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**GENERAL TRENDS IN THE GROWTH OF EXPORTS OF TRANSPORT SERVICES
AND MORE EFFECTIVE USE OF UKRAINE'S GEOGRAPHICAL SITUATION AS A
TRANSIT STATE**

This document is being submitted as a basic paper for the Round Table on Implementation of Trade Facilitation in Transition Economies, which is to be held on 31 May 2002, and is intended **only for information purposes**. It was prepared by Mrs. Emelyanova, Executive Secretary of the Ukrainian national body for trade facilitation, as part of the project entitled "Support to trade facilitation measures in selected Eastern European countries", which is being funded by the Czech Republic.

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PART 1. INTRODUCTION

The national body - UKRPRO

The national body for the facilitation of international trade and electronic business has been in operation in Ukraine since 1999. It was set up by the Ministry of Foreign Economic Relations and Trade of Ukraine following Cabinet of Ministers order No. 16464/20 of 4 September 1998, with the assistance of the United Nations Economic Commission for Europe's Centre for the Facilitation of Procedures and Practices for Administration, Commerce and Transport (CEFACT) and the Czech Republic's national trade facilitation committee, FITPRO, as part of a project entitled "Support to trade facilitation measures in selected Eastern European countries".

Following administrative reform in the State apparatus, the national body is now operating under the Ukraine's Ministry of the Economy and European Integration Issues.

It is represented by the permanent Working Group on Simplification of Procedures in Administration, Commerce and Transport (referred to below as the Working Group).

The principal tasks of the Working Group are:

- To study the latest experience in other countries in the simplification of international trade and electronic business procedures;
- To analyse legislation and standards in force in Ukraine with a view to economic reform and harmonization with the decisions of international organizations (GATT, EEC, UNCTAD, ISO, UNCITRAL, FIATA, TACIS, TINA and EAN);
- To coordinate the introduction of international trade promotion programmes in Ukraine, as well as recommendations on the application of UN/EDIFACT standards;
- To draw up instruments and programmes in the field of legislation and standards;
- To coordinate the activities of expert groups from various ministries and departments in preparing proposals for the development and implementation of projects for the simplification of procedures in administration, commerce and transport.

The Working Group is assisted by two subgroups on the implementation of recommendations of international organizations in the sphere of electronic business, and of the UN/CEFACT recommendations on the facilitation of international trade.

The Working Group has drafted or helped to draft numerous laws, including:

- Bills on electronic documents, electronic document handling and digital signatures, which are currently before the Verkhovna Rada for consideration; one has already passed its second reading;

- Freight Transit Act, 20 October 1999;
- Act on a Single Charge to be Levied at Crossing Points on the Customs Border, 4 December 1999;
- Act on Rates of the Single Charge to be Levied at Crossing Points on the Customs Border, 12 July 2001, as well as a number of decisions adopted by the Cabinet of Ministers, some of them on customs issues, relating to conditions for the passage of transit cargoes across Ukrainian territory.

Currently the Working Group is continuing its work in these areas, with the aim of creating more favourable legal and administrative conditions for the efficient movement of goods into, across and out of Ukraine.

Theoretical problems being addressed by the Working Group

Ukraine's advantageous geographical position, at the crossroads of trade routes between Europe and Asia, is a positive factor in the development of Ukraine as a transit State. In the former Soviet Union three quarters of the total volume of goods involved in foreign trade and transit was trans-shipped in the Black Sea and Baltic Sea basins, and 57% of all cargoes passed through the ports of Ilyichevsk, Odessa, Yuzhny, Reni, Mariupol, Novorossiisk and Tuapse.

Currently the Baltic countries, after modifying their transit policies, receive significant foreign currency revenue for their State budgets, and they are continuing to create advantageous conditions for attracting additional transit shipments through their territories. As a result, around a quarter of Latvia's gross domestic product, for example, is made up of revenue from the provision of transit services.

Present-day trends in the evolution of the world economy include the expansion of economic links and international economic cooperation. This is leading to continuous growth in transnational flows and international goods transit operations.

