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# TRANSPORT MARKET IN UKRAINE

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# Transport Market in Ukraine

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## 1 Sector overview

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Ukraine's advantageous geographical position makes it an inevitable destination for transit of goods and passengers between Europe, Asia and Middle East. Through the territory of Ukraine goes a number of international transport corridors, reaching a total length of over 5 thousand km. The transport sector makes up to 35% of the entire services market, produces 7% of the country's GDP and employs about 6% of the active population.

Ukraine's transportation infrastructure is made of 163<sup>1</sup> thousand km of highways, 21.7 thousand km of railways, 62 airports (including international, military, public airports), 13 (not including the Crimea) seaports and other transport facilities.

Due to geographical position Ukraine has great transit potential. Ukraine has one of the most extensive rail networks in Europe, which handles significant part of freight and passenger traffic. The administration of public railway transport is the JSC "Ukrzaliznytsia", which was established in 1991.

Ukraine's highways network is also quite extensive, it covers all the territory of the country; however, the quality of the road surface and automotive infrastructure needs some improvement. The Government invests in the development of main roads, linking country's major economic centers; however, the level of investment in the regional road network is rather low, which does not allow adequate financing for maintenance of the road network.

The level of development of sea and air transportation routes is lower. There are a number of port terminal and airport development projects financed by commercial and government entities; however, current investment volumes are insufficient and do not allow the significant increase of freight and passenger traffic.

A number of international transport corridors pass through Ukraine. Among them are:

**1. Pan-European Transport Corridor III**, with the route Berlin – Wrocław – Lviv – Kyiv and a length of 1640 km, from which 694 km are railways and 611 km are highways across Ukraine.



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<sup>1</sup> Excluding the permanently occupied territory of the Autonomous Republic of Crimea, the city of Sevastopol and the part of the anti-terroristic operation (ATO) zone.

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2. Pan-European Transport Corridor V, which links Trieste and Lviv via Ljubljana, Budapest and Uzhhorod with a total length of 1595 km, from which 266 km of highways and 338.7 km of railways pass through Ukraine.



3. Pan European Transport Corridor VII – the Danube inland waterway, with a total length of 1600 km and passing through Austria, Hungary, former Yugoslavia, Bulgaria, Moldova and Ukraine (70 km).



4. Pan European Transport Corridor IX, with a total length of 3400 km and a route passing through Helsinki – St. Petersburg – Vitebsk – Kyiv – Odesa – Plovdiv – Bucharest – Alexandroupolis. In Ukraine, Pan European Transport Corridor IX consists of 1496 km of railways and 996 km of highways.





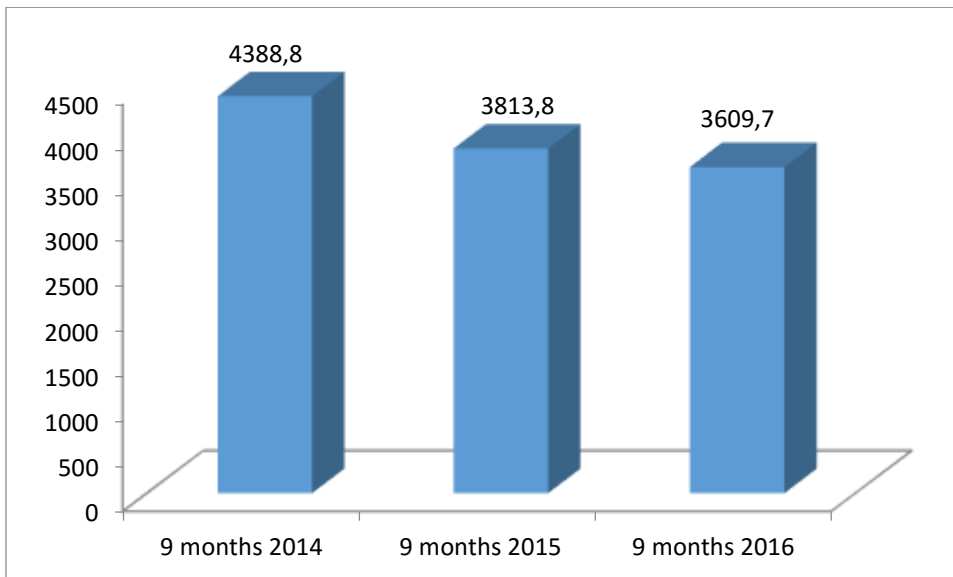
5. Gdansk – Odesa International Transport Corridor, with a length of 1816 km and passing through Poland and

Ukraine. In Ukraine, this international transport corridor consists 918 km of railways and 1208 km of highways.

Source: InvestUkraine, Deloitte

During the first 9 months of 2016 some 3.6 billion passengers have been transported by all means of transport in Ukraine, which is less than in 2015 and 2014.

