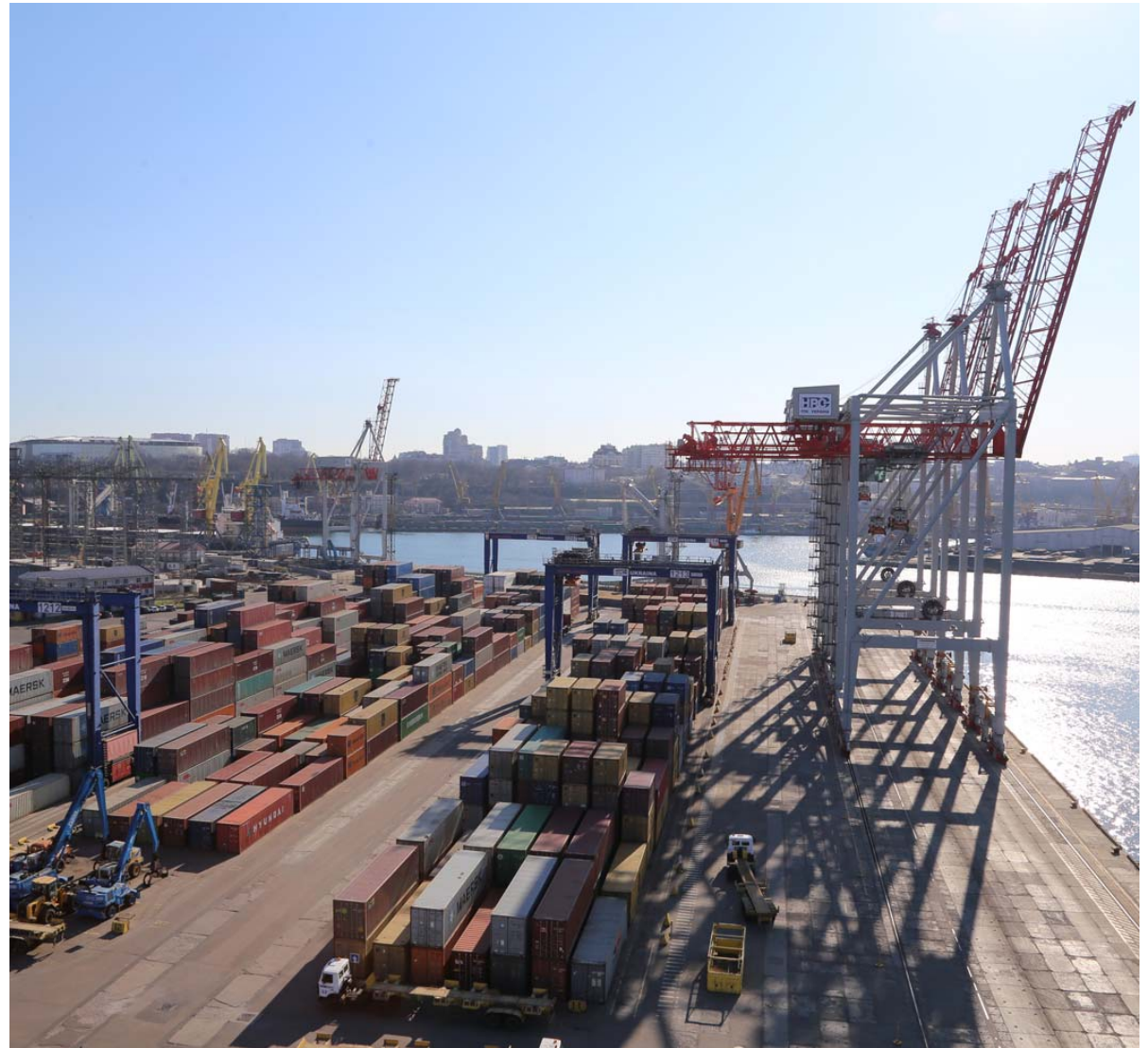


# Black Sea Ports Facilitating Economic Growth: Chances and Challenges

Varna, Bulgaria  
22<sup>nd</sup> May 2018



# Agenda

## 1. Brief overview HHLA and HHAL International

Chart 3



## 2. Black Sea Container Market Development

Chart 9



## 3. Growth Challenges

Chart 13

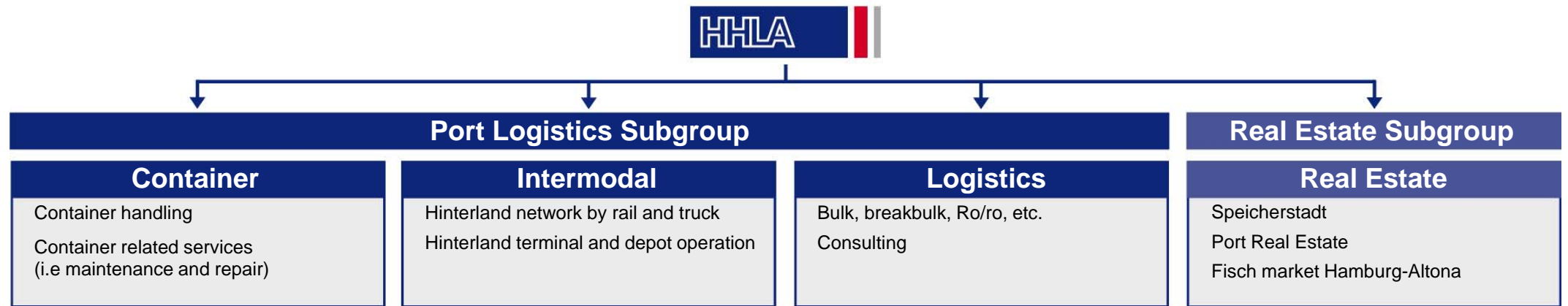


## 4. Conclusion and Outlook

Chart 16

# HHLA – Hamburger Hafen und Lagerhaus Aktiengesellschaft

HHLA is a leading European port and transport logistics company founded in 1885



Shareholder	City of Hamburg (68%), broad shareholding (32%)
Financial data	Revenues € 1.3 billion / EBIT € 173 million
Container throughput	7.2 million TEU
Intermodal	1.5 million TEU
Staff	5,581



# HHLA Container Terminals

HHLA handled 7.2 Million TEU in 2017 on it's 4 core terminals. The Terminal in Muuga Tallinn was acquired in March 2018



- Container Terminal Altenwerder (75% in JV with Hapag Lloyd)



- Container Terminal Odessa (100%)



- Container Terminal Burchardkai (100%)



- Container Terminal Muuga / Tallinn (100%, acquired March 2018, closing expected June 2018)