PART 2. TRANSIT CONDITIONS IN UKRAINE

The presence of Black Sea seaports which do not ice over in winter, as well as a developed transport network, in both east-west and north-south directions, offer all the prerequisites for attracting significant volumes of transit goods and allowing onward journeys by the shortest possible routes.

However, the export potential of Ukraine's transport system is insufficiently exploited. Ukraine accounts for only around 1% of total world exports of transport services, which are worth US\$ 318.3 billion.

In comparison, the volume of exports of transport services is US\$ 19.3 billion in France, US\$ 18.9 billion in Germany, US\$ 19.9 billion in the Netherlands and US\$ 6.8 billion in Denmark.

Ukraine's transport infrastructure has the capacity to transport over 60-70 billion tons of goods each year by rail, inland waterway and road and handle them in its ports, and also to convey up to 200 million tons of products by pipeline. However, the actual transit volumes stand at over 215 million tons, meaning that 70% of Ukraine's transit potential is being used, while the figure for common carriers is only 50%.

The network of public roads in Ukraine covers 169,500 kilometres, but the structure of the network is not in keeping with present-day requirements. Consequently, there is a need to seek credits to the tune of US\$ 2.5 billion.

In recent years a tendency towards definite growth in transit operations has been accompanied by an overall decline in operations on certain modes of transport. The growth trend has been slow and unstable.

Principal flows of transit goods through Ukraine

The principal flows of transit goods through Ukraine are made up of gas, oil and petroleum products (215.1 million tons) conveyed on trunk pipelines from Russia to European countries, accounting for close to 80% of total transit volumes.

The principal transit flows using common carriers are as follows:

- Between points on the north-east and western borders using direct rail and road links - 19 million tons (56.5%);
- Between points on the northern, eastern and, to some extent, western borders and via Ukrainian seaports - 18.6 million tons (43.4%).

Almost 95% of transit flows enter Ukraine through railway stations. The bulk of these are export goods from Russia, Belarus and Kazakhstan (iron ore 30%, hard coal 16%, petroleum products 10%) being transported to Slovakia, Hungary, Austria, the Czech Republic and Romania, and also through ports to other countries.

Transit operations by road are mainly effected via the following highways: north-east Europe-Ukraine-Russia, Belarus; through Ukrainian seaports - towards Russia, Belarus, the Caucasus, the Republic of Moldova and other countries.

The goods transported are food products, clothing, footwear, furniture, pharmaceuticals and goods in containers, including those trans-shipped in seaports.

The breakdown of transit operations by rail is shown in figure 1.

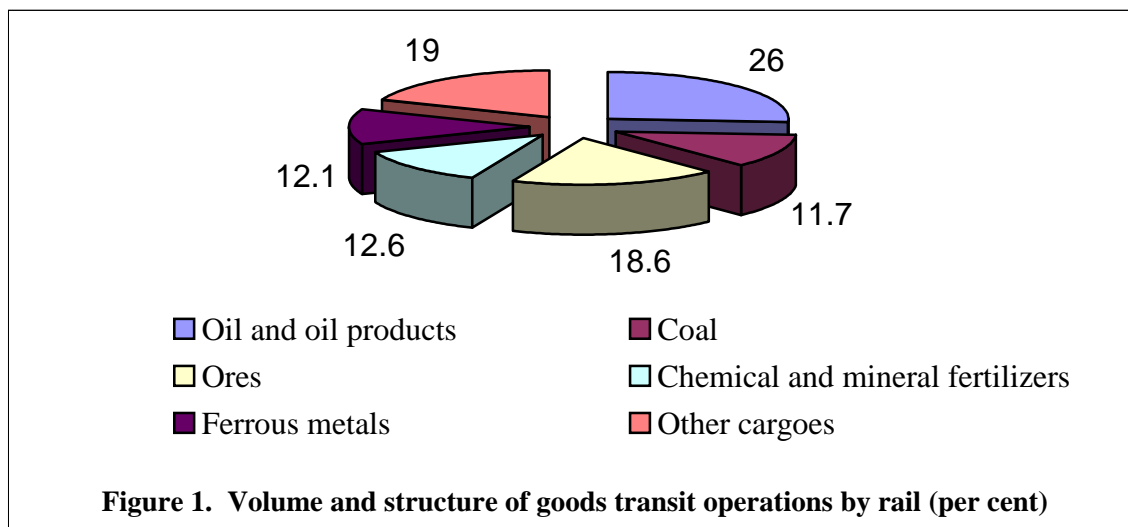


Figure 1. Volume and structure of goods transit operations by rail (per cent)