Passenger traffic by all means of transport in Ukraine, million passengers

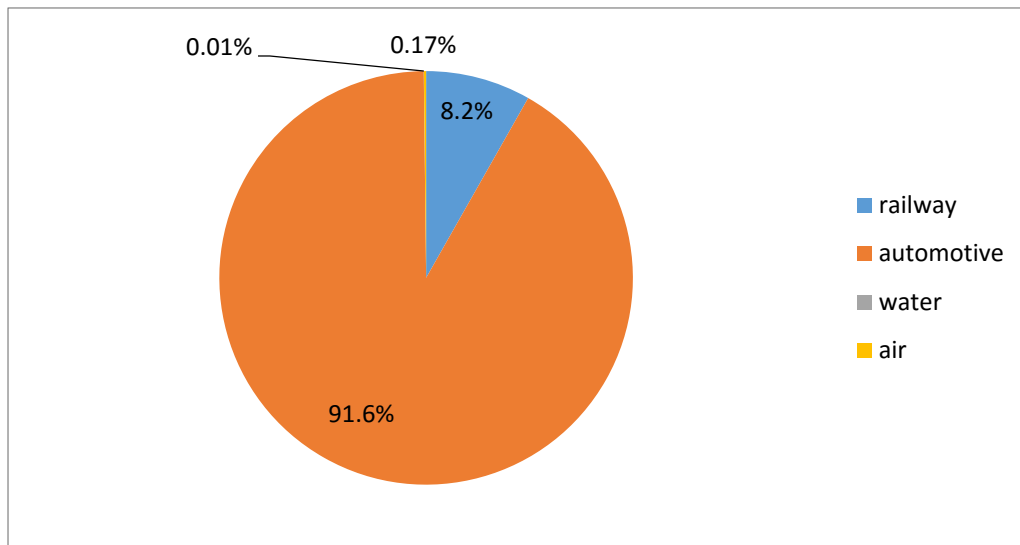


Source: State Statistics Committee

Passenger turnover by all means of transport amounted to 76.4 billion pass/km, increasing by 4.6%.

The automotive transport is the most popular mean of transport. In 2016, the share of passengers transported by the automotive transport constituted 92% of the total passenger traffic.

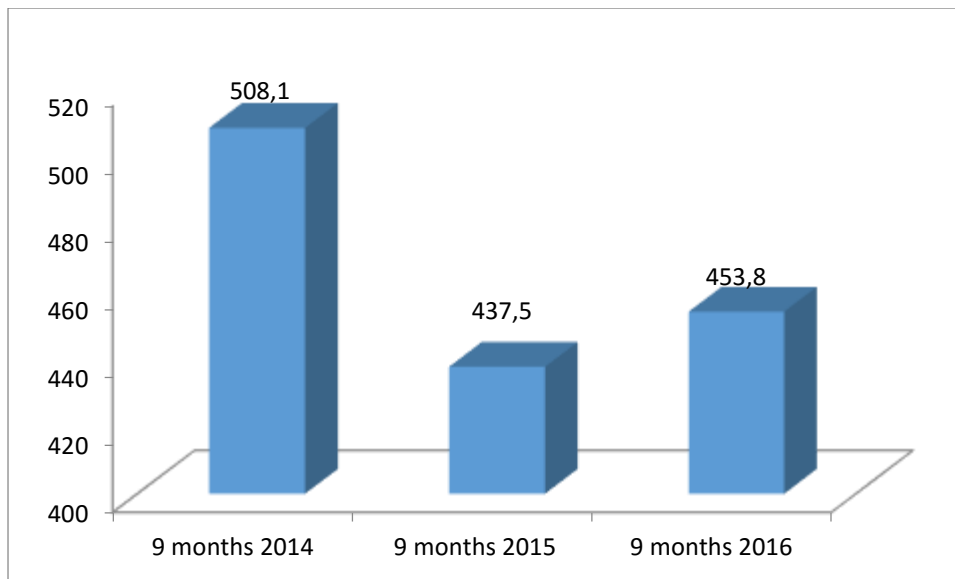
### Structure of passenger traffic in 2016, %



Source: State Statistics Committee

During the first 9 months of 2016 453.8 m tons of freight was transported, which exceeds the similar indicator for the first 9 months of 2015 by 3.6%.

