened terminal operates throughout the year, loading state-of-the-art ice-breaking tankers at the ice-resistant gravity-based structure.

4.3 Black Sea

Novorossiysk is Russia's largest port, with a throughput of 82m tonnes per annum, and occupies a commanding position in Tsemess Bay, which remains ice-free throughout the winter. There are dedicated terminals for most commodities at the port, as well as ship-repair facilities. The port is well connected to the road and rail systems and therefore can provide an import and export gateway for central southern Asia. Recent expansions have boosted capacity at the oil terminal, the grain terminal and at the three container terminals.

There is limited space for expansion because of the mountainous backdrop and surrounding commercial and residential developments. However, some terminals have been modernised, resulting in increased efficiency, and land reclamation has provided more usable areas.

Novorossiysk Commercial Sea Port JSC Holding Company incorporates the following stevedoring companies, which account for some 97 per cent of the port's throughput:

- Novorossiysk Commercial Sea Port JSC;
- Novoroslesexport (NLE) JSC;
- Importpischeprom JSC (IPP);
- Novorossiysk Grain Terminal JSC;
- NMTP Fleet JSC;
- Novorossiysk Shiprepair Yard JSC;
- Baltiysk Stevedoring Company Ltd in Kaliningrad.

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Ports in Southern Russia

Oil is the largest cargo to be handled, with the Sheskharis terminal responsible for about 60 per cent of sea-borne Russian oil exports. Most other types of cargo are handled at dedicated terminals within the port. Container handling has increased in recent years, challenging the dominance of the Ukrainian ports for the northern Black Sea cargoes.

The majority of containers leave the port by truck, some for local distribution. For inland distribution further afield, such as to Moscow, it is much cheaper to transfer the cargo to conventional trucks. With a diverse range of cargoes going through its port, Novorossiysk Commercial Sea Port JSC has been able to weather the downturn relatively well with its anti crisis measures. Oil and grain revenues appear to have been positive, while containers have declined, albeit to a lesser degree than the Ukrainian terminals.

Tuapse is Russia's second-largest Black Sea port, with significant exports of crude oil and dry bulk materials. Because of severe land constraints, Tuapse's expansion plans include the removal of the coal export cargoes to the new port of Taman.

Sochi, a popular coastal holiday resort and the host of the 2014 Winter Olympics, has a small port. Additional port facilities are required for the import of materials for the Olympic projects and the subsequent conversion to passenger and leisure facilities.

Taman is a new port close to the western end of Russia's Black Sea coastline. This is one of the few pieces of land available and suitable for port development. The new berths are being created by extending jetties some distance into the sea to deep water.

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Ports in the Sea of Azov include **Primorsko-Akhtarsk, Temryuk, Rostov** and **Yeisk** (Kamyshevatskaya), with **Kavkaz** on the entrance channel and its RoRo ferry services across the Kerch Straight to the Ukrainian port of Kerch on the Crimea. These ports all operate with a shallow draught and there is a tendency for the sea to freeze during the winter. However, they do handle most types of cargo and several have plans for refurbishment and expansion.

4.4 Caspian Sea

Makhachkala is the main Russian port on the Caspian Sea. However, as it is in the politically sensitive Caucasus region, there are plans to relocate the cargoes to the port of Olya, which is located on the Volga-Caspian Canal in the Volga Delta, some 67km from the sea. This demonstrates the importance of inland waterways in this region.

4.5 Pacific

Nakhodka Commercial Sea Port has 20 berths, all of which can handle a wide range of cargoes.

The Port of Vladivostock was founded over 100 years ago on the northwest side of the ice-free Golden Horn Bay. It has over 4,200m of quayside with 16 berths, including a dedicated container terminal and two cruise-liner berths, with the other berths being for multi-cargo.

Vostochny is Russia's largest port in the Far East, benefitting from deep water that can accommodate 150,000dwt vessels and direct connection to the Trans-Siberian Railway. Cargoes handled include metals, timber, chemicals, bulk materials such as coal, and containers.

Sakhalin is a new port that has been constructed as part of the major hydrocarbon exploitation programme on Sakhalin Island. It has now started exporting LNG.

NEW DEVELOPMENTS

5

5.1 Murmansk

Murmansk Transport Hub is a priority PPP project that will be developed at the existing Murmansk port. An investment feasibility study for the project has been completed and approved. One problem that remains to be solved is land-plot acquisition and allocation. The project has been entrusted to Murmansk Transport Hub Management Company JSC, which is owned by Murmansk Commercial Sea Port JSC (40 per cent), Rosneft JSC (15 per cent, Russian Railways JSC (25 per cent), Murmansk Oblast Government (5 per cent) and Rosmorport (15 per cent). Studies have projected that cargo traffic using the Murmansk transport hub could amount to 62m tonnes by 2015 and as much as 84m tonnes by 2020. There are also plans to increase the navigation channels for vessels up to 350,000 dwt.

The project will provide for a container terminal with a capacity of 1m TEU per annum. This is to be developed in two phases, firstly by using the existing berths of Murmansk Commercial Sea Port Cargo Area 1 on the east coast of the Kola Bay and later the construction of a new terminal on the west coast. There will also be a 20m tonnes per annum coal terminal and a 35m tonnes per annum oil terminal. Other developments include the reconstruction of the existing railway station and the construction of a new one in Vykhodnoy settlement to serve cargo designated for the west coast of Kola Bay, as well as a cargo logistics centre and a barging service to serve cargo designation for the east coast. Plans have also been floated for an LNG terminal in connection with the Shtokman project. This would be at Teriberka and have a prospective capacity of 30m tonnes per annum. Private investors are expected to participate in the coal and oil terminal projects, the container terminal project and the logistics cargo terminal project.