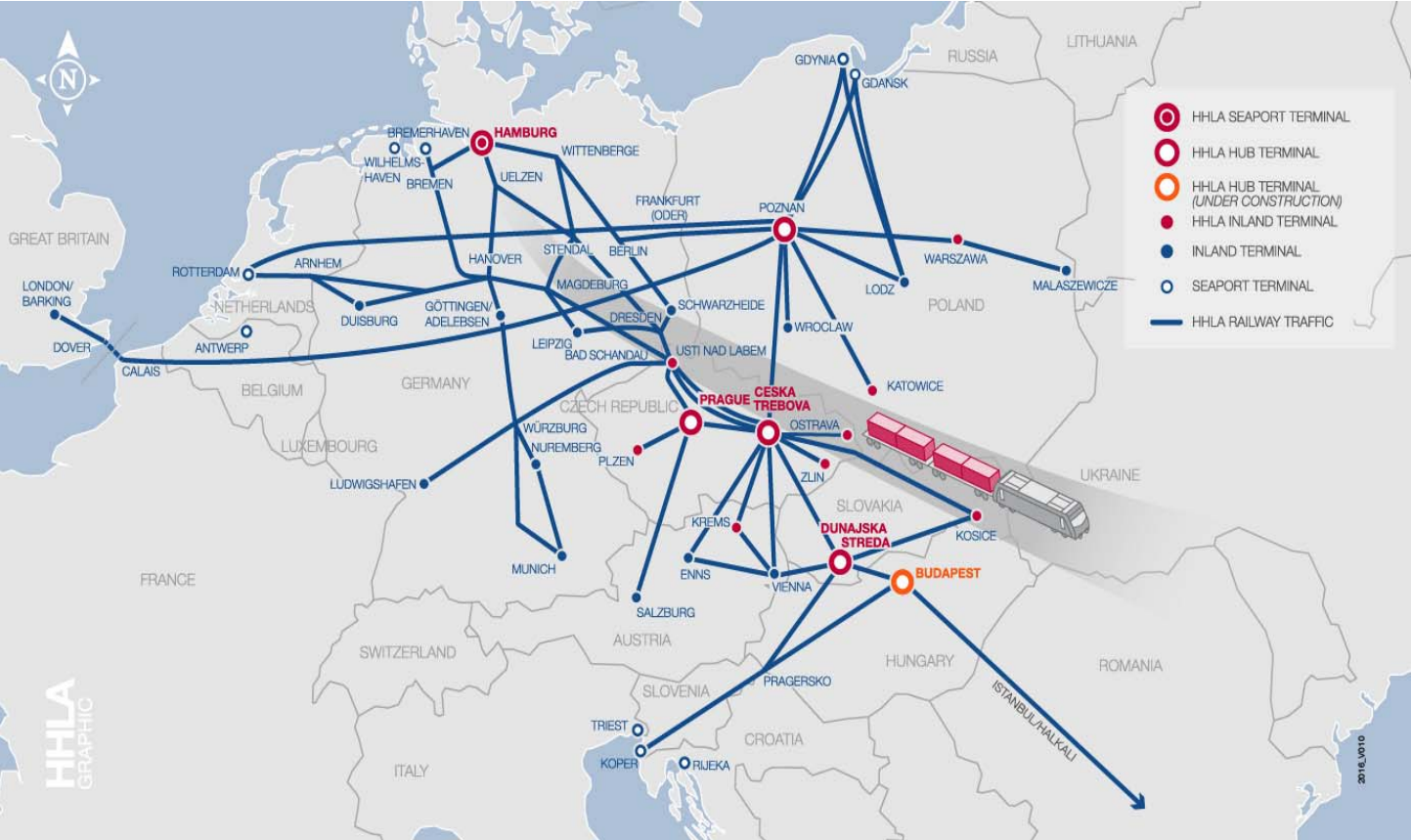


- Container Terminal Tollerort (100%)

In addition, HHLA operates several other terminals in the port of Hamburg and Cuxhaven for bulk cargoes (iron ore, coal), fruits, RoRo