

Effort made by Niigata people for development of international tourism between Japan and Russia

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1. Forwards

Aiming at development of international tourism between Japan and Russia, Niigata people have undertaken some initiatives that is different from Central Government of Japan.

Japanese Government has pursued improvement of Japan-Russia relationship through (1) promoting Japan-Russia joint economic activities in Northern Territories, (2) next, concluding Japan-Russia peace treaty and (3) finally settling the problem of ownership, that is, to whom the Territories are attributed.

If the above (1), (2), (3) are achieved, it is no doubt that international tourism between Japan and Russia will remarkably enlarge. Many Japanese will visit Russian Far East because, for Japanese, the area look like part of Europe, in addition the area seems to be the nearest Europe with different culture from Japanese. Most of Japanese people love face-to-face exchange with foreigners very much.

However, most Japanese never believe that the path to the final target will be easy journey.

Of course, all Japanese hope successful accomplishment of central government challenge.

However, they are thinking the process will be full of difficulties.

On the other hand, most of Russian people will welcome Japanese tourists, visiting in swarm, to Russia.

However, most of them never predict that such situation will emerge in near future.

Why will such situation not be realized in near future in spite that both national people approve the enlargement of the tourism exchange ?

The reason behind is that Japan or Russia cannot trust its partner each other in political world.

Why is such situation emerged? Because, I guess, national people of both countries do not know well about its partner. If national people can get to know its partner each other, it become possible that the politicians of the both countries can make compromise and concession with each partner, because the reconciliation will produce a considerable benefit to each of them. Therefore, it is necessary we will make special strategy to get to know well

each other. Niigata people adopted the following countermeasures to be taken as the special policy ten years ago.

That is establishment of international ferry service between Niigata and Russian Far East. If such attempt will be successful, Japanese people and Russian people will be able to visit the partner's country at small tariff every time they like. Such visit will create a new environment of getting to know well each other. Such exchange will provide both national people with opportunities of discovering partner's good will. Maybe, chance of inventing joint work will be increased.

Niigata people has undertaken such attempt twice for these 10 years, taking into account large contribution to the regional development, of not only Niigata but also Northeast Asia. First is the attempt of establishing ferry service company that four countries of the ROK, Russia, China and Japan participated in. Second is the attempt of procuring the used ferry performed by only Niigata people. Eventually, the result of the attempts was not successful and these undertakings could not meet people's expectation. However, I think Niigata people never give up because they think adversity makes man wise. I hope third trial will begin not far in future, because both national people of Japan and Russia hope strongly realization of new ferry system connecting Niigata and Russian Far East.

What shall we do to ensure the success of the third trial firmly ? First of all, we have to analyze the cause of the past failures. Secondly, we need to gain understanding of citizens of both countries, Japan and Russia concerning the past failures. When citizen's understanding in both countries will enhance, we may get knowledge and cooperation from outside, for example, appearance of powerful shipping line, as a result of it, the path to success will be seen. Then, international tourism between Japan and Russia will be prosperous. This will facilitate smooth fulfilment of the above ①、②、③. Additionally, as I was one of Niigata citizen half a year ago and I am proud of Niigata, I hope Russian people's understanding about Niigata area, will enhance.

In this paper, I would like to describe the outline of the first attempt undertaken by Niigata people concerned 8 years ago.

(All description of this paper including analysis and evaluation, are author's private opinion.)

&2. Undertaking of joint venture participated by 4 countries

(The incident involving Russia is yellow marked)

This is a story of NAF (Northeast Asian Ferry Co. Ltd), joint venture participated by 4 countries.

History of NAF, including its origin and performance of ferry service and its liquidation, is as

follows.