Murmansk Commercial Sea Port JSC is also developing a number of private projects, including a US$500m container terminal which was approved by the Board in 2006 for construction within six-eight years. However, it is not clear who is providing the funding iand some problems need to be sorted out with the railways. Furthermore, there are plans to reconstruct the apatite mineral terminal with a new storage facility. The US$80m railcar unloading and conveyor transfer station has been started and scheduled for completion by 2010. This is expected to increase the company's coal-handling efficiency by 70 per cent. However, the project has been suspended because the correct approvals and licenses were not in place for the land.

Murmansk Shipping Company JSC is planning a private bunker terminal project with a throughput of 93,000 tonnes per annum, targeting vessel bunkering with fuel oil and other products. This will be located on the former Trest Murmanskmorstroy JSC site, with the two-year construction period scheduled to start in 2010. Bunkers will be delivered to the terminal by rail to the tank farm and blended on site as required. Murmansk Shipping Co operates the fleets of three shipping companies (Murmansk Shipping, North Shipping and North Inland Shipping), which boast 303 vessels with an overall tonnage of 1.2m dwt

Murmansk Commercial Sea Port JSC is also developing a number of private projects, including a US$500m container terminal

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5.2 Ust-Luga

Terminals currently in operation at Ust-Luga are:
- Coal Terminal;
- Universal Terminal (UPK);
- European Sulphur Terminal;
- Factor Timber Terminal;
- Multi-Purpose Terminal Yug-2 (MPK Yug-2);
- Rosmorport, Ust-Luga Branch (ferry terminal operator).

Terminals under construction:
- Multi-Purpose Terminal Yug-2 (MPK Yug-2) – extension;
- Ust-Luga Container Terminal;
- Bunker Terminal;
- General Cargo Terminal;
- Oil Terminal;
- Liquefied Petroleum Gas Terminal.

The **Coal Terminal**, operated by Rosterminalugol JSC, can accommodate vessels up to 240m LOA with a 32.2m beam and has a capacity of 8m tonnes of coal per annum. There are two berths 540m long in total and 14m deep (to be dredged to 16m under Phase 3), with a third 200m long 12m-deep berth to be built under Phase 3.

The **Industrial Sulphur Terminal** is operated by European Sulphur Terminal JSC. The project capacity is 10m tonnes per annum for vessels up to 70,000dwt and was inaugurated in late 2008. The fall in the price of sulphur has caused some problems.

Universal Terminal (UPK) is part of Universal Cargo Logistics Holding BV, a transport holding with other interests in Sea Port of St. Petersburg JSC and Taganrog Commercial Sea Port JSC which is controlled by Vladimir Lisin of Novolipetsk Metal Plant. Since 1 July, 2009, the terminal has been managed by Transport Assets Management Ltd (OOO Upravlenie Transportnymi Aktivami – UTA), a company established to manage all the shipping and terminal assets controlled by Vladimir Lisin, as a subsidiary of Universal Cargo Logistics Holding. UPK has a 585m quayside to handle vessels up to 70,000dwt with 14m draught. It has a land area of 13.7ha and handles imports and exports of general and breakbulk cargo, with all-year-round operations and customs infrastructure.

The **Factor Timber Terminal** is a private project that has been operating since 2002 with 125m of quayside and 27.9ha of land. There are plans to expand from the current 250,000 tonnes per annum to 2.5m tonnes by 2015. This would involve constructing several berths to increase the quayside to 887m, more open storage facilities, and road and rail access ways. The expansion was announced under favourable market conditions, but no further details have been made available.

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The **Rail Ferry Terminal** is operated by Rosmorport. The ferry service between Ust-Luga – Baltiysk – German ports is viewed as a federal project and a link in the West – East transport corridor. The project envisages developing two ferry terminals (for rail and trucks/cars) to handle RoRo, car/car & truck carriers, rail ferries and rail & truck ferries to operate the routes between Ust-Luga and Baltiysk and Ust-Luga and German ports. The terminal currently has a 10m-deep basin, with a double berth over 429m of quayside. The land area is 32.5ha and there is a rail yard and rail station consisting of 16 tracks 8.7km in total length to handle railcars and complete customs formalities. The projected capacity is 3.5m tonnes of rail cargo and 2m tonnes of road cargo per annum.

Multi-Purpose Terminal Yug-2 (MPK Yug-2) is a PPP project supported by the RF Investment Fund. The total cost is 8,400m RUR, including a federal investment of 2,011m RUR. The developer and operator is Ust-Luga Company JSC, with Ust-Luga Commercial Sea Port JSC in charge of the project. The terminal handles RoRo cargo, including new cars, containers and general cargo. The quayside is 1.5km in length and the land area is about 100ha. Construction is continuing and full capacity of 4.7m tonnes per annum is scheduled for 2012, with a throughput of 500,000 new cars and storage capacity of 13,000 cars at a time. A logistics centre is planned for the adjacent plot and this will be used for cars as well as for container stuffing/stripping.