mostly as Joint Ventures with partners

# HHLA Intermodal

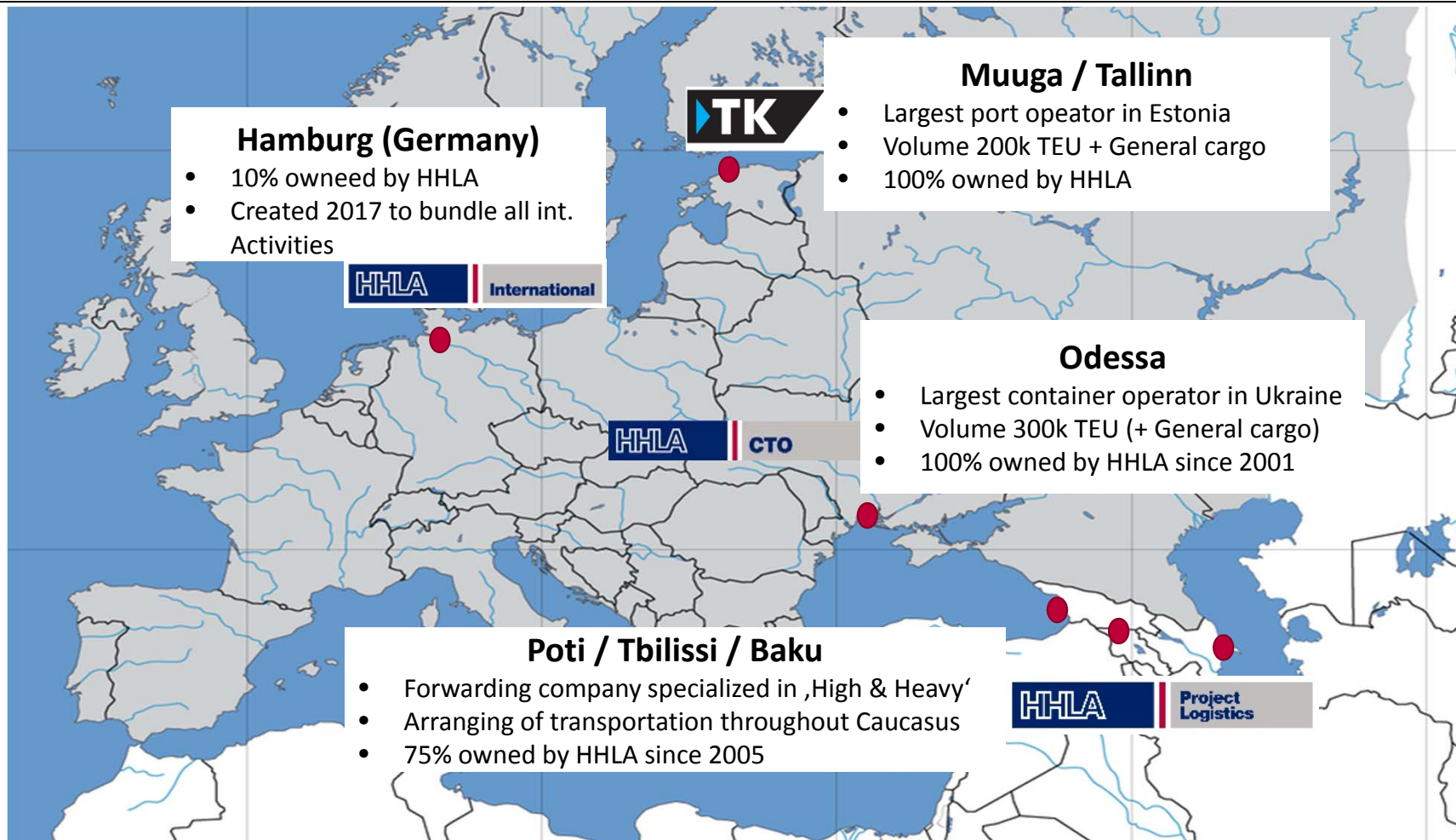
HHLA / Metrans is the largest intermodal operator in Europe with over 1.4 Mio. TEU in 2017