More than 36.6 million tons of transit goods are handled in seaports; 18.6 million tons are trans-shipped to or from rail transport. Among these cargoes, over 17 million tons are exports from Russia and other States, and up to 1 million tons are imports to those countries through Ukrainian ports. Oil products in transit, which are handled in the ports and conveyed by pipeline, account for almost 18.0 million tons.

The volume of transit cargoes broken down by goods classification and by country of origin is given in figures 2 and 3.

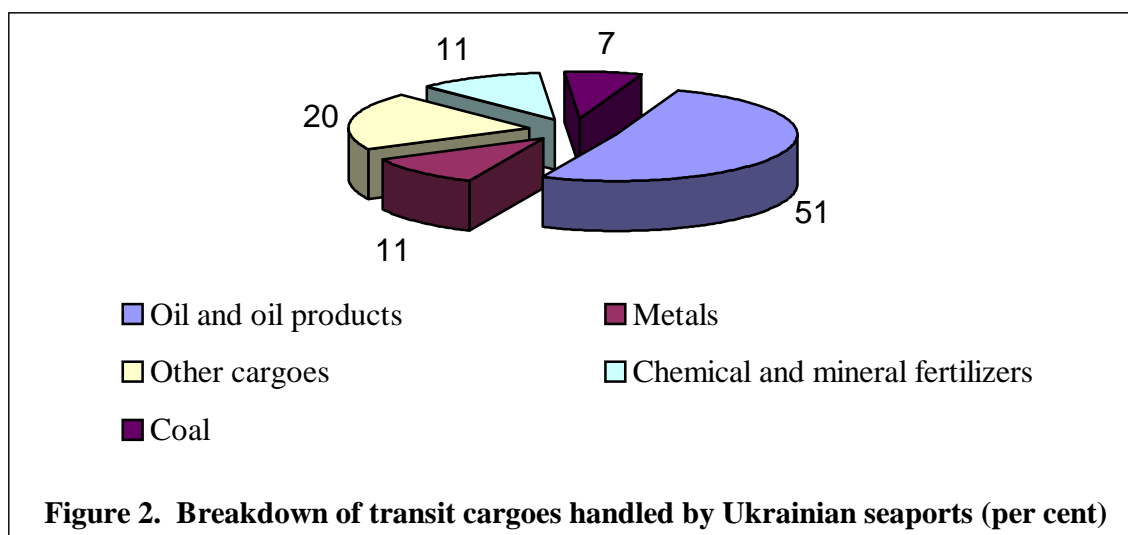
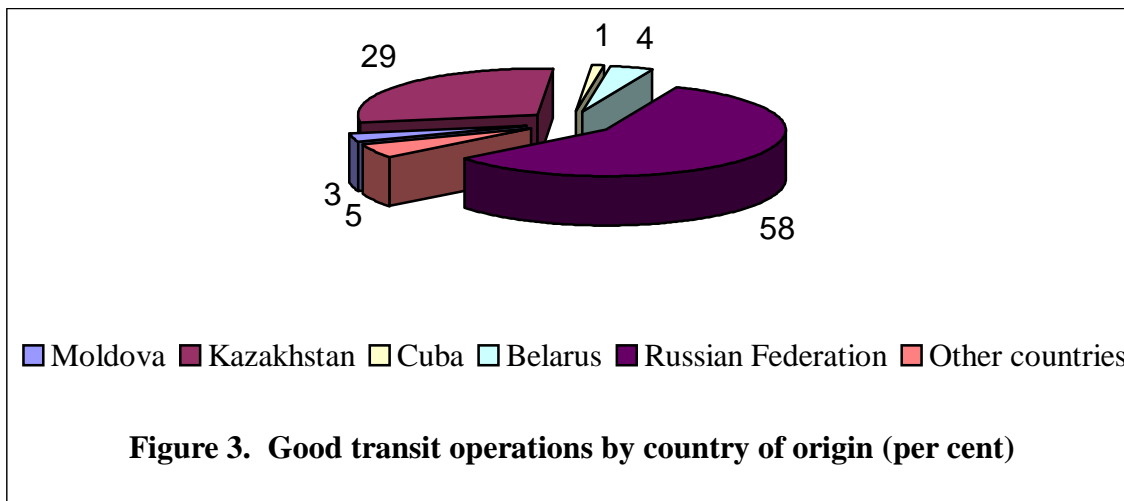
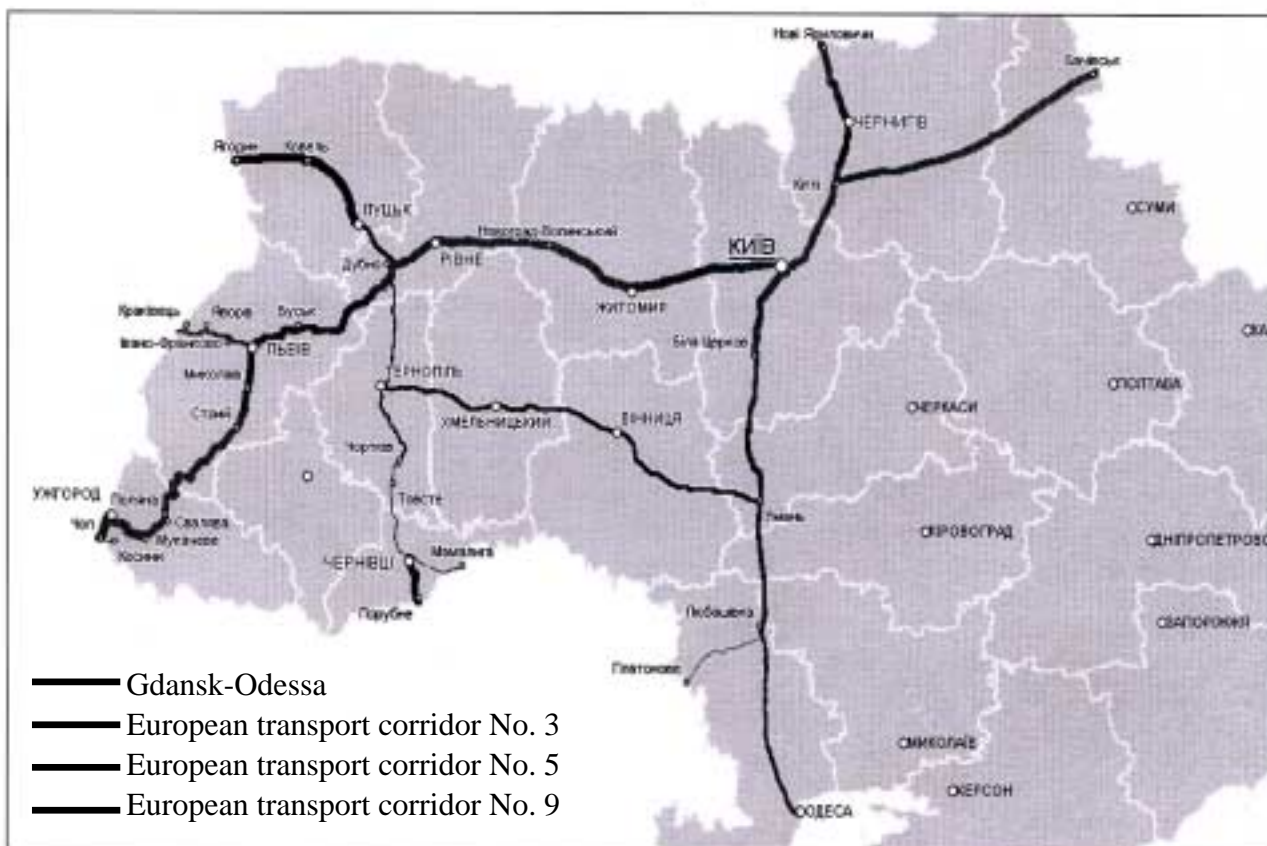


Figure 2. Breakdown of transit cargoes handled by Ukrainian seaports (per cent)



The above data show that raw materials and goods which have undergone primary processing constitute the bulk of transit goods through Ukraine. There is a low proportion of goods subject to high tariffs, including goods in containers. For the most part transit flows originate from CIS countries.