Ust-Luga Container Terminal in the south part of Ust-Luga port is a PPP project developed by National Container Company (NCC) and co-investor Eurogate (which has a 20 per cent share in the terminal). Construction started in 2007 to develop terminal capacity of 3m TEU, with a possible further expansion to 6m. The overall investment by NCC up to 2020 is expected to be around US$800m with federal investment around US$110m. Phase 1 completion is planned for 2012, but is now likely to be delayed due to a dispute between the NCC shareholders First Quantum and FESCO. FESCO insists that the financing should be temporarily suspended until the economic situation improves, while First Quantum insists it should continue as planned and has suggested FESCO quit the project.

Phase	Start of Operations	Quay Length (m)	Depth (m)	Max Vessel capacity (TEU)	Storage (m2)	Storage (TEU)	Terminal Capacity (TEUpa)
1	2010	440	13.5	2,500	146,000	15,000	500,000
2	2013	1,100	16.5	6,000	471,000	33,600	1,500,000
3	2019	1,700	16.5	6,000	888,000	78,700	3,000,000

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Oil Terminal / Ust-Luga Bunker Terminal will be the terminal for the Baltic Pipeline System 2 (BPS-2) that is planned to be operational by 2012. The Declaration of Intent for selecting the site for the Ust-Luga Tank Farm was presented by Transneft JSC and Ust-Luga Bunker Terminal Ltd to the Leningrad Oblast Government in summer 2009. The tank farm will be on the east coast of Luga Bay, north of the Khabalovka River and will have a phase 1 capacity of 30m tonnes per annum, increasing to 38m tonnes when fully operable. Tankers up to 100,000dwt will be loaded. The Ust-Luga Bunker Terminal Ltd will be controlled by Gunvor. Permission to buy the terminal has been granted by the RF Federal Anti-Trust Service to a Transneft subsidiary, MN Druzhba JSC, and the sale is currently in process.

Oil Products Terminal was started by Rosneftbunker JSC, affiliated with Zarubezhneft JSC, and then sold in March 2009 to Swiss oil trader Gunvor, which is controlled by Russian businessman Gennady Timchenko. Initially, the start of operations was scheduled for late 2009, with a phase 1 capacity of 10m tonnes of oil and bunker fuel per annum, increasing to a full project capacity of 25m tonnes per annum. The oil and bunker fuel will be delivered to the terminal by rail for storage on the 80ha site. There will be a quayside of 1,250m, with a berth depth of 16m to accommodate tankers up to 120,000dwt. The estimated project cost is 25,900m RUR and a US$545m loan has been granted from Vneshekonombank.

5.3 The "Greater Port" of St. Petersburg

The **Onega Terminal** expansion project (Stage 3) has been promoted by terminal operator OMG Group at a project cost of 950m RUR. However, due to the financial problems currently besetting OMG, the future of the project is uncertain. The project is for the landside development (i.e. not including the berths) of a 600,000 TEU per annum-capacity container terminal and a rail link to the Avtovo station.

The Greater Port of St Petersburg

Sea Port of St. Petersburg JSC (OAO Mosrkoy Port St. Petersburg) has a development programme for new port facilities aimed at expanding handling capacity to 20m tonnes per annum. The projects in progress are:

- A container terminal at Berth 101 on the territory of the fourth stevedoring company. Phase 1 has a projected capacity of 350,000 TEU at an estimated cost of 5,000m RUR. Further expansion will then take the terminal's capacity to 1.5 million TEU.
- A RoRo terminal project was started on April 1, 2009 on the territory of the first stevedoring company. It has a projected capacity of 1m tonnes per annum, with new roofed storage facilities, a rail viaduct and a road overpass to be constructed.
- A car terminal is being built on the territory of the third stevedoring company. Phase 1 is already operable, but remains unused because of the decline in car imports. Phase 2 expansion will take the capacity to 170,000 cars per annum with a land area of 10ha.
- A reefer terminal for a -28degC to +14degC thermal range is to be developed on the territory of the first stevedoring company with a projected capacity of 1m-1.5m tonnes of meat, bananas and other fruit / vegetables per annum. A feasibility study has been carried out and the project design was scheduled to commence in Q3, 2009.

Marine Façade (Morskoy Fasad) is developing a new passenger and cruise terminal along with significant property development on the St. Petersburg seafront, including land reclamation. This PPP project includes the reconstruction of the 10km long and 11m-deep approach channel, the port basin and border-crossing checkpoint. The seven berths are scheduled to be fully operational by 2010 and able to accommodate cruise ships and ferries up to 311m LOA and with 9m draught.

Petrolesport JSC announced its port-development strategy in 2008, with a total investment cost of US$886m. This included the following projects:

- A container terminal development will expand the current capacity of 650,000 TEU per annum to an estimated capacity of 2-2.5m TEU. This project started in 2007 with the modernisation of existing facilities and the creation of new handling areas through land reclamation. Dredging is being undertaken to accommodate ships up to 12m draft, with some new deepwater berths constructed. There will be a reefer container stuffing/ stripping facility on Volny Island, as well as rail terminal connections.
- The construction of a new deepwater berth, and the reconstruction of an existing one, at the RoRo terminal, with modernisation of the storage space on Gladky Island.
- Expansion of the reefer terminal, increasing the existing storage capacity of 20,000 tonnes of deep-frozen products to at least 40,000 tonnes – one of the largest in Russia.
- Port infrastructure developments, including a new office and utility buildings, a new Customs zone with an inspection facility for 145 containers, and a new Customs inspection complex for 500 containers.