# HHLA presence in Europe / Caucasus

HHLA International created in 2017 to bundle all international activities of HHLA.



# Container Terminal Odessa (CTO)

HHLA is present in Odessa since 1992 with the most modern Terminal in Ukraine

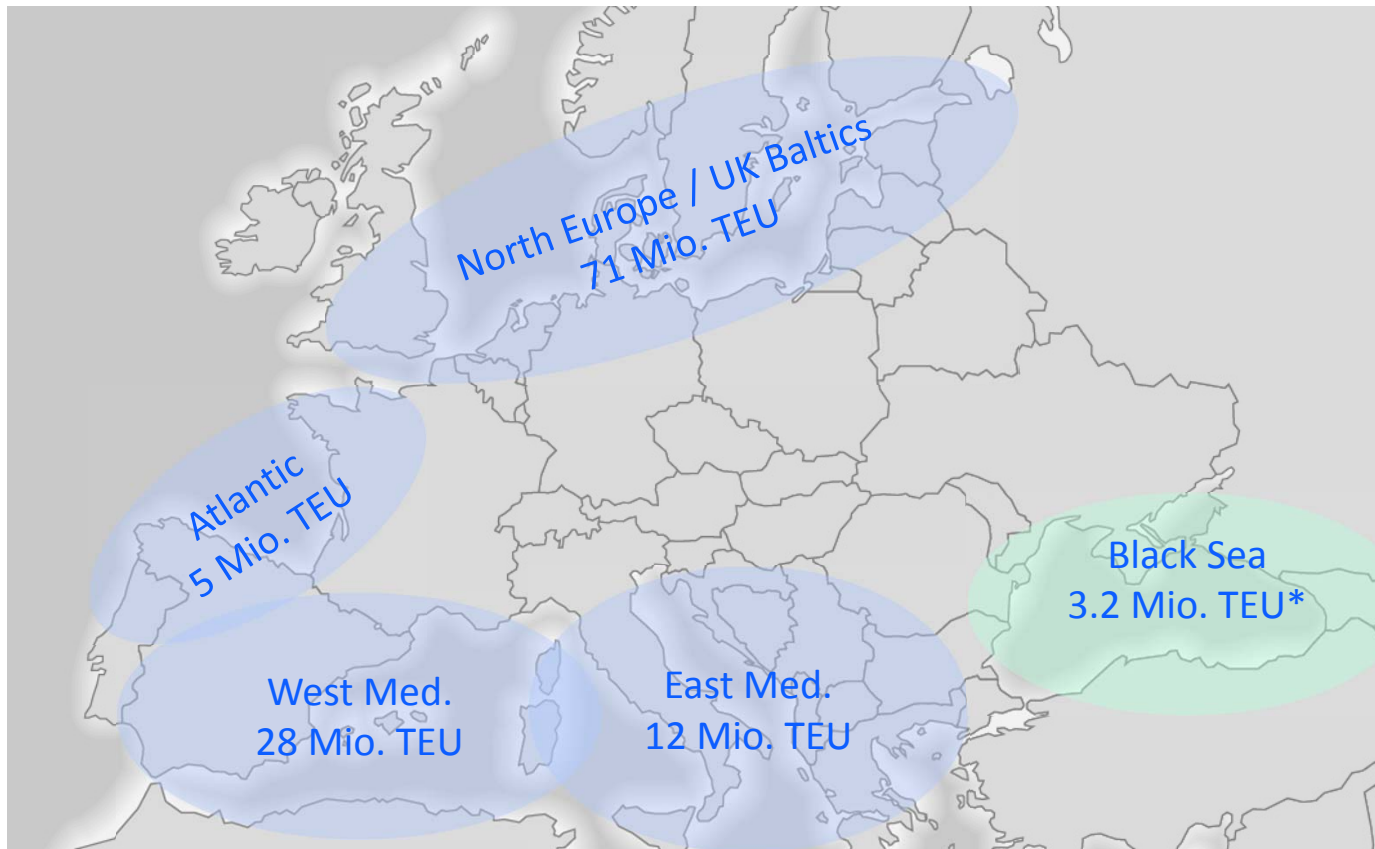


- Sole common use terminal with Western European service levels in Ukraine
- Current capacity of 850k TEU / Year with extension to 1.2 M / TEU possible
- Total Quay length of 960 meters capable of handling 2 deep sea vessels + feeders
- Depth of 14 meters, to be increased to 15 meters
- 6 Gantry cranes of which 3 can handle 20 rows