Map of export, import and transit flows by road sectors along international transport corridors, 2001



All the above information points to Ukraine's considerable potential for transit operations and their future expansion. Forecasts of world development to the year 2004 point to continuous growth in world GDP and even faster rates of growth in international trade.

Estimates of the future evolution of the world economy show that the principal financial and trade flows at the beginning of the present century will be concentrated in the directions Europe-Asia and Europe-Americas.

Analysis of the foreign trade links between States located on a west-east axis which touch the area of the international transport corridors passing through Ukraine points to the scope for growth in the volumes of goods transit operations in this direction.

Looking ahead to 2010, the potential trade flow between CIS countries and the countries of Western and Central Europe passing through the area of the corridors in Ukraine is estimated at US\$ 158 billion, while the flow from western European countries to Asian countries and back in the same area in the same period could reach 44.5% of the levels forecast for flows in the direction western Europe-CIS countries.

In a mid-term perspective, the present pattern of transit flows will essentially persist, with emphasis on the westward direction; in other words these will be flows originating in Russia and other CIS countries and moving towards Europe through border railway stations, seaports and gas and oil pipelines.

These flows, which currently account for over 90% of all transit through Ukraine, could increase considerably if conditions are favourable. However, the trends in the markets for transit services in the period to 2010 in this direction of transit are highly contradictory. On the one hand, the forecast growth in the economies of the CIS countries and the exploitation of oil deposits in the Caspian will foster growth in transport operations, while on the other the construction by Russia of a new gas pipeline through Belarus and the re-equipping and reconstruction of Russian seaports on the Black and Azov Seas may substantially reduce transit flows through Ukraine.

The overall economic interests of the CIS countries call for an agreed transit policy under which transport systems would develop in a complementary rather than a competitive manner. If such a policy were to be put into effect, an increase in transit flows of 25-35% could be expected by 2010, as against no more than 15% otherwise.

Flows of transit goods in the reverse direction following the entry into operation of the Odessa-Brody oil pipeline and the terminal could increase several times over.

Against this background, the principal feature of the development of international transit in Ukraine is an increase in the direction Europe-Asia (the TRACECA corridor) and north-south (the Baltic Sea-Black Sea corridor), as well as an increase in transit involving the Republic of Moldova and Belarus. This would also be encouraged by the work being carried out at the initiative of UN/CEFACT by the Czech Republic's national trade facilitation committee, FITPRO, as part of the project entitled "Support to trade facilitation measures in selected Eastern European countries", and also other international organizations.

There are existing flows of goods which call for transit operations by road between the countries of south and south-east Europe and Russia, and also for the development of transit on inland waterways (the river Dnepr and the Volga-Don navigation system), and combined transit operations using various modes of transport.

According to expert estimates by Ukrainian scientific bodies and foreign experts, the volume of international transit through Ukraine by 2005 and 2010 will be:

By 2005:	Optimistic scenario:	240-250 million tons
	Pessimistic scenario:	210-220 million tons
By 2010:	Optimistic scenario:	270-280 million tons
	Pessimistic scenario:	230-240 million tons.

Factors hindering the development of international transit in Ukraine

Currently the main factors hindering the development of international transit in Ukraine are:

- The disparities between Ukrainian legislation and that of western European countries (of the eight conventions on simplification of procedures in administration, commerce and transport, post-independence Ukraine has acceded to only one - the 1975 ECE Customs Convention on the International Transport of Goods Under Cover of TIR Carnets (TIR Convention);
- The incompatibility of Ukrainian laws and standards with international transport law, including provisions dealing with the crossing of frontiers, the organization of transport operations and the handling of cargoes in terminals;
- The lack of a unified State transit policy;
- The lack of a set of laws regulating transit operations and the services provided by forwarding agents. The result is that the long queues of motor vehicles waiting to cross the Ukrainian border have not yet been eliminated. The time required for processing transit vehicles in Ukraine ranges between 6 hours and several days, against 1-30 minutes in the countries of the European Union. All this underlines the need for changes in the current legislation in Ukraine, as well as the drafting of new standards which would bring the Ukrainian legislation into line with international norms and standards, first and foremost through the adoption of the UN/CEFACT recommendations on the facilitation of international trade;
- The poor quality of transit operations (low speed, organizational obstacles at the border, hazards during transfers of cargoes, inadequate services);
- The failure to complete the development of a modern network of roads, terminals and vehicles, and the fact that existing facilities fall short of technical and operational requirements applying to international transport operations, vehicles and other facilities;

- Inadequate levels of computerization;
- Lagging behind in technical areas, especially in the introduction of logistics systems for international operations and combined transport;
- An insufficiently well thought-out tariff policy, the absence of an integrated approach to setting tariffs and prices for transport services, the need to ensure an overall profit;
- High levels of crime, high charges imposed on transport operators when crossing the border and along the routes taken by goods and vehicles;
- Manifestations of the informal economy in government offices.

PART 3. MEASURES ADOPTED BY THE GOVERNMENT OF UKRAINE

With the aim of comprehensively addressing all problems, the President of Ukraine issued Order No. 216/2002 on 5 March 2002 on measures to eliminate the informal economy in Ukraine, in order to step up efforts to combat the informal economy and prevent its manifestations from arising in the future. Measures have been approved for the period 2002-2004, whose aims include the following:

1. Drafting of legislation relating to the carrying out of checks on the activities of businesses by supervisory bodies;
2. Establishment of an interdepartmental information system to exchange information on the registration of enterprises and organizations in Ukraine, businesses and corporate taxpayers;
3. Adoption of appropriate measures to simplify the procedure for effecting settlements under securities contracts involving non-residents;
4. Finalization of legislation on digital signatures, providing in particular for legislative definition of the status of such signatures and the scope of their use;
5. Introduction of the issue and receipt of cash using payment cards under the National System for Large-scale Electronic Payments in Trade and Services;
6. Drafting of proposals for improving the machinery for insuring export and credit risks;
7. Establishment of a single electronic system for the exchange of information between State agencies which exercise surveillance functions in the area of foreign economic activities, etc.

Also in order to address issues related to transit policy, the Ministry of the Economy and European Integration Issues, on the orders of the President, prepared a draft which was adopted in the form of Act No. 3022-III of 7 February 2002 on the Integrated Programme to Affirm the Role of Ukraine as a Transit State.

The main provisions of the Programme are:

1. Stepping up of work to create a national network of international transport corridors in keeping with international standards, and its incorporation in the transport systems of Europe, Asia and the Baltic-Black Sea region;
2. Development of cooperation with international transport organizations;
3. Accession by Ukraine to international conventions and agreements in the field of international transport operations, development and application of measures for the phased accession of Ukraine to international conventions and multilateral agreements, including:
 - International Convention on the Harmonization of Frontier Controls of Goods (1982);
 - Convention on a Common Transit Procedure (Geneva, 20 May 1987);
 - International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto, revised 1999);
 - United Nations Convention on International Multimodal Transport of Goods (1980);
 - Convention on the Contract for the International Carriage of Goods (19 May 1956);
 - Convention on the Contract for the International Carriage of Passengers and Luggage by Road (1 March 1973);
 - Convention on international carriage by rail;
 - Agreement on the International Carriage of Perishable Foodstuffs and on the Special Equipment to be Used for Such Carriage (1 September 1970);
 - European Agreement on Important International Combined Transport Lines and Related Installations;
 - European Agreement concerning the Work of Crews of Vehicles engaged in International Road Transport (1 July 1970), as well as conventions and agreements on traffic safety and protection of the environment;

4. Simplification of trade procedures, including customs procedures applied in crossings of the Ukrainian border;
5. Creation of the legal foundations for the further development of goods transit operations;
6. Phased approach to the principles of international transport and customs policy relating to the transit of goods;
7. Raising the technical standard of the main transit routes, terminals and border crossing points to a level which will guarantee that international technical, operational, commercial and environmental requirements are respected at such facilities;
8. Introduction of new technologies for the organization of transport operations and the passage of cargoes across the border, development of combined transport and close coordination of the activities of all those participating in transit operations;
9. Application of a well-designed tariff, price and tax policy which will help to make transit services in Ukraine more competitive and attract additional flows of transit cargoes;
10. Development of international cooperation in the field of transit operations;
11. Establishment of economic incentives to promote the expansion of international transit operations.