Expansion of the reefer terminal, increasing the existing storage capacity of 20,000 tonnes of deep-frozen products to at least 40,000 tonnes – one of the largest in Russia

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5.4 St. Petersburg Outer Harbours

In January 2009, the St. Petersburg government adopted the concept of developing the outer harbours, especially for containers and RoRo. Investments of up to 248m RUR are planned for 2010-2025, sourced from the federal and city budgets and private capital. These new port areas will be located in the Bronka – Lomonosov area and will cover 476ha of land, of which 382ha will be reclaimed from the sea. Terminal capacities have been projected for 2025 at 49m tonnes for Bronka, 9.5m tonnes for Kronshtadt and 11.5m tonnes for Lomonosov. This will require substantial dredging of the clay sea bed, which is largely in shallow water.

Moby Dick Container Terminal at Litke Base, Kronshtadt on Kotlin Island is the third-largest container terminal in the Greater Port of St. Petersburg and is co-owned by Global Ports Investments and Container Finance (Finland). Having started in 1997, Phase 1 and Phase 2 are in operation, with a capacity of 180,000 TEU. Phase 3 is planned to increase capacity to 500,000 TEU by 2013 on the 50ha terminal. This Phase 3 development was initially delayed by a confrontation between Container Finance, which was the sole owner of the terminal before 2007, and the St. Petersburg government. This has been further hindered by an agreement to permit the storage of construction materials for the barrier on part of the proposed terminal site, and more recently by the economic crisis.

Universal Port Project at Lomonosov is being promoted by Baltimor, which currently operates seven berths leased from the Navy. The project involves 35ha of land reclamation and the construction of 16 berths along 4,500m of new quayside. Container, car, metal, perishables and timber terminals will be created, as well as adjacent logistics facilities (150ha). It is planned to be fully operational by 2020, with an initial throughput of 1m tonnes per annum, increasing to 6m tonnes over five years. The required investment is estimated to be US$1,200m and will be financed by the consortium's own funds and loan money.

Lomonosov Cargo Terminal was started by Yantar JSC and it is understood, but not confirmed, that Mediterranean Shipping Company acquired a share in 2007 and that Alexander Ponomarenko, the major shareholder of Novorossiysk Commercial Sea Port JSC, now has a 50 per cent shareholding. The expansion plans are for a 1m TEU per annum container terminal and a car terminal with a capacity of 300,000 vehicles per annum, all constructed on 70ha of reclaimed land. Phase 1 was scheduled to start in 2010, but has been delayed. The project requires a dredged channel, new berths in a port basin, and associated equipment and infrastructure including railway connections. Construction was suspended in May 2008 as the land-rental agreement with the city government expired. This was extended in February 2009 and about a quarter of the reclamation has been done by contractor Consortium Hochtief / Boskalis BV, with completion not expected before 2012.

It has been questioned whether Lomonosov is a good location for a port because of the shallow water and potential environmental issues.

Investments of up to 248m RUR are planned for 2010-2025

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Bronka is planned to be a multi-purpose port comprising a 3m TEU per annum container terminal and 2.6m tonnes per annum RoRo terminals. Operated by Phoenix Ltd (OOO Feniks), it is located next to Bronka railway station and includes the Olgin Canal Settlement. Some 41.5ha have been assigned for the initial stage, later to be expanded by reclaiming 80ha. Phase 1 is estimated to cost 36,500m RUR, including over 10,500m RUR from the federal budget.

Despite being a well-promoted project, it is understood that there remain some thorny land issues to deal with. There has also been mention of a lack of transparency, as it is not clear who the owner is or where the funding is coming from. This project does not enjoy the same state support as the Ust Luga development.

5.5 Primorsk

The Oil Products Terminal was officially inaugurated in May 2008, with a Phase 1 capacity of 8.4m tonnes per annum. Operated by Balttransnefteprodukt, a subsidiary of Transnefteproduct JSC, it handles products delivered by the mainline Kstovo – Yaroslavl – Kirishi – Primorsk pipeline. Phase 1 was constructed at a cost of US$1,300m and includes a berth for 17,000-60,000 dwt tankers.

Phase 2 has a capacity of 17m tonnes per annum, with a 480,000m3 tank farm. When fully operable, the completed project will have two deep berths for vessels up to 105,000 dwt, a tank farm of 720,000m3 and a capacity to handle 24.6m tonnes per annum.

Primorsk Commercial Sea Port Management Company JSC has also applied to build petrochemcial and container terminals in the Vysokinsky area of Primorsk port. Initially, Primorsk was planned as including two cargo areas, Yermilovsky (currently in use) and Vysokinsky (for further development). Terminals were proposed to handle LNG, general cargo, containers and breakbulk. Although there is little information available about this, the project is likely to go ahead in the longer term.

5.6 Vyborg

Port Vyborgsky JSC, an asset of OMG Group and the only stevedoring company in Vyborg port, has planned an 115m-euro investment into development. This will include repairs to the berths, roads and railway, the creation of space for container storage and the modernisation of cargo-handling equipment. There have also been plans to upgrade the passenger terminal. The project had been planned for completion by the end of 2010, but has been held up by financial problems. It is understood that the company is under the bankruptcy procedure and that a new owner of the assets will be announced in the near future.

5.7 Kaliningrad

The Kaliningrad hub project is potentially a major federal port-development project. However, it only exists as a declaration and is unlikely to start quickly because of the current economic conditions. It aims to create a hub on the Baltic to service deep-sea vessels and to enable Russia to regain port capacity that was lost to the Baltic States after the break-up of the Soviet Union. The location for this port has not yet been defined, although it is understood that four potential sites have been considered – Baltiysk, Balga Peninsula, Visla Gulf and Primorsk Bay. The full development is likely to involve substantial land reclamation and environmental investigation – with possible clearances required in relation to nearby military land.