- In 1990, Niigata people concerned, leader of whom Niigata Prefecture Government, established the international conference called Northeast Asia Economic Conference, in collaboration of continental states facing Japan Sea including **Russia**.
- October in 1992, new governor of Niigata Prefecture (Mr. Hirayama) was inaugurated.
- October in 1993, ERINA (Economic Research Institute for Northeast Asia) was established for the purpose of study and survey on change of Northeast Asia economy after new Russia had emerged. The bodies providing fund for establishment of ERINA are as follows;

Niigata Prefecture, Niigata City, Aomori Prefecture, Iwate Prefecture, Miyagi Prefecture, Akita Prefecture, Yamagata Prefecture, Fukushima Prefecture, Gunma Prefecture, Nagano Prefecture, Toyama Prefecture, Ishikawa Prefecture and 8 private firms.

Amount of fund amount to about 36 million US dollars.

Japanese central government has not been its sponsor.

Research and survey have been carried out in collaboration of overseas researcher from Northeast Asia countries.

- In 1996, Niigata people carried out **Zarubino Port** development plan together with Federation of Economic Organization of Japan. This was dealt with future plan of Zarubino Port containerization, including demand forecast, construction plan, financial and management plan and profitability, taking into account financial assistance of Japanese Government, because in 1971, **Vostochiny Port** was constructed as Japan-Soviet Union Joint Undertaking under Japanese financial assistance. People concerned at that time considered Japanese financial scheme would be applied to **Zarubino Port** based on the result of the feasibility study. However, any Japanese financial aid has not been realized due to uncertain reasons, maybe, I guess, political.
- ERINA carried out some fundamental studies on Northeast Asia transport infrastructure for four years from 1991 to 2002. Source of the finance was from Japanese Government. Researchers, university institutes, administration officials and so on from not only Japan but Russia, China, the ROK and Mongolia joined the survey.
- November in 2001, one of study meetings was held in **Vladivostok** as part of the above survey.
- January in 2002, ERINA released Northeast Asia transport corridor vision as a fruit of the survey. This vision dealt with the priority of transport infrastructure that is indispensable for Northeast Asia economic development. June in the same year, ERINA published its version of Russia, English, Chinese, Korean and Mongolian.

- Some of Niigata people concerned (hereinafter referred to as Niigata people) decided to start actualization of the vision. The main objective of their challenge was regional development of Tumen River area, in particular, development of maritime transport means connecting between Tumen River Area and Niigata.
- October in 2003, Niigata people held the discussion meeting in Hunchun with respect to vitalization of Tumen Transportation Corridor (Primorie Corridor 2, called in Russia). Hunchun citizens of China and Khasan citizens of Russia Primorsky Krai participated. Niigata people could confirm the will of the citizens on development of Tumen River Area.
- February in 2004, Niigata people held the second discussion meeting of the above theme in Niigata. The vice-governor of Primorsky Krai attended. Niigata people could confirm the will of the administration.
- July in 2004, the third discussion meeting of the above theme was held in Vladivostok. ROK people concerned attended. Participants discussed about the issues of the maritime route between Niigata and Russian Far East. They moved to Zarubino Port and held a specialist meeting participated by the port management body and a transport firm engaged in Russia-China border transport.
- October in 2004, new governor of Niigata Prefecture (Mr. Izumida) was inaugurated.
- October in 2005, presentation meeting on Zarubino Port was held in Niigata with attendance of Mayor of Hunchun City, Zarubino port-related official and representative of Khasan region.
- February in 2006, at Hunchun, Niigata people held the discussion meeting on relevant maritime route with attendance of Chinese consignors and shipping lines that was interested with the maritime service.
- May in 2006, the meeting on 'Toward establishment of shipping line service crossing Japan Sea' was held in Zarubino. President of ERINA, Mayor of Hunchun, president of Dong Chung Ferry Co. Ltd., vice-governor of Primorsky Krai and so on attended there.
- August in 2006, The meeting on the above theme was held in Vladivostok. The rate of investment from the relevant countries was discussed. That is, Japan 40%, Russia 30%, China 20%, ROK 10%.
- February in 2007, the meeting of the above theme was held in Niigata, where Mayor of Niigata, vice-Mayor of Hunchun City, Head of Khasan, Mayor of Sokcho, Head of Seiroh-City attended.
- March in 2007, Niigata people established the company called Northeast Asia Ferry Investment Co. Ltd. for establishment of shipping line service crossing Japan Sea. Its capital amounts to 164 million Japanese yen (equivalent to 1.64 million US dollars).
- May in 2007, the meeting concerning the rate of investment from relevant countries was

held in Hunchun.