### Freight traffic in Ukraine, m tons

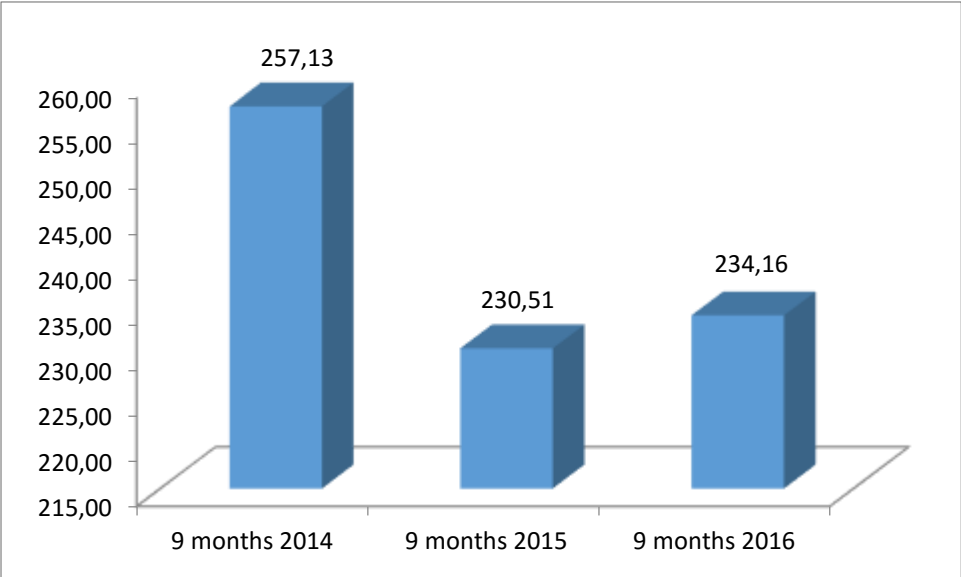


Source: State Statistics Committee

During the first 9 months of 2016 the freight turnover in Ukraine reached 234.16 b ton-km, which exceeded the similar figures for 2015 by 1%.



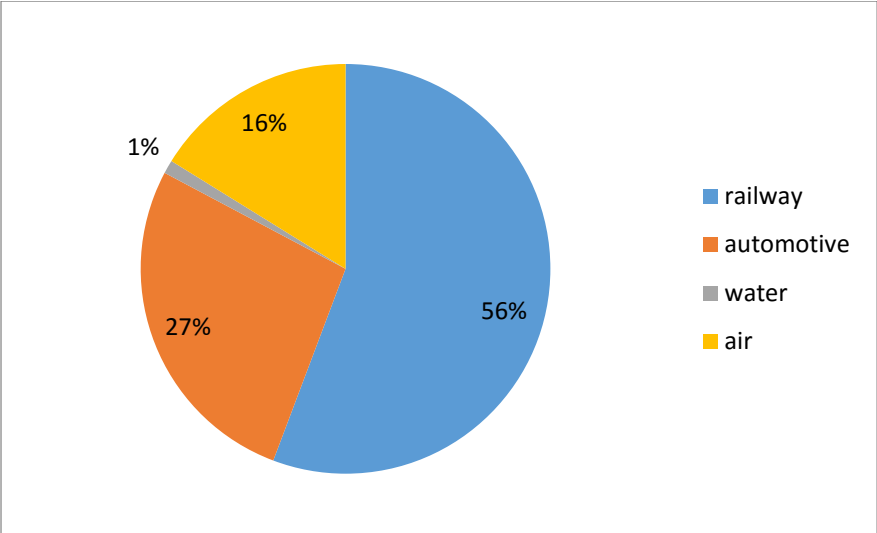
Freight turnover in Ukraine, billion ton-km



Source: State Statistics Committee

In Ukraine, major part of freight is transported by rail. In 2016, its share constituted around 56% of the total amount of transported freight. The share of automotive transport is about 27%. The total share of freight transported by water and air transport constitutes 17%.

Structure of freight traffic in 2016, %



Source: State Statistics Committee

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## 2. Road transport

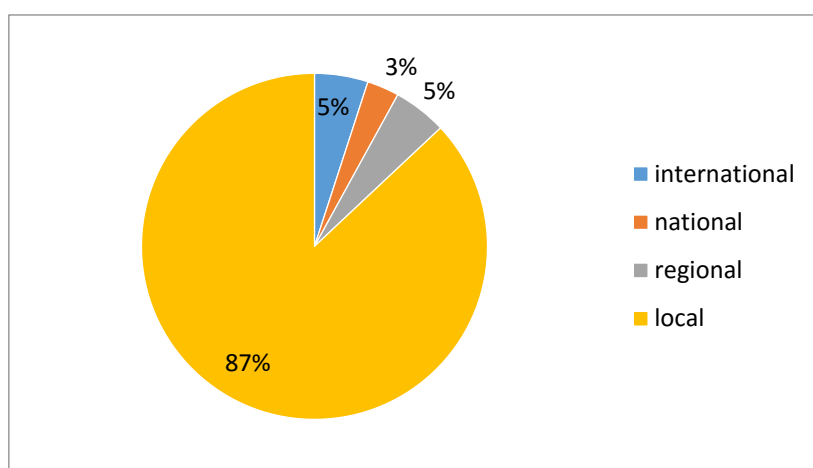
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Ukraine has significant potential for motorway development due to its location on the intersection of multiple transport corridors, namely Berlin (Dresden)-Wroclaw-Lviv-Kyiv; Trieste-Ljubljana-Budapest (Bratislava)-Lviv; and Helsinki-St. Petersburg (Moscow)-Kyiv- Chisinau (Odesa)-Bucharest-Dimitrovgrad-Alexandropoulos.

The existing road network in Ukraine requires substantial modernization. The total length of roads in Ukraine is 163 thousand km where 30% is classified as roads of state importance. Such roads have a higher standard rate of expenditure for road maintenance (UAH \$2,700/km vs. \$1,200/km for regional roads), largely because of intensive freight transport. In Ukraine, road construction and repairs are managed by Ukravtodor, a State agency subordinate to the Cabinet of Ministers through the Ministry of Infrastructure.

The share of hard-surface roads (highways) is 97.8%. Seven automotive corridors pass through Ukraine among them are international transport corridors III, V and IX, and national transport corridors linking the Baltic Sea and the Black Sea, Europe and Asia. The total length of the transport routes (across Ukraine) is 5,240 km.