- 20k TEU simultaneous storage capacity including 580 Reefer plugs

# Black Sea Container Market

The Black Sea region represents only 3 % of the total European container market.....

## Container volumes in Europe (in TEU 2017)



Source: Informall

\* Including Black Sea coast of Turkey. Without Turkey, 2.8 Mio. TEU

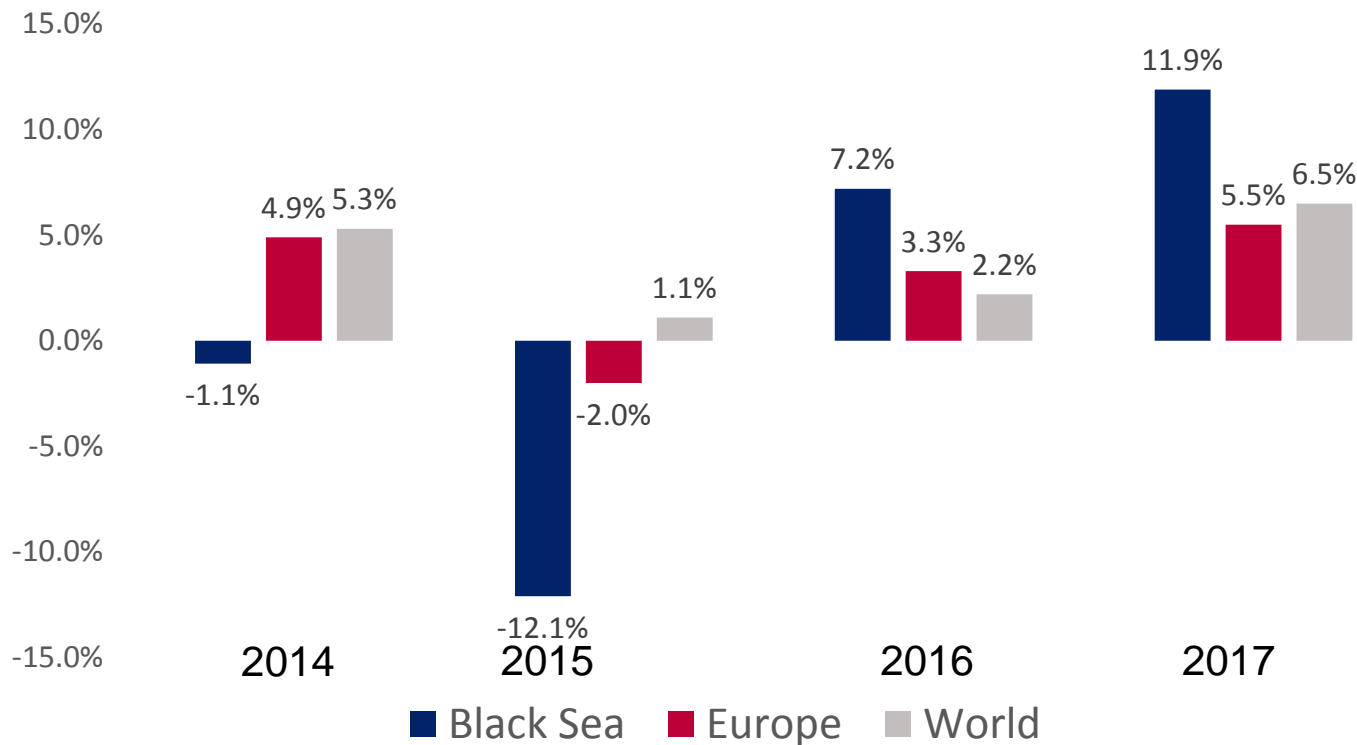
- Europe a market of overall around 110 Mio. TEU
  - Including Transshipment volumes
- Black Sea, with 3.2 Mio. TEU (including Turkey) only represents around 3% of total volumes
- Very low volumes considering size of economies around the Black Sea