- July in 2007, The meeting attended by representatives from relevant four countries was held in Sokcho. Mayor of Sokcho City, President of Dongchun Ferry, President of ERINA, Mayor of Hunchun, Representative of **Berkut (Russia)** and so on took part in. The rate of investment from relevant countries was fixed. That was the ROK 51%, Russia 17%, Japan 16%, and China 16%.
- December in 2007, the related people of the relevant countries signed the contract on establishing the joint venture participated by four countries in Yanji.
- January in 2008, the negotiation concerning remittance of money invested and the procedures to set up the joint venture started in Yanji.
- May in 2008, The meeting attended by related people and related local government of 4 countries was held in **Vladivostok**, i.e. Mayor of Hunchun, Mayor of Sokcho, representative from Gangwon-do, vice-governor of Niigata Prefecture, vice-mayor of Niigata City, representative of **Primorsky Krai** and so on. In the meeting, all participants approved the establishment of local government-level committee to support Northeast Asia ferry project.
- October in 2008, the Russian partner, Berkut, was replaced by new one, **Primoravtotrans**.
- December 16, 2008, joint venture called Northeast Asia Ferry Co. Ltd, participated by the relevant four countries, was established. Its headquarter was Sokcho and its capital amounted to Korean money equivalent to 3 million US dollars.
- December 19, in 2008, general meeting of stockholders was held in Seoul.
- January 9th, in 2009, the board of directors was held in Seoul to examine how to have the ferry-boat, project implementation plan and so on.
- February 16th to 17th, in 2009, in Niigata the presentation on Northeast Asia ferry service to a general public was held. In addition, mayor's meeting to establish Northeast Asia ferry service was held under attendance of Sokcho city, Hunchun City, Niigata City, president of Dongchun ferry, president of **Primoravtotrans**, president of Northeast Asia Ferry Japan (abbreviated as NAFJ, Northeast Asia Ferry Investment Co. Ltd. changed its name to this), director of Niigata Prefecture and so on.
- February 27th, in 2009, the board of directors was held in Seoul. They considered that it took a few months to find a vessel to be chartered. This is too late for certain local government's position. Then they decided adoption of tentative countermeasures that they would execute one round voyage up to end of March.
- March 30th to April 2nd in 2009, the tentative one round voyage was carried out. Shipping route was Zarubino Port → Niigata Port → Sokcho Port. Payment was borne by NAFJ (25%). Sokcho City (25%). Hunchun City (25%), and Primoravtotrans (25%). They admitted NAF need not to bear payment, because the event (tentative one round voyage)

would be executed only for political purpose and not for commercial reason.

- June 5th, in 2009, the board of directors was held in Seoul and decided the following.
 - ① Inauguration ceremony of starting the ferry service would be held at 11 a.m. on June 29th, 2009, in Sokcho.
 - ② Formal charter party had not been signed at that moment, however the president of NAF said provisional contract had been concluded.
 - ③ The vessel name was 'Jiaodong Pearl'. The vessel would be used for ferry service between Weihai, China, and Pyeongtaek, the ROK. However, the owner of the vessel had intention of changing the route to NAF's one.
 - ④ Formal contract would be concluded within a few days.
 - ⑤ Inauguration ceremony would be hosted by NAF in collaboration of Sokcho City.

- June 15th in 2009, headquarter of NAF informed member of board of directors that the owner denied the signature in formal contract because he could not get permission from Chinese maritime agency.

- June 17th in 2009, NAF changed the strategy. NAF gave up the charter party with Jiaodong Pearl. However, the change of inauguration date was impossible due to too short notice. First one round voyage would be executed by use of New Dongchun that was owned by Pan Korea Line. Second operation would be postponed until July 29th. The ferry service would be undertaken from the date of July 29th through formal charter party with Queen Qindao. In this stage, there was small internal conflict among NAF. That is, June 20th, Chinese member of the board of directors protested that he could not admit NAF agent in China that NAF headquarter had decided without Chinese approval. June 22nd, in 2009, Russian member of the board of directors also protested that he could not admit NAF agent in Russia that NAF headquarter had decided without Russian approval.