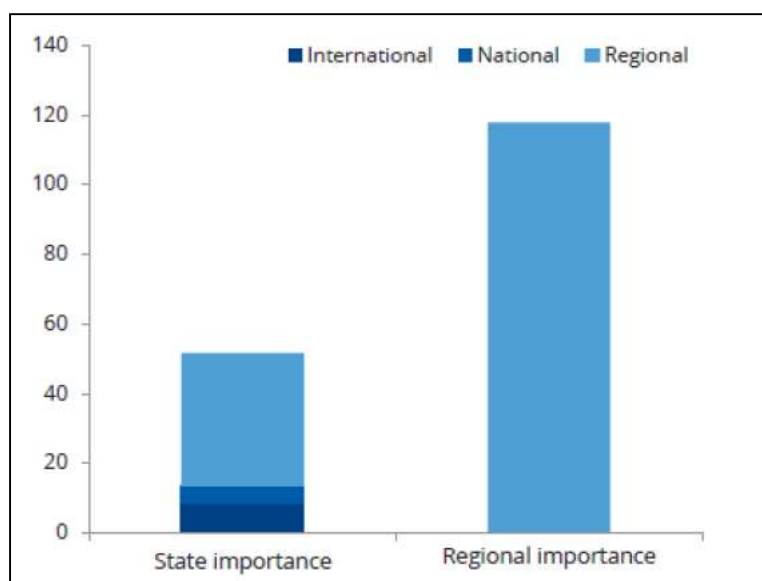
**Structure of roads of Ukraine, %**



*Source: Ukravtodor*

Roads of public use include state roads (which carry over 80% of goods) and local roads. The state roads are comprised by highways, regional and territorial roads. The length of the state roads is about 50 thousand km. On roads of public use there are more than 16.2 thousand bridges and overpasses with the total length of over 383.9 km.

### Ukraine road network in 2014, ths.km



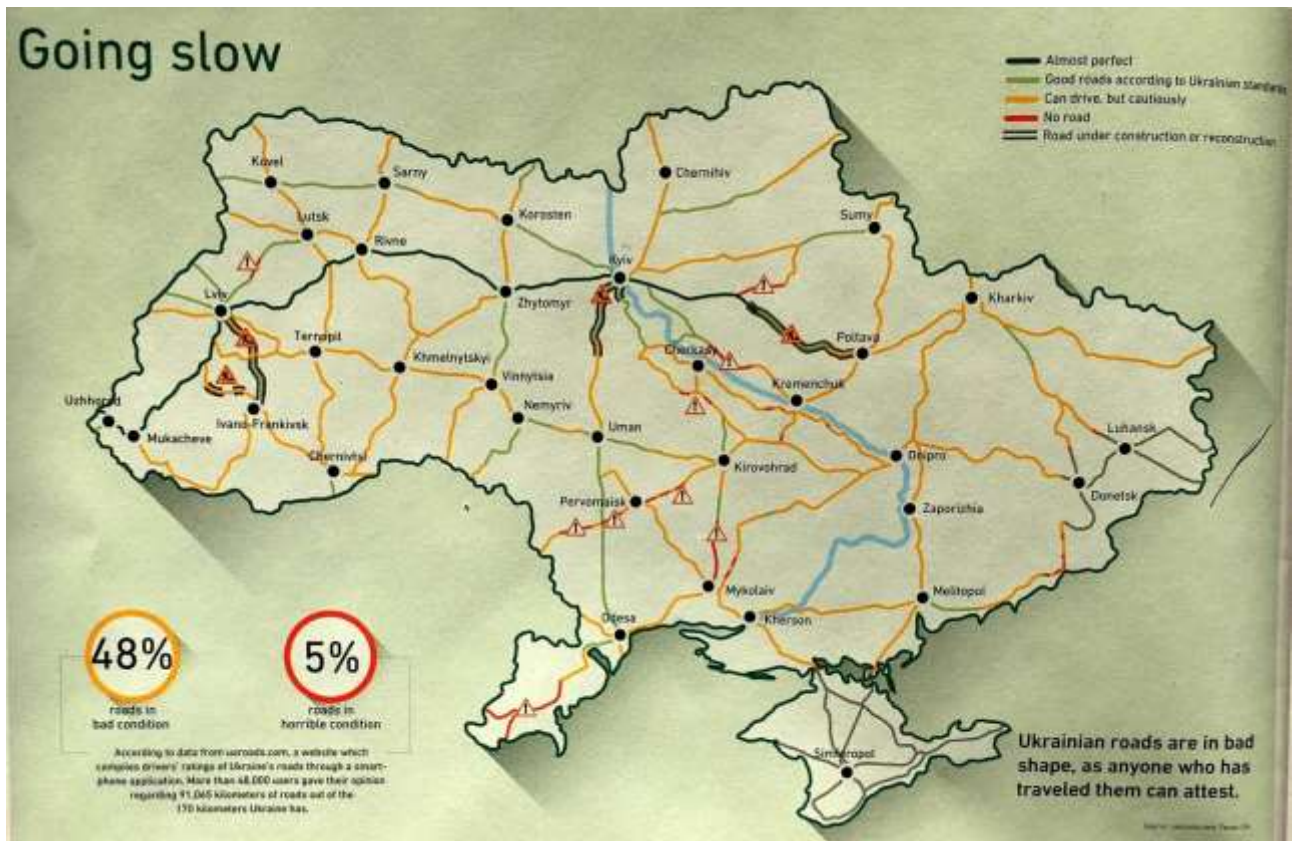
Source: Ukravtodor

### Automotive traffic volumes in 2014-2016

	9m 2014	9m 2015	9m 2016
<b>Freight traffic, m tons</b>	508.1	437.5	453.8
- % change y-o-y	-6.3	-14.3	3.6
<b>Passenger traffic, m passengers</b>	4388.8	3813.8	3609.7
- % change y-o-y	-5	-13.1	-6.3