# Black Sea Container Market

..... And has been impacted by geopolitical tensions in the region

### Container volume development Black Sea 2014-2017



- Strong impact in 2014 – 2015 of Ukraine war on all volumes in the Black Sea
- Strong rebound in 2016 and 2017
- Quite differentiated development, with Ukraine and Russia still lagging behind, while Georgia, Romania and Bulgaria have seen a strong growth

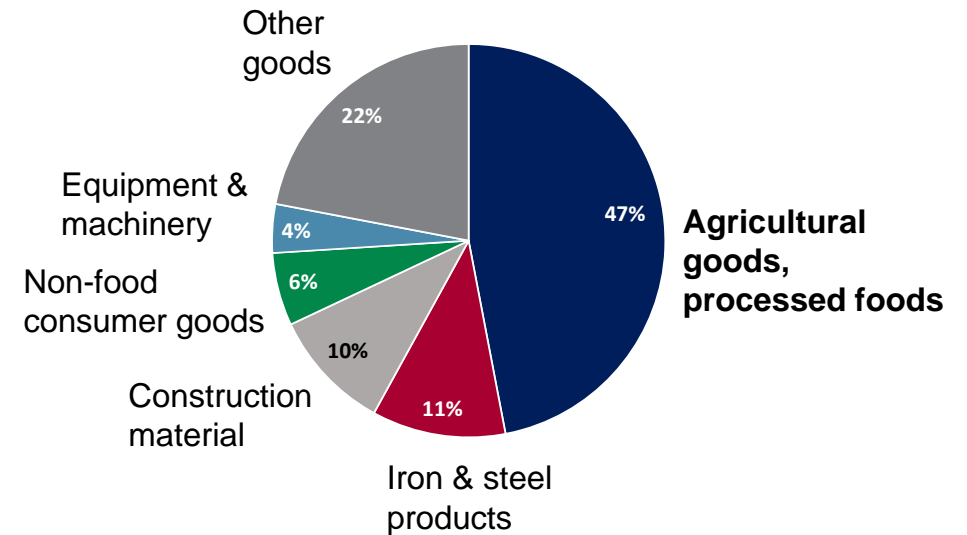
# Specifics of the Black Sea Region

The degree of containerization in the Black Sea is extremely low compared to Western Europe

## Low levels of containerization.....

Country	Population	Total container volume 2017	Containers per 100 habitants
Netherlands	17 Mio.	12,8 Mio.	74,39
Spain	46 Mio.	15 Mio.	32,21
Turkey	80 Mio.	8,9 Mio.	10,95
Bulgaria	7 Mio.	0,3 Mio.	3,17
Ukraine	42 Mio.	0,7 Mio.	1,71