- June 29 in 2009, first voyage was carried out.

- July 17th 2009, formal charter party concluded. Charterage was \$17,500 US dollars per day, Payment one month in advance was adopted. Term of charter was two months. Charter party would start July 25th in effect and the date of returning the vessel would be September ~~(November)~~ 19th.

- July 25th in 2009, the second round voyage started.

- August 3rd in 2009, the third round voyage was cancelled because provision of tug-boat in Zulbino was difficult and security of Sokcho Port was not ensured.

- September 1st in 2009, NAF headquarter and NAFJ had meeting concerning next candidate ferry boat, to replace Queen Qindao. NAFJ had already started negotiation with the owner (Japanese government-related agency) concerning the vessel to be newly

chartered. The cost for repairing the boat was estimated at \$1.5 million US dollars. It was concluded the price of \$1.5 million US dollars was at the maximum NAF can pay, taking NAF's financial condition into account.

●September 9th, in 2009, the board of directors was held in Seoul. The content of the discussion was as follows;

We will return Queen Qindao to the owner September 11th, bringing it forward from the contract date. Queen Qindao has some parts to be repaired. The owner had intention of selling. We adopt the following as a strategy to get next candidate vessel (hereinafter referred to as third vessel). That is, NAF and shareholder's country will make effort to procure fund of \$1.5 million US dollars as much as possible. Japanese shareholder will acquire the vessel by all means. Other issues to be discussed are as follows;

- 1) The soot of Queen Qindao troubled shopping street of Sokcho.
- 2) Some space in storage shed is not ensured in Niigata.
- 3) There are still problem in transport of Russian territory.
- 4) The problem of visa that is necessary for entry to Russia is improving. Transit visa has been introduced. Free visa system of 72 hours is also introduced.
- 5) Open hours of Russia-China border are not enough, i.e. too short. This is issues of Russia and China, however Japanese side is requested to perform diplomatic pressure. One solution is elevation of the custom status to first class. The other day, there was meeting called Russia-China high level meeting. NAF submitted this issue through UNDP to ask improvement.
- 6) Large vessel's entering Zarubino Port without tugboat support is equal to committing suicide.
- 7) There was malfunction of security system in custom clearance of Sokcho Port. Custom office told NAF that security should be ensured by NAF due to budget constraint of custom office. Mayor of Sokcho City helped NAF in this incident.
- 8) Director from **Russia** recognize that border transport is important issue. He has already demanded the agency concerned (transport bureau) to extend border gate open hours by 2 hour. In addition, he demanded border gate open on holiday. He is now preparing the letter for such request. Russian director thinks the issue will be coped with until the end of December. Custom office has to increase personnel cost to be appropriated in the budget. In order to complete the process, it takes time until December.
- 9) Russian director requests NAF headquarter that NAF sends more information about NAF activities to Russian shareholder. Memorandum should be prepared between NAF and **Primoravtotrans**.

●At the beginning of September in 2009, the operation of Queen Qindao was suspended.

●September in 2009, board of directors was held in Seoul. The matter discussed are as follows;

- 1) The cost of inspection and repairing of the third vessel in case of Tianjin shipyard amounts to 1.4 -1.5 million US dollars,
- 2) Regarding the share of the burden, they examined adoption of the rate of stock owned by each shareholder. Chinese side agreed as well as NAFJ, however ROK side oppose. Russian side had no opinion due to absent. After all it is decided the participant who has capability of bearing the burden shall cover the cost. They had to pursue the possibility at their home.

●October 14th in 2009, NAFJ, Japanese director of NAF, requested Niigata Prefecture Government to provide financial assistance to ensure the vessel of which owner was Japanese governmental agency.