Source: State Statistics Committee

Currently, according to the Ministry of Infrastructure in Ukraine, more than 50% of the roads in Ukraine are in a poor state. Annual losses of the country's economy due to low-quality roads amount to some 24 billion UAH. This is a rough figure, as losses of private companies and the real losses could not be calculated and might be two or three times larger. It is expected that in 2020 by implementing the proposed changes stipulated in the concept of road sector reforms, the rate of the roads in poor condition should be reduced to 10%.



Source: KyivPost, uaroads.com, Focus.ua

In 2015, the Infrastructure Minister announced the beginning of the road sector reforms in Ukraine. The new concept of reforming foresees the change of the management system – the division of political, administrative and engineering functions, decentralization of the local road management and the removal of state monopoly on the road maintenance market.

**Organizations and associations of the road sector, leading players:**

- [Ministry of Infrastructure of Ukraine](#),
- [State Agency on Roads of Ukraine \(Ukravtodor\)](#),
- [Association of International Automobile Carriers of Ukraine](#),
- [Association of Automobile Carriers](#),
- [Association of Automotive Manufacturers of Ukraine \(Ukrautoprom\)](#),
- [Association of Heavy and Oversize Carriers of Ukraine](#) and others.

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### 3. Railway transport

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Ukraine's railway system plays a key role in transporting freight and passengers. Ukrainian railways are managed by the JSC "Ukrzaliznytsia" (UZ), which manages the domestic and international railway transportation and comprises of Lviv, Odesa, South-West Prydniprovsk and Donetska Railways. In addition, it includes other organizations that form single industrial and economic complex such as Ukrzaliznichpostach, Striy State Carriage Repair Plant, Kremenchug Concrete Sleepers Plant, Ukrainian transport-logistic centre and others.

The operating length of the railways in Ukraine is about 20.95 thousand km, 47.5% of which are electrified. About 1.5 thousand stations, 128 major railway stations operate as part of Ukrainian railway system. Ukraine operates a large railcar fleet totaling almost 75,000 freight and 5,300 passenger cars (3,160 passenger cars are currently operating), powered by over 4,000 locomotives (50% diesel and 50% electric). JSC "Ukrzaliznytsia" operates 6 state regional railway companies and close to 140 other subsidiaries with around 350,000 employees. By traffic volumes, Ukraine's railway ranks fourth in Europe and Asia behind only China, Russia and India. The workload of Ukrainian railways is 3-5 times bigger than that of other European countries.

Map of Ukrainian railways <sup>2</sup>



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<sup>2</sup> Including the permanently occupied territory of the Autonomous Republic of Crimea, the city of Sevastopol and the part of the anti-terroristic operation (ATO) zone.

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In 9 months 2016, 252.9 tons of freight and 296.7 m passengers were transported by rail.

#### Railway traffic volumes in 2014-2016

	9m 2014	9m 2015	9m 2016
Freight traffic, m tons	293.8	256.1	252.9
- % change y-o-y	-7.8	-13.1	-1.4
Passenger traffic, m passengers	297.4	297.1	296.7
- % change y-o-y	-3.6	-0.1	-0.1

Source: State Statistics Committee

For more information on JSC "[Ukrzaliznytsia](#)" please refer to [Ukrzaliznytsia Investor presentation](#).

*Organizations and associations of the railway sector, leading players: [Ministry of Infrastructure of Ukraine](#), JSC "[Ukrzaliznytsia](#)", Regional branches of JSC "[Ukrzaliznytsia](#)": [Lviv railway](#), [Odessa railway](#), [South-west railway](#) and others.*

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## 4. Air transport

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At present, there are 19 key operating airports in Ukraine: 2 SOEs, 2 PPP and 15 municipal. Ten biggest Ukrainian airports include: Boryspil International Airport, Odessa International Airport, Kyiv (Zhulyany) Airport, Lviv International Airport, Kharkiv International Airport, Dnipropetrovsk International Airport, Zaporizhia International Airport, Kherson International Airport, Ivano-Frankivsk International Airport, Uzhhorod International Airport. Boryspil airport makes 60% of passengers flow.

## Key functioning airports locations



Source: Ministry of infrastructure of Ukraine

In 2015, ten biggest Ukrainian airports served 120.7 thousand aircrafts and handled about 10.7 m passengers, which is less than the corresponding figure in 2014 by 1.8%. During the 6 months 2016 the passenger turnover increased by 13.1% compared to 6m 2015 and amounted to 5.3 m passengers.

