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Transportation & Logistics: St. Petersburg Port Overloaded

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Report Highlights:

The ports of Northwest Russia are the major receiving terminals for imported food into Russia and clearance of cargo is already overcapacity with expensive delays and time lost expected in 2007. The port operations and regular clearance of cargo has reached a sufficiently critical point that Russian consumers will soon pay for it with higher prices for goods, especially perishable products, than normal port operations might support. As well, the growth of the variety of foods Russian consumers want is very likely to be constrained by the failure of Russia to provide for accurate, safe, and speedy clearance of cargoes. Port congestion at the Greater Port of St. Petersburg is not a capacity problem, but often is due to antiquated procedures and delays of the Russian Government's administration of the port facilities, and efforts by Russian authorities to redirect flows to St. Petersburg that previously moved through other Baltic ports.

Includes PSD Changes: No
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INCREASED TRAFFIC

Trade sources report that container terminal operations at the Greater Port of St. Petersburg have increased 44 percent since 2004, reaching 1.12 million TEU's in 2005. Growth in demand for port services is a consequence of Russia's increased integration into the world market. In 2006 Russian imports of agricultural and food products rose by roughly 18 percent over the 2005 level, to over \$20 billion dollars. This additional traffic is putting strain on all border crossing points, and in particular the largest of them, the Port of St. Petersburg.

There is no land for the port to expand into. In addition, the Russian Government has chosen a customs regime that calls for immediate clearance of goods and gives traders limited options to store containers away from port in customs clearance zones. From the major container terminal (First Container Terminal) there is a single two-lane road with two gates, then a 10-kilometer drive through city streets and finally onto the Russian highway network. The port has 1850 plugs at the First Container Terminal (FCT), with no hope of adding any more capacity.

Climate-controlled containers cannot be removed from the port until cleared by the Federal Customs Service and the Veterinary and Phytosanitary Surveillance Service (VPSS). Some 75 percent of the plugs at the port are used for red meat and poultry meat. Containers go through a rigorous document check that cannot begin until original documents are presented to the clearance services. This allows documents to be checked for authenticity, but absent any procedure for the process to begin, the requirement that original documents be submitted adds to the wait.

Dwell times at the port for containers vary but over the course of a year the average is eight days. At the end of the year, this can quickly expand to up to 12 days, or if a documentary problem exists containers can take a month for clearance. These long dwell times and the requirement that all cargo be cleared at entry points removes many financing options for traders, such as documentary collections. Importers complain continuously about the over-bureaucratic, paper-based system of customs and sanitary clearances at the port.

The heavy regulation and insistence on a paper system may cause more problems than it solves, according to some who comment that importers are more likely to try to bribe or influence officials on their containers because waiting to fulfill all the government requirements causes too many delays. Some report that the delays exist just so that influence can be used on whose cargos will be cleared expeditiously. Many problems could be solved with a change to customs regimes that allowed a warehouse to be built and used at the port or clearance to be made off the dock. At present, vessels arrive to find no open plugs for climate-controlled containers. Shipping lines are reacting by selling cargo space to their customers through a quota system. In early 2007 contacts reported that shippers will be forced to accept bookings only from exporters who can get their documents organized and presented to clearance agencies. In other words, shippers are being forced to choose their customers.

Shipments via Baltic ports in neighboring countries are being constrained by regulations imposed by the Veterinary and Phytosanitary Surveillance Service specifically intended to concentrate traffic in a limited number of border crossings. For example, on December 12, 2006, VPSS announced that all rice imported into Russia would have to come through one of three ports specially equipped to inspect rice, St. Petersburg, Kaliningrad, and Novorossiysk. VPSS has also reduced the number of border crossing points for deliveries of European-origin livestock products shipped via Ukraine and Belarus. In the past, VPSS has banned shipments of livestock products through the Lithuanian port of Klaipeda, citing documentary irregularities and "disappearance" in Russia of transshipments destined for Central Asia. In

August 2004 VPSS banned imports of all products of plant origin from or shipped via Estonia, cutting out the Port of Tallinn as a competitor for handling these products. On November 27, 2006, VPSS reduced the number of customs points from 50 to 5 for fish and seafood imports from the EU, Ukraine and Belarus. Since none of the five approved customs points is located on the Russian-Estonian border, which had been one of the major conduits for fish trade, this action effectively removed the Port of Tallinn from competition. One consequence of these types of actions is increased pressure on the Port of St. Petersburg.