Container cargo will be the priority, with up to 6m TEU per annum envisaged with transshipment to destinations in Poland, Germany, Denmark, Finland and other European countries by feeder vessels and other modes of transport.

The project, with estimated cost of US$3,100m, will be developed by the Federal Unitary Institution Directorate of Maritime Transport Development Programmes State Customer. Planning has been undertaken by GT Morstroy, and APM Terminals has been linked with the project.

5.8 Arkhangelsk

The New Deep Port Area project for Arkhangelsk, which will have a capacity of 30m tonnes per annum, has been suggested as a link to complement the Belkomur (White Sea – Komi – Urals) rail project and as a support facility to supply offshore Arctic-shelf exploration and development.

No pre-project feasibility studies have yet been carried out and no investors have been identified. While the authorities at Arkhangelsk are pushing this project, it does not appear to have many of the inherent advantages of Murmansk.

5.9 Sochi

All projects related to the 2014 Winter Olympic Games in Sochi have been given a high priority and are federally supported with funding and supervision. Official estimates indicate that there are 218 Olympic projects in and around Sochi. These will require approximately 100m tonnes of construction materials, of which 30 per cent is expected to be delivered by sea. A number of port development projects have been announced, including:

- Cargo Port in the Mzymta River mouth;
- Sochi Port Cargo Area 2;
- Port Sochi reconstruction (infrastructure development for cruise ships);
- Reconstruction and/or construction of 15 other minor terminals in the Sochi area.

All these projects will be procured under the PPP contract format for Rosmorport as the client and are programmed for completion by 2012.

The Cargo Port in the Mzymta River mouth and the Sochi Port Cargo Area 1 are being developed by Bazel (Bazovy department) for Rosmorport and will be operated by Port Sochi Imeretinsky. Phase 1 was set to start operation in 2009, with full operation in 2010. For Phase 2, the overall capacity will be 5m tonnes per annum with eight berths and a water depth of 9.2m. The project has been split into federal property facilities for items such as breakwaters, dredged channels, navigation systems, coastal protection and customs facilities, with the rest being developed under private-sector investment. Under Phase 3, the cargo port will be converted into a yacht marina.

A US$80m contract for Sochi Port Cargo Area 2 has been awarded to Turkish company Kolin Inshtat Tourism Sanay Ve Tijaret Anonim Shirkrti. However, the project has faced problems from the start, with protests from some local people. The General Prosecutor's office has suspended construction until all documents have been presented in a correct legal form.

The proposals for the reconstruction of Port Sochi and its conversion to accommodate cruise and leisure vessels provide the opportunity for the private sector to fit out the port with yacht facilities and commercial buildings such as offices and hotels. Other works, such as berths and breakwaters, will be under Rosmorport's remit.

Development of the other minor ports along the coast largely consists of the reconstruction of passenger ferry terminals. The marine infrastructure will be developed by Rosmorport, with terminal buildings and the vessels for the ferry services handed to the private sector.

5.10 Primorsko-Akhtarsk, Krasnodar Kray

This port project has been approved by and lobbied for by Krasnodar Kray Administration. No formal documents have yet been submitted to the Russian Federation Ministry of Transport, so the project has not been included in any Russian federal target programmes.

The project, which was presented by Kioto-Port JSC (Moscow) at public hearings in May 2007, has a projected throughput capacity of 5.4m tonnes per annum, comprising general cargo, oil products, breakbulk and RoRo. Oil products have been withdrawn as a result of local protests.

There is some doubt as to whether this large port development will realistically go ahead at this location.

5.11 Tuapse

Rosneft – Tuapse Refinery Ltd is undertaking a project to expand the export facility for oil products produced by Rosneft's Tuapse and Samara refineries from 10.2m to 17 million tonnes per annum. Some 10m tonnes will be delivered by pipeline and 7m by rail. Products include diesel, naphtha and fuel oil.

Tuapse Commercial Sea Port is part of Universal Cargo Logistics Holding BV, managed by Transport Assets Management (UTA). It recently undertook a grain terminal project, with a capacity of 2m tonnes per annum. Focused on exports, the terminal has 102,000 tonnes of grain storage capacity, a railcar-handling station and a berth to accommodate ships up to 50,000dwt. Moreover, a new vegetable oil terminal is set to open in 2010. This 450m RUR investment will have a capacity of 1m tonnes per annum of sunflower seed oil for export and palm oil imports of 0.5m per annum

Tuapse Bulker Terminal Ltd, a subsidiary of EuroKhim Holding Co JSC, is constructing a new terminal for the export of dry granulated mineral fertilisers Some shoreside facilities have already been built, with the berth, warehouse and conveyors under construction.

5.12 Novorossiysk

The Port of Novorossiysk

Novorossiysk Commercial Sea Port (NCSP) JSC is reconstructing Berth1A, which is the oil terminal at Sheskharis. This is a strategically critical terminal, with 30 per cent of Russia's seabourne oil export transiting through it. The 3,400m RUR project started in 2007 and is aimed at increasing oil export capacity by 15m tonnes per annum, with a new berth for tankers between 80,000-150,000dwt.

The Bunker terminal project is also underway by BTOF Ltd, a subsidiary of Transbunker Group. A berth will serve bunker barges that are expected to increase to 6,000 dwt with an overall capacity of 540,000 tonnes per annum. Products will be delivered to the terminal by truck and by sea and stored in a 19,000m3-capacity tank farm.