Air remains the least commonly used means of cargo transportation. During 9 months 2016, 0.5 m tons of air freight were handled by Ukrainian civil airports. This indicator exceeds one from the previous year by 8.1%.

## Air transport traffic volumes in 2014-2016

	9m 2014	9m 2015	9m 2016
<b>Air freight traffic, m tons</b>	0.05	0.05	0.05
- % change y-o-y	-19.5	-10.8	8.1
<b>Passenger traffic, m passengers</b>	5.1	4.9	6.2
- % change y-o-y	-14.2	-5.1	26.6

Source: State Statistics Committee

In 2016 the Governmental program of airports development till 2023 was approved with the targets: 1) to create a single state company to manage airports infrastructure; 2) to double the passenger flow increase till 2023.

Ukrainian air transport market consists of both Ukrainian and international airlines. Among main Ukrainian airlines should be mentioned: Ukrainian International Airlines, Dniproavia, Ukrainian Mediterranean Airlines, Windrose, Fly Motor Sich, YAnair, Urga, Dart Airlines, Kiy Avia; among international airlines – Air Arabia, Air Astana, Air Baltic, Air France, Austrian Airlines, Azerbaijan Airlines, Belavia, British Airways, Czech Airlines, Israel Airlines, Ellinair, Estonian Air, KLM, LOT Polish Airlines, Lufthansa, Mahan Air, Royal Jordanian Airlines, Turkish Airlines, Utair, Uzbekistan Airways, Fly Dubai, WizzAir, Vueling.

***Organizations and associations of the air sector, leading players:***

- [\*Ministry of Infrastructure of Ukraine\*](#),
- [\*Association "Airports of Ukraine"\*](#),
- [\*Ukraine International Airlines\*](#),
- [\*Dniproavia\*](#),
- [\*Kyiv \(Zhulyany\) Airport\*](#),
- [\*Lviv International Airport\*](#),
- [\*Odessa International Airport\*](#),
- [\*Kharkiv International Airport\*](#),
- [\*Dnipropetrovsk International Airport\*](#),
- [\*Zaporizhia International Airport\*](#),
- [\*Kherson International Airport\*](#),
- [\*Ivano-Frankivsk International Airport\*](#),
- [\*Uzhhorod International Airport\*](#) and others.

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## 5. Sea transport and inner water transport

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### ***Sea transport***

The marine industry of Ukraine comprises of a network of seaports, as well as loading terminals, moorings and complexes of various forms of ownership.



## Map of seaports in Ukraine



Source: Ministry of infrastructure of Ukraine

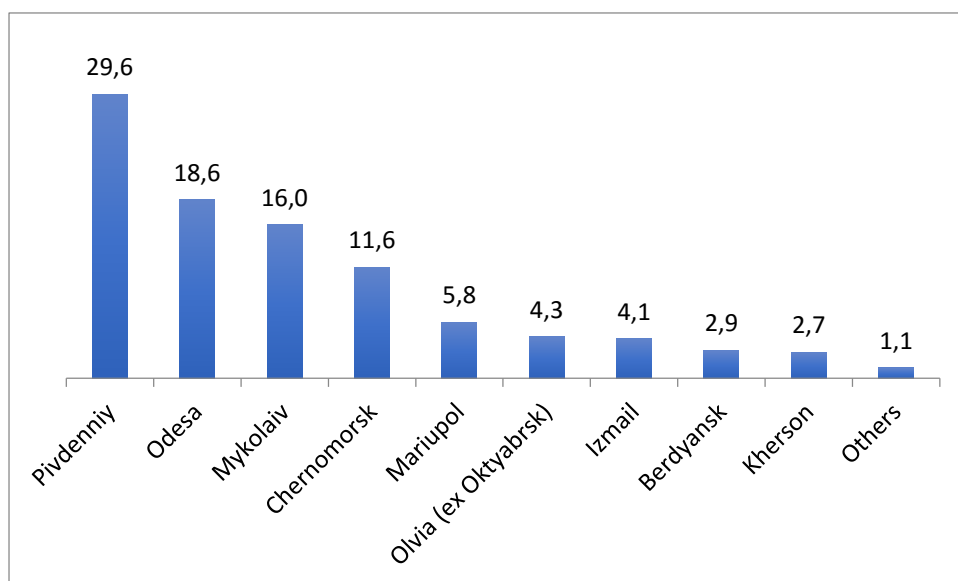
In Ukraine, there are 13 (not including the Crimea) operating ports, which include 5 deep-water ports, they are: the Pivdennyi Port, the ports in Chornomorsk, Odesa, Mykolaiv. About 60% of handled freight comes through the three largest of them, *i.e.* Odesa, Illichivsk and Pivdennyi Ports. All Ukrainian ports are at the moment state-owned enterprises.