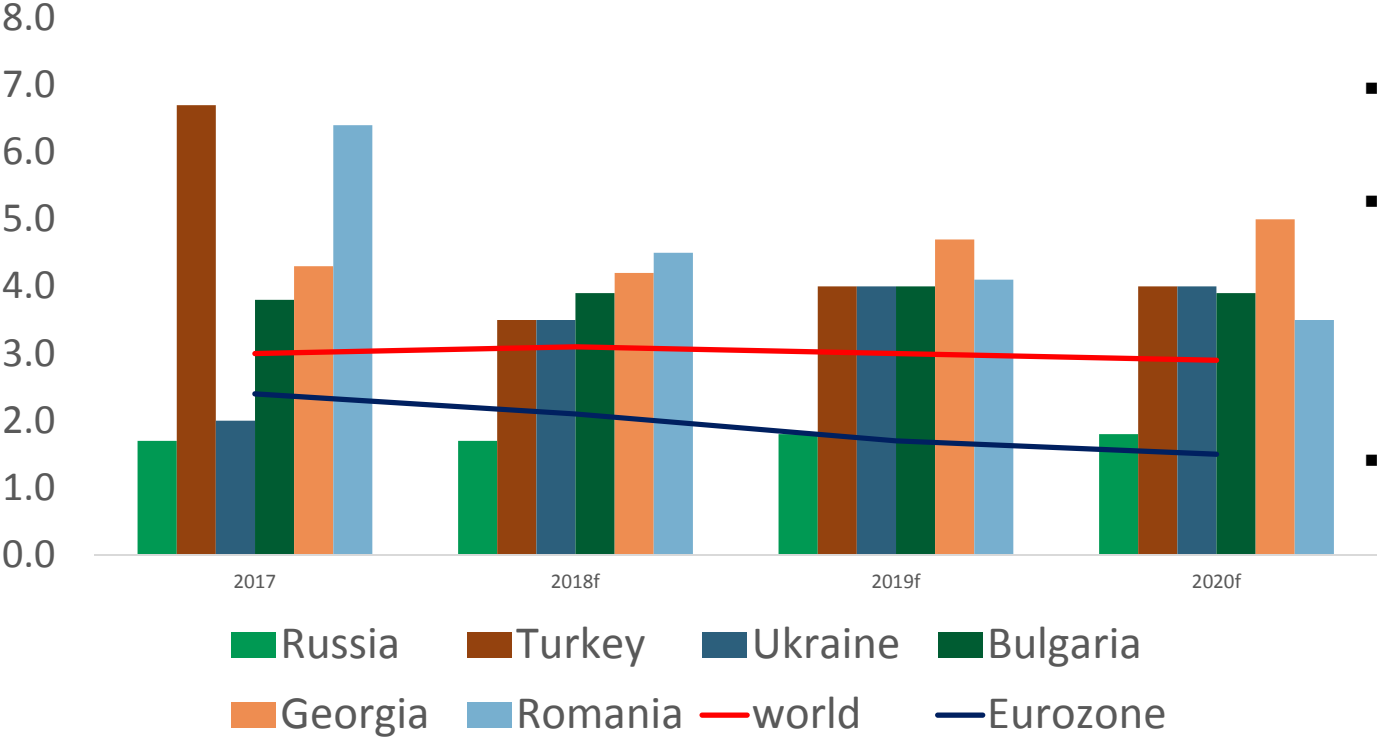
## ... and high dependence on Agriproducts



# GDP Growth Black Sea Countries

Over proportional GDP Growth forecasted for Black Sea countries.....

## GDP Growth 17'-20' Black Sea Countries



- Positive outlook for growth in the coming years
- Black Sea countries should see over proportional growth compared to World and Eurozone
  - Only Russia with lower growth expectations for the coming years
- Still very dependant on geopolitical situation in the region in particular relationships between Russia