●November 2009, Niigata Prefecture government gave reply that they could not provide financial assistance to NAF.

●December 24 in 2009, the board of directors was held in Seoul. Japanese side told intention of Niigata Prefecture government to NAF, i.e. rejection to financial assistance. Additionally it was found that any country cannot afford to provide additional fund.

●The end of March, the general shareholders meeting was held in Seoul, and passed the resolution of NAF's liquidation.

3. Lesson from the experience of joint venture project participated by 4 countries

(1) Evaluation on adoption of international joint venture style as an executing body

Since the undertaking above-mentioned (establishment of ferry service connecting Niigata and Zarubino) is international transport crossing border, international joint venture type was adopted as a executing body. The joint company was participated by countries concerned. I compare with single company. If the single company were adopted, any country could have not participated. Adoption of the joint style enable the country to participate in the project. In addition, they overcame the difficulties of procuring a lot of money through adoption of joint venture style.

However, with respect to decision making, single style has more advantageous than joint style.

However, if the joint venture is a joint-stock company in the commercial law, there is few problem in decision-making on a majority rule basis. However, in case of international joint venture, the commercial relationship between members has to be maintained through concluding contract mutually because inside culture of the joint venture is not domestic, but overseas.

(2) Evaluation on company member

This project was undertaken by mainly ROK's shipping line that had knowledge and experience of maritime business through its management of another line for about ten years. It is fortunate for the project that local governments of China and the ROK participated in the project, from the viewpoint of the social credibility of NAF. Russian member was powerful cargo transport company in Primorie Krai. One of main works in the NAF's project is the transport of Russia-China border transport that was mainly dealt with by the Russian member. Therefore, involvement of the company was fortunate for the project. In this context, the joint company NAF had a good composition with respect for member. It is rare that joint venture was established under participation of Japan, Russia, China and the ROK that have had complicated issues one another on a central government basis.

(3) Evaluation on amount of capital

The ground of the joint company's capital size i.e. 3 million US dollars, is based on experience from management of another shipping line. According to the ROK shipping line, this is minimum amount to manage the shipping line connecting Russia, Japan, and Korea in Japan Sea. However, there was capital shortfall judging from too short period of real vessel operation.

(4) Evaluation on liquidation

The reason behind the company was liquidated, is mainly, failure of negotiation with respect to a vessel to be chartered (said as first vessel in this paper). While charter party with first vessel was not yet firmly concluded, NAF announced to a general public the date of starting of the shipping service. The rejection of concluding the contract (as for the first vessel) was occurred a few days before the inauguration ceremony. NAF could not cancel the first voyage because of existence of many guests. It was too short (notice) to cancel the first voyage. NAF used temporarily, only for first round voyage, vessel called New Dongchun (said as second vessel) that the ROK's shareholder runs in another line service. On the other hand, NAF was forced to look for another vessel (said as third vessel) to be chartered for further voyage. It took about one month to hire the third vessel. Additionally, as NAF's situation is driven to wall, NAF was forced to accept too much expensive charterage.

NAF carried out the second round voyage using the third vessel. However, just before execution of the third round voyage, malfunction of security system in Sokcho Port and defect of tug-boat in Zarubino Port were occurred. Consequently, the third round voyage was cancelled. After these incidents, NAF could manage the voyage well. However, NAF lost trust from shippers due to frequent cancel of voyage and due to no acceptance of long-term

reservation (because period of the contract is two months). Consequently, there was few collection of cargo. In addition, the charterage of the third vessel is very expensive. This made NAF relinquish continuation of the voyage.

(5) Conclusion

The lesson from the above-mentioned description is that

- 1) Joint venture style has not large problem in international transport service crossing border.
- 2) In case of using vessel chartered in ferry operation, it is necessary to conclude charter party firmly. After conclusion, the preparation shall be started. Tentative charter party is very risky.
- 3) It is very difficult to look for, in the market, the vessel matched with the requirement of the user, from the viewpoint of timing, cost, suitability for regulation. It is hopeful to build and possess the vessel by its own.

— end —