## Water transport traffic volumes in 2014-2016

	9m 2014	9m 2015	9m 2016
<b>Freight traffic, m tons</b>	4.3	4.8	4.8
- % change y-o-y	8.9	11.2	0.6
<b>Passenger traffic, m passengers</b>	0.5	0.5	0.4
- % change y-o-y	-19.8	1.2	-20.9

Source: State Statistics Committee

## Cargo turnover by sea ports, m t in 9m 2016



Source: Ministry of infrastructure of Ukraine

### *Inner water transport*

There are a number of river ports operating on the inland waterways, for example in Kyiv, Dnepropetrovsk and Zaporozhye. Ten river ports, the majority of which are privately owned, suggest a sound alternative to sea ports to cargo owners and ship owners. Additionally, river ports provide an opportunity for smaller vessels to avoid transshipment in sea ports with further road/rail transportation within the country, thus saving costs to the shippers.

Ukraine has a great untapped potential in transporting of grain by river. The main river of Ukraine – Dnieper, runs just in the middle of the territory from North to South, the delta of Dnieper provides convenient access to the largest seaports of Ukraine. Besides Dnieper there are several rivers suitable for navigation in Ukraine: Danube, Southern Bug and Dniester. The length of the Dnieper from Kyiv to the river mouth is 867 km. There are 10 river ports on the Ukrainian part of the Dnieper. There are six locks and six reservoirs located on the Dnieper. Locks are outdated, which decreases the traffic intensity and increases transportation costs. Locks were not capitally repaired since construction. There are drawbridges on Dnieper that impose limitations for river navigation: in Dnipropetrovsk and Kremenchuk, the height of fairway arches is 8.5 and 9.6 m respectively. The height of fairway arches of Kherson bridge is 17.2 meters. Depth of the Dnieper River is the another limiting factor for goods transportation. The allowed draft of vessels on Dnieper is 3.65 m lower from Dnipropetrovsk and limited to 3m in the upper part of the river. Draft of Kyiv reservoir is limited to 2.65 m.

## In-land waterways of Ukraine traffic flows



Source: TRACECA Eastern Partnership Report 2015

### Organizations and associations of the sea sector, leading players:

- [Ministry of Infrastructure of Ukraine](#),
- [SE Ukrainian Sea Ports Authority](#),
- [SE Ukrainian river ports Authority](#),
- [Association of ports of Ukraine "Ukrport"](#),
- [SE Sea trade Port "Pivdennyi"](#),
- [Illichivsk Sea Trade Port](#),
- [Odesa Sea Port Authority](#),
- [Nikolaev port](#),
- [Delta-Lotsman](#),
- [Izmail sea port](#),
- [Nika-Terra Specialized Sea Port](#),
- [Kherson Sea Trade Port](#),
- [Berdiansk Commercial Sea Port](#),
- [Bilhorod-Dnistrovysi Sea Trade Port](#),
- [Kyiv River Port](#),
- [Ukrrihflot](#).

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## 6. Transport Strategy of Ukraine until 2020. Opportunities and doing business

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On the 20th of October 2010, the Cabinet of Ministers of Ukraine adopted the “**Transport Strategy of Ukraine until 2020**” aimed at supporting sustainable and efficient transport sector operation to create conditions for social and economic development of the country, improved competitiveness of the national economy, and transport safety. The transport strategy covers all transport sub-sectors, including cross-sector issues such as environment, border crossing, safety, etc. The strategy aims at facilitating the integration of the domestic transport system into the European and international transport systems, and maximizing the transit potential of Ukraine.

Main areas of development and reforms are defined in Ukraine’s 2020 Transportation Strategy. These include:

- Ensuring the availability and improving the quality of transportation services;
- Integrating national transportation systems into European and international transportation systems;
- Increasing the effectiveness of public administration in the field of transportation;
- Developing transportation infrastructure;
- Renewing the rolling stock;
- Improving the investment climate;
- Ensuring safety during transportation;
- Improving the environmental friendliness and energy efficiency of vehicles.

The organization and monitoring of the implementation of Ukraine’s 2020 Transportation Strategy is carried out by the Office of Strategic Infrastructure Development and Investment. The main goals are the follows:

- ensuring that key legislative acts are developed and passed into law
- sector reforms
- infrastructure development

For more details:

[Transport Strategy of Ukraine until 2020](#) (in English) and (in [Ukrainian](#)).

At present, Ukrainian market is at the development stage. There are many niches and opportunities for introducing new players and strengthening the positions of existing ones.