The NLE container terminal can handle 180,000 TEU per annum. Containers are also handled at the NCSP terminal, but they have no room for expansion at their present site. NUTEP is now the largest terminal, having recently expanded from 160,000 to 200,000 TEU per annum and attracting the likes of MSC and Maersk.

NCSP has plans for a new container terminal between the east dock and the ship-repair yard. This will be developed in four phases between 2012 and 2018, delivering capacity of 250,000 TEU, 450,000 TEU, 700,000 TEU and 1.2m TEU respectively. This project has already been presented to the Prime Minister.

The grain terminal has been operating to full capacity in 2009 and further expansion is now being considered.

There are plans to move the Russian fleet to Novorossiysk, although it is not clear where to. The new facility is understood to be only for auxiliary vessels, with "no rocket carriers".

NCSP has mentioned that contractors are facing difficulties in procuring steel tubes over 1m in diameter that are needed for berth reconstruction. They would be interested, therefore, in a new source of supply.

5.13 Temryuk

Roskhimtrade is developing a Liquid Bulk Terminal project for liquid petrochemicals, food oils and perfumery oils. Located in the western area of Temryuk port, the project capacity will rise from 0.5m tonnes per annum in Phase 1 up to 2m tonnes in Phase 2. There will be six tanks and completion is expected in 2010. As the investment is coming from the shippers, this project is likely to go ahead.

5.14 Rostov

The Rostov Universal Port Project, which plans to turn Rostov into a multi-modal transport and logistics hub, has been entered into a federal target programme. The estimated project cost is 19,900m RUR, with 69.8 per cent coming from private investment, 25.1 per cent from the federal budget and 5 per cent from Rostov Oblast funds.

There will be three cargo areas:

- Area 1: 3m tonnes per annum capacity for breakbulk and general cargo;
- Area 2: containers with a capacity of 200,000 TEU per annum;
- Area 3: logistics centre and second container terminal with 350,000 TEU capacity.

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To date, Area 1 has been completed, together with 720m of quayside in Area 2. Area 3 should start operation in 2010 and be fully operable in 2014.

Azov-Don Shipping Company JSC will operate the terminal. Established in 2003, it incorporates 16 companies, including two shipping firms, two ports, three ship-repair yards and three service companies and boasts a fleet of over 200 ships.

The Mius Commercial Seaport project, which was initiated as far back as 1996, is aimed at relocating breakbulk cargo operations outside Taganrog Commercial Sea Port.

The new location is at Mius Firth and the projected capacity is 20m tonnes per annum, up from the 3m tonnes planned in 1996. There will be 10 terminals covering 120ha of land with five cargo areas for oil, breakbulk, general cargo, RoRo and containers. The major investor of the project is said to be EMAlliance JSC and land surveys are being conducted.

The project was announced with a big fanfare and there appears to be considerable support for it.

5.15 Taman

Tamanneftegaz JSC is developing an LPG terminal project with a capacity of 10.5m tonnes per annum for cargo of oil products and petroleum gas. Construction started in 2005 and Phase 1 is expected to receive its first vessel in Q2 2010. Four berths, 765,000m3 tankage and a large railway system are being constructed. Phase 1 will have a capacity of 1m tonnes of petroleum gas and 5m tonnes of oil.

Togliattiazot JSC is also developing an ammonia terminal project, with a berth 2.2km offshore for vessels up to 35,000dwt. The initial terminal capacity is planned to be 2m tonnes of liquid ammonia per annum, later increasing to 6m tonnes, including some other cargoes. There will be some general cargo handling in Phase 2. Some US$280m has already been invested on completion of the offshore jetty, 36km rail link and rail station with eight tracks, 8km gas pipeline to the storage facility, 5km gas pipeline network and gas distribution station.

Togliattiazot JSC is also developing an ammonia terminal project, with a berth 2.2km offshore for vessels up to 35,000dwt.

There is also a food terminal under construction. This will be for cargoes such as edible oils and grain, with a planned throughput of 440,000 tonnes per annum, raising to a possible 5.6 million tonnes in the future.

There have been some environmental objections to the new port projects in Taman, but it appears that these have not proved a major obstacle.

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5.16 Yeisk

The Yeisk District Administration is in search of investors for the possible development of a new port at Stanitsa Kamyshevatskaya in the Sea of Azov, which is estimated will cost 20,700m RUR. Thirty one berths are being planned for a capacity of 18m tonnes per annum, with cargoes of mainly grain and agricultural products. Pre-project documentation and feasibility study said to be ready but prospects are unclear, with a lack of clarity about whether this is a real project or just a general promotion of the region.

5.17 Olya port (Astrakhan Oblast, Caspian)

The **Olya port project** is supported by the state and has been included in the federal target programme for Russia's transport system modernisation. It was started as a Greenfield project and was designed to serve North – South trade, for example with Iran and India. However, these cargo flows are unstable and therefore the project completion dates have regularly been delayed.

The first berth of Phase 1 was put into operation in 1997, providing capacity of 400,000 tonnes per annum. The access road and rail have been constructed. First Stevedoring Company JSC currently operates the port, which has three berths and a water depth of 5m.