The Programme will be implemented in phases

During the first phase (2002-2005), the following goals will be pursued:

- Introduction of laws and standards to govern the transit of goods through Ukraine, modification of domestic legislation to bring it into line with international transport agreements and conventions;
- Removal of technical obstacles to the transit of goods, primarily bottlenecks along international transport corridors and at crossing points on the Ukrainian border;
- Upgrading of the tariff, price and tax structure in order to encourage transit operations;
- Finalization of work to create a complete system for record-keeping, analysis and forecasting of transit operations;
- Use of modern information technologies, especially electronic document handling, while ensuring the security of information;

- Extensive introduction of the principles of transport logistics, using new information technologies;
- Introduction of modern transport information systems, and their integration into Europe-wide systems;
- Improvement of training and upgrading of skills of staff engaged in providing transport services for foreign economic activities.

During the second phase (2006-2010), the following goals will be pursued:

- An overall shift to technical and environmental standards which correspond to European requirements applicable to vehicles and infrastructure for international transit operations;
- Acquisition of modern road vehicles, reconstruction and development of the systems of trunk pipelines.

How the Programme will be funded

The implementation of the Programme will be funded primarily from extrabudgetary sources: external credits and investment, including technical assistance from international unions and financial organizations (EC TACIS, EBRD credits, etc.). The overall expenditure will total around 31 billion hryvnias. The bulk of this sum will be used for activities related to the development of transport infrastructure, specifically road works intended to allow the raising of permitted axle loads and the number of road trains on international transport corridors, bringing them up to European standards (5.75 billion hryvnias from external sources of funding).

The payback period for activities under the first phase will be between 4.5 and 7 years, and 12 years for capital-intensive activities.

According to preliminary estimates, revenue from goods transit operations (excluding pipelines) will rise by almost 600-700 million hryvnias per year, of which 200-250 million hryvnias will flow into the State budget.

The goals for the second phase will be determined following completion of the first phase, after a realistic appraisal of economic prospects and identification of the need to accommodate future transit flows.

Expected outputs of the Programme

The implementation of the Programme will make it possible:

- To stabilize and subsequently raise the volume of transit operations and strengthen Ukraine's geo-economic potential;

- To restore and strengthen the potential for expanding services provided to international transport corridors in centres of economic activity;
- To promote effective use of the capacity of the transport systems to carry transit goods, to stimulate the growth and enhancement of this capacity through the introduction of new technologies, links and information systems;
- To improve the state of the environment through the development of combined transport;
- To foster the development of a wide range of associated services, including the development of international tourism, insurance, the organization of trade, catering, vehicle repair and maintenance, creation of new jobs in production and services;
- To bring Ukrainian legislation into line with international standards;
- To promote the more rapid integration of Ukraine into the European Union.

Conclusions

1. The President and Government of Ukraine attach particular importance to efforts to simplify international trade procedures, electronic business, and measures to eliminate the informal economy and its manifestations in the Ukrainian economy, so as to create more favourable conditions for moving goods and vehicles across the border and across the country.
2. An economic policy focused on the integration of Ukraine in the European Union is being actively pursued.
3. With the support of the Cabinet of Ministers and the Verkhovna Rada, legislation and standards are being drafted and adopted which are aimed at drawing on recent experience in other countries.
4. Owing to the limited scope available under the State budget, the bulk of the measures involved in the development of infrastructure for international transit operations can be implemented only using external funds, and in this regard the measures underpinned by the UN/CEFACT recommendations on simplification of procedures in administration, commerce and transport are of high priority and are most attractive to States. The effectiveness of those recommendations is being confirmed in practice, and their application in a context of minimal financial outlays offers an opportunity to secure maximum impact in tackling a wide range of problems in a short time.
