



The Business & Law Readers Digest

Logistic Services in Ukraine

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Logistic complexes

Logistic complexes and warehouses are one of the most important elements of a logistic system. In each stage of production line movement - from the primary source of materials until their consumption - there is an objective necessity for specially equipped spaces for stock holding.

There is an innovation called 'flexible logistic', which virtually the whole of America and Western Europe has turned to. This format is new for the Ukrainian logistic system and represents a blend of logistic, office and showroom spaces, which may be modified for every individual customer and leaser. Experts indicate that the future of domestic logistics may lead to the embracing of such a format.

Comparing the rent prices of Ukrainian logistic complexes with certain European countries, the cost of storage space in Kyiv is on a par with Moscow and Barcelona. In 2007 rent rates for warehouse space rose by 16-20%. And logistic complexes have room for further growth: considering the low level of satisfaction and customer demand, in 2008 they may rise by up to 10%.

Experts forecast the arrival of investors to Ukraine with projects involving modern logistic complexes. As soon as they exhaust the land and capital in Kyiv, they will begin to work in the provinces. Though distant from the centre of the

country, demand for warehouses in the provinces exceeds supply. The most critical lack of warehouses is in big, transit or port cities such as Odessa, Lviv, Dnipropetrovsk and Kharkiv.

Despite the fact that there are as much as 450-500 thousand sq. m. of professional space at the development stage and more than 3 million sq. m in total, many of the companies that announced commission of their objects in the financial year 2008-2009 will not be able to fulfill them in the stated time. Tendencies like this have already been observed for several years and the reasons for delays are still the same: problems in organisation, permission, land issues, the search for investors. However, taking into account the trends observed from the middle of 2007 regarding building dynamics, it is possible that in 2008 no less than 500 thousand sq. m. will be brought into use.

Kyiv

The undoubted leader as far as the amount of logistic complexes is concerned is Kyiv and the Kyiv region, for which the amount of warehouse real estate at the end of 2007 amounted to 1 230 000 sq. m. This number includes 415 thousand sq.m. of A and B class warehouses.

During the course of 2007 the logistic complexes of companies including



"Raben Ukraine"; East Gate Logistic of GLD Invest Group; the complex of "Asstra Ukraine" and the terminal of the company "UVK" were brought to exploitation in Kyiv and the Kyiv region.

Structures in the Kyiv and Kyiv region market are as follows: A class - 12 %. B class - 12%. C and D classes - 76%. To serve as a comparison, at the beginning of 2007 such proportions were: A class - 8%. B class - 12%. Others - C, old warehouses and manufacturing facilities - 80%.

Dnipropetrovsk

The situation regarding logistic complexes in Dnipropetrovsk is so critical that rent rates in existing complexes rose several times within the limits of \$2-10. In professional complexes of A class the rent rate begins at \$10.

Lviv

A similar situation to the one observed in Dnipropetrovsk has arisen in Lviv. Here, in recent years the commercial segment began to develop actively; it needs large

spaces for storage and the treatment of ware. But to find suitable locations is complicated. It resulted in the steep increase of rent rates. Consequently, over the last year they have risen by up to 20-30%. The minimal sum amounts to \$3-4 per sq.m., and for the most qualitative spaces - no less than \$15.

Kharkiv

There is not a high demand for warehouse complexes in Kharkiv. The available spaces can cope with the whole stream of supply. Nevertheless, though there are two logistic terminals in Kharkiv, they will not be enough to satisfy demand in future.

Odessa

In Odessa, in spite of the bringing into use of several warehouses in 2007, the proportion of supply and demand remained at the previous level. Basic lack of warehouse complexes of A and B class is prevalent in Odessa as much as a growth of rent rates for logistic services and warehouses.

Changes in Ukrainian legislation connected with logistics

I.

- 1. The Law of Ukraine "On mortgage" of 2nd of October 1992, N 2654-XII. Changes of 27th of April, 2007, in article 8.*

There are cases when goods based in a warehouse complex are subject to mortgage.

Thus, the effective version of article 8 of the Law of Ukraine "On mortgage" indi-



cates the case of accidental damage to the subject of the mortgage, not only accidental destruction. The effective version of article 8 states that the risk of accidental destruction or accidental damage to the subject of the mortgage is born by the owner of the property under mortgage, unless otherwise provided by any valid law or agreement.

Moreover, in case of accidental destruction or accidental damage of the subject of the mortgage, the mortgagor, upon the request of the mortgagee, is obliged to relinquish an equivalent object or - if that is impossible - to renew either the destroyed or damaged object.

*2. The Law of Ukraine "On grain and the grain market of Ukraine" of 4 July 2002, N 37-IV.
Changes of 27 April 2007, in articles 27,28,29,30.*

Article 27 "On the term of grain preservation in warehouses" was completed by a paragraph that sets the following: if the term of preservation of grain is determined by the moment of the request of the grain owner regarding the return of the grain, the grain warehouse has the right, after the usual time for these circumstances has passed, to demand that the grain owner takes away the grain within a reasonable term.

Article 28 "On the payment for grain preservation" in its new version sets the following: if the preservation of the grain was stopped pre-term through no fault

of the grain warehouse, then the grain warehouse has the right to a proportional part of the payment. The old version said that the warehouse has the right to compensation of expenses.

Article 29 "On consequences of the refusal of transference of the grain for preservation" was completed by a paragraph that sets the following: the grain owner who did not transfer the grain during the term settled in the agreement is obliged to compensate the grain warehouse for damages that occurred because of the preservation, if he did not notify the warehouse of his refusal from the preservation agreement in reasonable time.

Article 30 "On compensation of damages for grain preservation" was completed by a paragraph that sets the following: in case of unpaid preservation, the grain owner is obliged to compensate expenses for grain preservation to the grain warehouse, unless otherwise provided by the agreement.

II.

The prolongation of the moratorium on the sale of agricultural land and a ban on transferring it into another category was a negative factor in the development of the Ukrainian logistics market in 2007 and will continue to affect it in 2008. It influences the market of warehouse real estate as well as logistic centres if 90% of land appropriate for construction of such objects is of an agricultural nature.



Purchase and sale or alienation of agricultural and communal lands and land shares will be put into practice on the assumption that the Law of Ukraine on state land cadastre and the Law of Ukraine on land market come into force. These Laws will determine the peculiarities of circulation of land which is in state and communal hands and land used for the production of goods.

As transportation is among logistic tasks:

The Ministry of Transport and Communication of Ukraine issued an Order on 17 October 2007 No. 940 regarding the State enterprise "Ukrainian Centre of transport logistics". It will operate as a state commercial enterprise and will be subordinate to the State administration of railway transport of Ukraine. The purposes of its creation are: improvement

of Ukraine's railway transport system, ensuring its competitive ability and bringing the quality of transport services rendering to international standards.

The Cabinet of Ministers of Ukraine approved the new conception of a State purpose-oriented programme of Ukrainian airport development until 2020. This project exactly distinguishes tasks which belong to the State from the tasks of private entities. Everything that is connected with the transportation of goods belongs to the private sphere.

Realisation of the State purpose-oriented programme for airport development will allow the condition of Ukrainian airports to be brought to international standards. Within the framework of the programme is the building of freight terminal complexes.

Volkov Koziakov & Partners
Law Firm

72a, Chervonoarmiyska Street
Olimpiysky Business Center, Suite 124
Kyiv 03150 Ukraine

tel. +380 (44) 207 0270 fax +380 (44) 207 0272
e-mail office@vk-partners.com <http://www.vk-partners.com>