There are plans to develop ferry, breakbulk and oil terminals. The ferry terminal, which will be for RoRo and general cargo, will have two breakbulk berths with a depth of 5.5 m for vessels up to 5,000 dwt and eventually larger. Cargoes will be coal, coke, petroleum coke, pellets, cast iron, metal scrap, ore and ore concentrate, with a projected capacity of 1m tonnes per annum. The oil terminal will have two berths 5.5m deep, with a capacity of 2m tonnes per annum using 5,000 dwt tankers.

New facilities will be needed for berths, open storage, warehousing, road and rail connections and all associated infrastructure connecting the terminals.

6

DOING BUSINESS IN RUSSIA

The majority of Russian companies normally require communication in Russian, even those who import or trade in imported goods. This is characteristic of the Russian market in general across all sectors. It is recommended that UK companies provide potential partners with brochures and technical specifications that have been translated into Russian. Tender documentation will only be issued and accepted in this language.

Once UK companies have established initial contact, it is recommended that they make a visit to the market and arrange personal meetings with potential partners. Initial offers from UK firms to Russian companies should contain any relevant financial and technical information.

Courtesy meetings and letters are not part of the business culture in Russia. Russian people tend to be very specific and can refuse to meet/speak if there is no immediate benefit perceived.

Other background information on doing business in Russia can be found on UK Trade & Investment's website (www.uktradeinvest.gov.uk/ukti/russia)

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CONCLUSIONS

While Russia is going through a deep recession, the overall performance of its ports has shown marginal positive growth. With 75 per cent of cargoes for export, the figures have been buoyed by overseas demand for commodities such as oil, coal and grain. Other cargoes, including containers, have actually declined.

Many port-development projects had been promoted during the growth years leading up to the recession. Some of these have continued, particularly where funding has been committed, but most have been delayed or cancelled. However, Russia has one of the biggest fiscal stimulus packages in the world, with transport one of the vital components. So, despite the delays in transport projects, there is both the political will to pursue them and the money allocated to do so.

Of course, growth will return and many of the port-development projects will return as well. It is difficult to predict the timing, but for those who are ready and prepared this could provide opportunities for UK companies. In fact, the official Maritime Transport Sub-Programme projects that Russia's sea ports should be capable of handling 774m tonnes per annum in 2015, which is an increase of approximately 45m tonnes for each of the next five years.

Opportunities exist in both the public and private sector. However, for most UK companies, winning work in the public sector will prove more difficult.

With the use of containers not as widespread as might be expected in a country as large and as powerful as Russia, there are expectations of growth in this area. Specifically, logistics through the ports is still fairly underdeveloped and it is acknowledged that there is significant opportunity for improvement. However, the Customsauthorities, which are very bureaucratic and have considerable power, might not be able to react to change as quickly as many people would like. Many consider that this problem should be tackled at the earliest opportunity and there is already a project to move all Customs offices to the border, which has the potential to simplify interaction between port operators and Customs officials.

A number of opportunities have been listed in this report, some of which might be worth following in advance of the end of the recession; these are:

- Murmansk, which is well placed to benefit, not only from the opening up of the Northern Sea Route as the Arctic becomes increasingly ice free, but from its potential to provide support to the much-publicised remote gas fields at Shtokman and Yamal.
- Port projects associated with the modernisation of St. Petersburg, including the upgrade of existing facilities and the transfer of cargoes away from the city to the expanding port of Ust-Luga and other potential locations.
- Port projects associated with the 2014 Winter Olympics in Sochi to enable the import of materials for construction and to develop passenger and leisure facilities.
- Port expansion in Taman.
- The planned concentration of new port facilities at Olya in the Volga Delta.

Maritime Transport Sub-Programme projects that Russia's sea ports should be capable of handling 774m tonnes per annum in 2015

A

SCHEDULE OF MEETINGS HELD

Novorossiysk

21 September 2009
Global Container Service Andrey A. Naraevsky

22 September 2009
Novorossiysk Commercial Sea Port Dmitriy A Bolotov

Moscow

23 September 2009
Worley Parsons Sergey Volchkov

Rosmorport Several representatives

St. Petersburg

24 September 2009
NEVA Many participants

25 September 2009
GT Morstroy A Evdokimov & Anton Dvorkin

SeaNews Olga Fialkina & Yulia Shishova

Ust Luga Alexander Goloviznin

APPENDICES INDEX

B

PORT AND TERMINAL OPERATORS

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First Deputy MD: Leonid (Ivanovich) Prilipko

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Head of Moscow Office: Nikolay (Ivanovich) Khvoschinsky

Coal Terminal

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Tel +7 (812) 324 54 03
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Tel: +7 (81375) 5 40 05
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Industrial Sulphur Terminal

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Universal Terminal (UPK)

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B

Oil Terminal / Ust-Luga Bunker Terminal

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Oil Products Terminal (Rosneftbunker)

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Deputy MD, finance: Konstantin (Viktorovich) Khamlay