POSSIBLE SOLUTIONS

The solution is not, according to most observers, building new capacity. Much of the problem could be diminished by the clearance agencies (Customs, VPSS) adopting innovations. All observers are aware that Russian officials have a difficult job at the port and acknowledge that their procedures are often designed to interdict counterfeit or smuggled goods. It is well known that there are unscrupulous traders, both importers and exporters, willing to try any document chicanery to get a cargo admitted into Russia. Falsified veterinary and phytosanitary certificates, bills of lading, and import permits are a continuous headache for inspection officials. Unfortunately, the heavy reliance on paper documents and the great number of people needed to approve a cargo for clearance constitute a major part of the port congestion problem.

Bypassing St. Petersburg is not always an option. Some St. Petersburg-based importers have begun to schedule shipments into ports as far away as Novorossiysk, despite the added cost of the four-day drive up to Moscow. Last year the Baltic points of entry and the Finland port of entry had container truck lines of up to 40 kilometers. A new Port of Ust' Luga, to be located 130 km from St. Petersburg on the Gulf of Finland, is under construction and could be ready in the next 5-6 years. As yet, there is no clear idea if this new port will include a container terminal. There are not yet heavy-duty roads or finished railroad lines to the new port. In addition, shipping companies report that they have been offered berth leases for terms of less than ten years. Most ports offer such leases for 25 years.

IMPACT ON U.S. TRADE

The difficulties at the port of St. Petersburg directly affect U.S. trade. According to the Transportation Services Program of USDA's Agricultural Marketing Service, roughly 70 percent of U.S. agricultural exports to Russia entered through the port in 2005. The port delays in December and January cause hardships for perishable exporters of apples, pears, and grapes, where the long dwell times and inability to get quota for shippers has companies scrambling to make transport arrangements. In general, the difficulties result in higher costs due to demurrage, spoilage of perishable goods, and increased transportation costs incurred by going through alternate points of entry.

LOCAL PRESS REPORTING

Below are several recent articles that appeared in the Russian language press relating difficulties at the Port of St. Petersburg. As a border point, occasionally the Federal Border Service, of the Ministry of the Interior is also involved in congestion delays. Reports are that most of the restrictions placed last week on the ports have been removed, but it only increased the backlog of a congested port.

Border guards offloaded piers

February 2, 2007, Delovoi Peterburg.

The Border Service suspended work of several St-Petersburg port companies due to poorly equipped entry points. This may paralyze fruit imports. Stocks at the warehouse will last only a week.

The FSB RF Federal Border Service sent a letter to the authorities of the Northern capital on January 26 notifying that a ban had been introduced on operations of about 20 piers of St-Petersburg stevedore companies because they did not have permanent entry points, and the existing temporary points did not correspond to the qualifying requirements.

According to the editor in chief of the Portnews Information Agency Nadezhda Malysheva, meanwhile there are only two permanent entry points in the city – at Moby Dick company terminal in Kronshtadt and on the territory of the Petersburg Sea Port. The remaining entry points are working in accordance with the temporary arrangements.

It's been several years that every year Smolny sent a letter to FSB Chief Nikolay Patrushev with a request to extend the work permit for several temporary entry points at the port. Every year FSB gave the permission, however this time several companies were denied the use of temporary points.

"Resolutions of the Government of the RF concerning the working procedures of the entry points should be met, -- agrees the Deputy Head of the State Administration of the St-Petersburg Sea Fish Port Alexander Shtanko. – Although, in order to avoid disruptions in receipt of goods we drafted a letter to Valentina Matviyenko with a request to facilitate obtaining a temporary work permit".

It is forbidden to use the piers of the "Sea Fish Port" company to receive foreign cargo, and those were the piers through which the majority of fruit came in route to the largest Russian importers. They told us at the fish port that they had to deny the receipt of approximately 48,000 MT of cargo, which would bring losses of 18 ml Rubles from transshipments only.

Out of seven stevedore companies that have lost the right to receive foreign cargo, four are specialized exactly in transshipping refrigerated cargo and take up 60% of the city market. There are over 10 boats with bananas on board at the anchorage near St-Petersburg that no one can receive.

"There is always stock in St-Petersburg importers' warehouse capable of satisfying our demand for about a week. The issue should be resolved within this time period," – says the import manager of Sorus company Pavel Bandurovskiy.

However, he found it difficult to reply as to how exactly it would be resolved. According to information from the port specialists, some importers including JFC have already diverted their vessels to Riga, however, JFC denied to comment on the situation.

"Every week 8-10 vessels with bananas come to the city, and it will not be possible to quickly direct them to neighboring ports, as you know each boat brings 3,000 MT of cargo, and a truck that in this case would be delivering the cargo from abroad takes no more than 20 MT", -- explains Pavel Bandurovskiy.

February 1, 2007, Information Agency, Port News.