### Ukrainian market strengths:

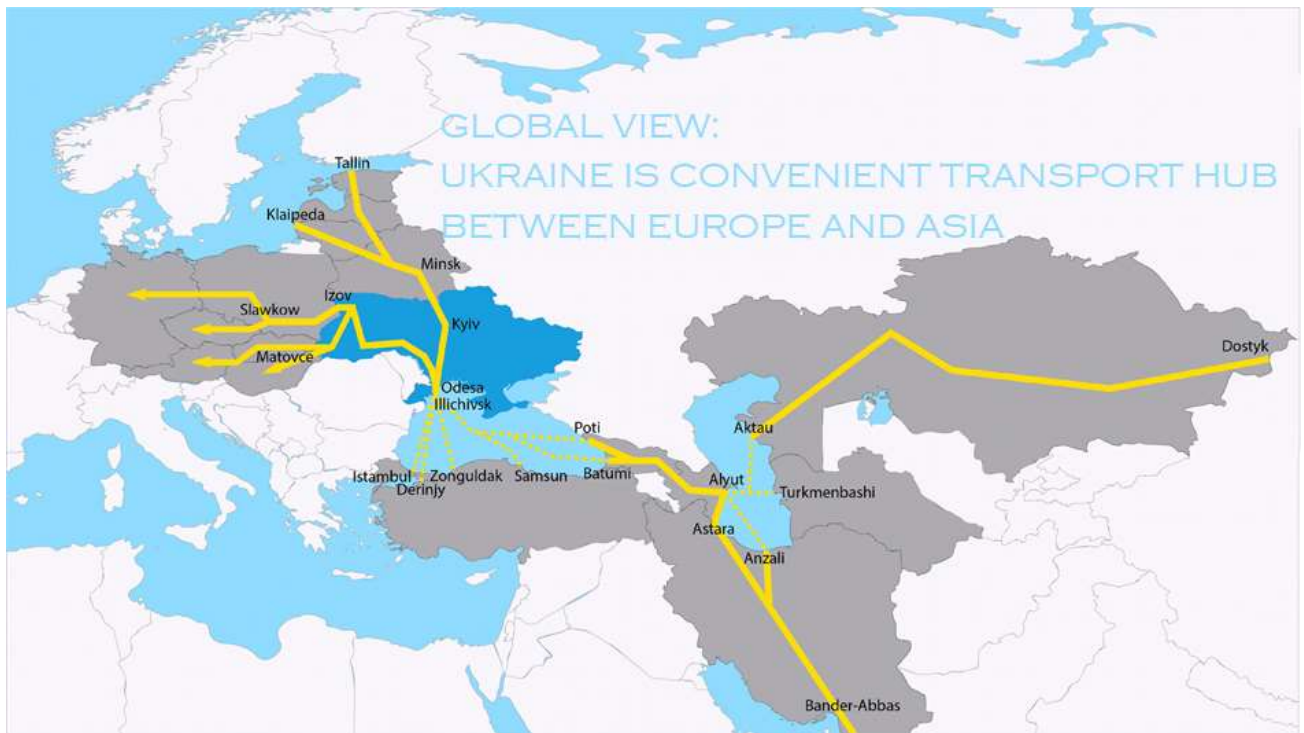
- Strategic location
- Large, well educated population
- Balanced imports and exports
- Worldwide demand for Agri-products
- Well developed railway network
- Thirteen operating Seaports
- Increasing volumes of international trade
- Deep and Comprehensive Free Trade Area with EU from January 2016

### Ukrainian transport market opportunities (PPP, Concessions, and Privatization):

- Railcar fleet renovation strategy
- In-land waterways barge transportation
- Private investment in seaports starting with:
  - SOE Pivdenniy seaport
  - SOE Oktiabrsk seaport
- Roads construction on terms of concession and development of roads infrastructure
- Improvement of airports infrastructure

### Transit opportunities of Ukraine

The Ministry of Infrastructure of Ukraine has set itself the aim – to turn Ukraine into a major transit country of the Eurasian continent for traffic between Europe and Asia.



Source: Ministry of infrastructure of Ukraine

The Ministry initiates establishment of the interagency advisory body in Ukraine – Transit Board. The structure of the new authority will include representatives of the Ministry of Infrastructure, Ministry of Economic Development, Ministry of Finance, Foreign Affairs, Interior, Justice, State Border Service and other interested central executive bodies.

The meeting of the TCITR Coordinating Committee (Trans-Caspian International Transport Route) was held in Baku on 16-17.05.2016 with participation of Ukrainian delegation (JSC "Ukrzaliznytsia"). Among other things, it was decided to include Ukraine in TCITR as a full member. For Ukraine TCITR membership provides the opportunity to participate in the formation of tariff policy on specified transportation, testing of new logistics solutions, etc.

For the detailed information regarding **transport sectors' opportunities** in Ukraine, please refer to:

- *Ukrainian Infrastructure: [Open for investors](#)* (Ministry of Infrastructure of Ukraine, 2016)
- *[Investment opportunities](#)* (Ministry of Infrastructure of Ukraine, 2015)
- *[Reforming Ukrainian Infrastructure Sector](#)* (Ministry of Infrastructure of Ukraine, 2016)
- *[PPP Projects Ukraine](#)* (Ministry of Infrastructure of Ukraine, 2016)

For the information on **Doing business in Ukraine**, please refer to:

- *[Conducting business in Ukraine 2016](#)* (Baker & McKenzie)
- *[Doing business in Ukraine 2016](#)* (World Bank)

- [\*Doing business in Ukraine 2015 \(European Business Association\)\*](#)
- [\*Doing business in Ukraine \(Kyiv Post\)\*](#)
- [\*KPMG Tax&Legal Guide Your Business in Ukraine 2016\*](#)

The exhibitions in the transport sector:

1. [TransUkraine](#)
2. [TransRail Ukraine](#)

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## 7. List of references

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1. [State Statistics Service of Ukraine](#)
2. [Ministry of Infrastructure of Ukraine](#)
3. [TRACECA](#)
4. [Deloitte](#)
5. [Support to the Transport strategy of Ukraine\)](#)
6. JSC “Ukrzaliznytsia”
7. [Ukravtodor](#)