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Bronka

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South Russia

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C

SCHEDULE OF OPPORTUNITIES

Project	Private/Federal	Operator	Completion Period
Murmansk Transport Hub	PPP	Management Company Murmansk Transport Hub JSC	2020
Murmansk Container Terminal	Private		2015
Murmansk Apatite Terminal	Private		2010
Murmansk Bunker Terminal	Private		2012
Coal Terminal Stage 3, Ust-Luga	Private		N/A
Universal Sulfur Terminal expansion, Ust-Luga	Private		N/A
Factor Timber Terminal expansion, Ust-Luga	Private		2015
Fleet service base – Ust Luga	Federal		2012
Yug – 2 Terminal expansion, Ust-Luga	Private		2012
Ust-Luga Container Terminal	Private		2019
Oil Terminal, Ust-Luga	Private		N/A
Oil Tank Farm, Ust–Luga	Private		N/A
Onega Terminal expansion, St. Petersburg	Private		2013
Petrolesport Container Terminal development, St. Petersburg	Private		N/A
Ro-ro Terminal, Reefer Terminal in Petrolesport, St. Petersburg	Private		N/A
Sea Port of St. Petersburg terminal projects, St. Petersburg	Private		2012
Marine Façade Stage 3, St. Petersburg	PPP		2010
Lomosov Universal Port	Private		2020
Lomonosov Cargo Terminal	Private		2011
Bronka port project	Private		N/A
Oil Products Terminal expansion, Primorsk	Private		N/A
Petrochemical and Container Terminals, Primorsk	Private		N/A
Passenger Terminal, Vyborg	Private		N/A

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Project	Private/Federal	Operator	Completion Period
Kaliningrad hub project	Federal		N/A
Arkhangelsk deep-sea port project	Regional		N/A
Sochi Port Cargo Area 1	Private		2013
Sochi Port Cargo Area 2	Federal		N/A
Primorsko-Akhtarsk port project	Regional		N/A
Grain Terminal, Tuapse	Private		End 2009
Vegetable Oils Terminal, Tuapse	Private		2010
Tuapse Bulker Terminal	Private		N/A
Berth 1 reconstruction project, Novorossiysk	Private		N/A
Bunker Terminal, Novorossiysk	Private		N/A
Petrochemical Terminal, Temryuk	Private		2010
Rostov port-development project	Private		2014
Liquefied Petroleum Gas Terminal	Private		End 2010
Ammonia Terminal, Taman	Private		N/A
Asov port-development project, Kamyshevatskaya	Regional		N/A
Olya port-development project	PPP		Regularly postponed

D

USEFUL CONTACTS

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Related UKTI events in 2010

World Maritime Showcase: 17-21 May 2010

UKTI specialists from high-growth Ports and Maritime markets, including Russia, will be meeting UK companies in Hull (17 May), Liverpool (19 May) and London (20 May) to highlight future projects and opportunities. UKTI will also be publishing a new report on opportunities for UK firms in port projects in the Black Sea region (Bulgaria, Romania, Russia, Turkey and Ukraine). This is a free event, but places are restricted.

Baltic Sea Trade Conference: Tallinn, Estonia, 29-30 September 2010

UKTI will be showcasing UK expertise in the Port sector at this major conference, attended by senior decision-makers from across the Baltic region, including attendees from the Nordic countries, Germany, Poland and Russia. This will be an ideal opportunity to find out about the latest developments in Baltic Sea ports and for UK companies to meet key contacts.

To register your interest in attending an event please email Jason Castelino at jason.castelino@ukti.gsi.gov.uk

WHAT UK TRADE & INVESTMENT CAN DO FOR YOU

UK Trade & Investment (UKTI) is the government organisation that helps UK-based companies succeed in international markets and high-growth overseas firms to set up and grow in the UK's vibrant economy. Many of our services are free or subsidised and could help you take your business to the next level.

UK Trade & Investment services are split into three areas:

1. Advice and support

International trade can be tough, especially when you're just getting started. There's a lot to learn and a lot at stake, so it pays to have high-quality advice and support.

Preparing to Trade – Your local International Trade Adviser can help you to assess your firm's needs and plan for sustainable success in your chosen market. We can also advise you on the linguistic and cultural challenges of operating overseas.

Support to Succeed – Our highly regarded Passport to Export programme combines many of our services in a cost-effective package for new and inexperienced exporters.

2. Information and opportunities

UK Trade & Investment's national and international network can help you gather intelligence on target markets and overseas business opportunities.

Opportunities – Sales leads are the lifeblood of any business, which is why our staff overseas are always looking for business opportunities in your chosen markets.

Aid-Funded Business Service – The team liaises on your behalf with all the main international aid-funding agencies.

Market and Sector Research – Our staff in British consulates and embassies around the world can undertake bespoke research into potential markets for your goods and services. You could also conduct research of your own – we show you where to start.

3. Making it happen

To be a successful exporter you need to spend time in your markets and build lasting commercial relationships with your clients and partners.

Market Entry – UK Trade & Investment helps groups of UK companies attend major international trade shows and take part in British overseas trade missions.

Marketing Support – We can help to create a buzz about your products in the overseas trade press by producing professionally translated press releases for new and innovative products.

Contact UK Trade & Investment today and let us help you grow your business internationally. Register on our website **www.uktradeinvest.gov.uk** for FREE trade business opportunities and market reports.

Solutions for Business

Funded by UK Government

A range of UK Government support is available from a portfolio of initiatives called Solutions for Business (SfB). The "solutions" are available to qualifying businesses, and cover everything from investment and grants through to specialist advice, collaborations and partnerships.

UK Trade & Investment is the government organisation that helps UK-based companies succeed in the global economy, and is responsible for the delivery of the two SfB products "Developing Your International Trade Potential" and "Accessing International Markets".

We also help overseas companies bring their high-quality investment to the UK's dynamic economy – acknowledged as Europe's best place from which to succeed in global business.

UK Trade & Investment offers expertise and contacts through its extensive network of specialists in the UK, and in British embassies and other diplomatic offices around the world. We provide companies with the tools they require to be competitive on the world stage.

For further information please visit www.uktradeinvest.gov.uk or telephone +44 (0)20 7215 8000.

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