Border guards did not give in to stevedores

Beginning from February 1, 2007, three stevedore companies from the port of St-Petersburg have started counting losses. Border services stopped temporary inspections of imported cargo at the piers rented by the companies.

Stop the work!

Beginning from February 1, 2007, four temporary border checkpoints at the territory of the port of St-Petersburg suspended their operations until the requirements regarding their construction and technical equipment would be finally met. The FSB of Russia decision in response to the annual request from the city governor Valentina Matviyenko to extend the validity of the temporary border checkpoints at the port turned out to be selective. The four temporary entry points located at the territory of OOO "Sea Fish Port", OAO "Baltiyskiy Zavod", at pier #5 OAO "Severnaya Verf", and between Bolshaya and Malaya Turuhktan harbors were denied the extension. Accordingly, from this moment on, no vessel with imported cargo can be handled at the piers related to those inspection points.

Consequently, the victims are the three stevedore companies that specialize mainly in receipt of imported refrigerated containers, general and bulk commodities, and metal: OOO "Sea Fish Port" (turnover of goods total for 2006 equaled 1,138 ml MT according to RF Ministry of Transportation statistics), OOO "Terminal-Service" (750,000 MT a year), and ZAO "Zavod Morgidrostroy" (375,000 MT a year).

Reception denied

According to the "PortNews" Information Agency at the Sea Fish Port, the information from the Border services that the checkpoint would be closed from February 1 arrived at the company only on January 26, 2007, after 6 pm. The company notified ship owners that it would be impossible to receive imported cargo. Consequently, by February 1 of this year 14 vessels refused to enter the fish port. The company was deprived of 48,000 MT of cargo, which is equivalent to 18 ml Rubles of losses (according to the stevedore company's own estimates). Refrigerated containers with JFC and Sunway fruit went to the port of Riga, and the new Estonian Sillamyae port received the general cargo.

In addition to its own cargo, the checkpoint at the Fish Port is clearing the Nissan rolling products arrived by ferries and destined to the new Onega terminal of the Oslo Marine Group of Companies. The Group's President Vitaliy Arkhangelskiy informed the PortNews correspondent that Oslo Marine had received a special permit from the border guards to clear automobiles at the Fish port since their project was strategic for the city. "On Sunday, February 4, our ferry will arrive at the Fish port piers", -- he clarified.

The second attempt

According to the St-Petersburg Transportation and Transit Policy Committee representative Elena Timofeyeva in her report to "Portnews" Agency, a new appeal has been drafted on behalf of the St-Petersburg governor addressed to the FSB of Russia Director Nikolay Patrushev with a request to extend the duration of the temporary permit for the closed border checkpoints. The city is prepared to vouch for the stevedore companies that are already in the process of equipping the closed border points at their own cost. All the schedules of works and designs have been approved by the Leningradskaya Oblast Border Department. It is not possible to say how quickly the answer from FSB will be received. "The previous letter from the governor Valentina Matviyenko was sent to Moscow on December 29, 2006, but the answer to the letter came on January 17, 2007. It was very fast", -- told Timofeyeva. They assume at the Fish Port that it may take at least 5 days to receive the

temporary permit at best. Although the company will incur huge losses even within this time. And should the ban for the work with export-import commodities last for a month, "it will be a total collapse", the port representative informed the "PortNews" correspondent.

The port is suffering

The forwarding companies operating in the port of St-Petersburg make a note that beginning from December of 2006 there's been a decline in the port's attractiveness to the ship owners targeted at container shipments. A lot of commodities once again went to the ports of the Baltic States and Finland. In view of lengthy handling intervals at the port for containers (up to 12-15 days), many ship owners are looking for other routes. The market for ocean container shipments responds to that. According to the General Director of OOO "Greenway-Neva" Ekaterina Efremova, just this January 6 ocean container lines denied the St-Petersburg service due to the port's inability to handle cargo properly. In addition, beginning from December 2006 the majority of the line operators introduced the so-called extreme fee for every container at the port of St-Petersburg. It equaled \$150 per 1 TEU, and beginning from February 1, 2007 went up to \$300 per 1 TEU. It's not improbable that the cause was the increased risks at the port.

Amount of losses the stevedore companies will suffer may be calculated only after the work at the port is restored in full. At the same time all the commercial structures related to the port— transportation, dock, logistic and forwarding companies, as well as grocery stores and customers will have to consider their losses. It will be more difficult to calculate the damage due to the temporary suspension of works at certain port terminals made to the city and the federal budget. Decline in commodity turnover that the region may be forecasted to suffer during the coming month will demonstrate the damage made to the competitiveness and prestige of the port of St-Petersburg. Nadezhda Malysheva