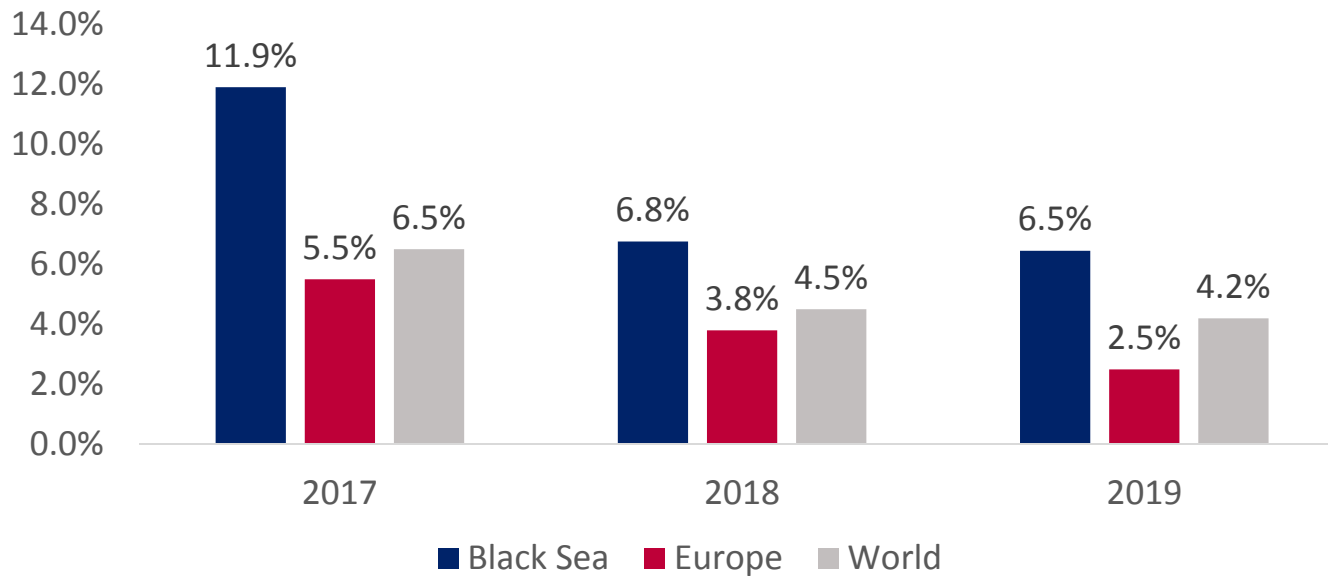
Source: World Bank



# Black Sea Container Market

..... with positive effect on expected container throughput

## Black Sea TEU Growth 2017-2019



- Strong growth expected by Drewry, which could be on the conservative side
- If economic development persists and degree of containerization increases, yearly growth rates over 10% could be seen
  - Promising start of 2018
- Growth levels could quickly be impacted by changes to the political / economical development, potentially resulting in over proportional volume reductions

Source: Drewry

# Growth challenges- 1/3

The direct growth is limited by the geographical / Geopolitical situation and the ports infrastructure

## Geography / Geopolitical situation



- Fragile economic stability, with large geopolitical influence
- Cost of serving are higher than other regions due to geographical barriers – Bosphorus as further limiting factor
- Unlikely bundling of volumes (eg. Hubs) as market does not justify

## Port infrastructure



- Modernization efforts ongoing and increasing presence of international operators
- Infrastructure limitations still exist – in particular draft limitations – limiting development
- Risk of building of overcapacity – will make modernization efforts more difficult

# Growth Challenges – 2/3

More critical for the long term growth is the development of the hinterland infrastructure.....

## Hinterland infrastructure



- Transport infrastructure within ports but more importantly between ports and economic centers in the hinterland (and abroad) lagging behind
- Most national railway companies critically underfunded
  - Railway infrastructure not adapted to modern requirements
  - Lack of and outdated rolling stock
  - Private operators / investors not allowed (or with significant hurdles)
- Political will to remedy to the situation ?
- Lack of coordination between the different actors to achieve effective change



- Increase cost of transport to the hinterland and slow movement of goods inland
- Future growth of Black Sea ports (and economies) hampered by inability to efficiently move goods to / from ports. Increasing apparition of congestion
- As long as infrastructure is not further developed, the movements of goods beyond the proximity of the Black Sea will be difficult



# Growth Challenges – 3/3

..... As well as the ‚ease of doing business‘ in the Black Sea countries

Ease of doing business



- Current processes in the port could be strongly improved
- Procedures, administrative burden (and costs) still very high and inefficient.
- Limited use of electronic interfaces between the different parties in the port (authorities, customs, shipping lines, port operators)
- In selected countries, lack of legal security and ‘level playing field’
- ‚Hidden Payments‘



- Reduced efficiency (and throughput) through administrative barriers
- Higher costs for all actors in the logistics chain
- Lesser interest of investors or required high returns to compensate risk levels

# Summary

Black sea countries have potential for over proportional growth in the coming years, but structural deficiencies need to be addressed. Port operators should be actively involved

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- The Black sea region has seen some ,up's and down's in the past years
- Currently prospects are good and should lead to over-proportional growth
- Improvement in geopolitical situation could further boost trade in the region

But:

- Market still very sensitive to political ,shocks'
- Infrastructure, in particular in the Hinterland, is lagging behind and could hinder growth
- Administrative and other barriers are further hindering growth (and investments)



- Critical for a ,political will' to effectively address these issues in the short term.
- Also the port operators have a key role to play, they cannot ,lean back' and only be the operator of the terminal infrastructure
- Ports operators need to be a catalyst for improvement, ensuring
  - Seamless connectivity between sea and land transport
  - Being at the forefront to drive the implementation of more efficient and transparent administrative processes

# THANK YOU FOR YOUR ATTENTION.

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