



UPDATED NATIONAL
TRANSPORT STRATEGY
OF UKRAINE

PART 2:
TRANSPORT
SECTOR
ANALYSIS

SEPTEMBER 2016





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Support to the Implementation of the Association Agreement
and of the National Strategy in the Transport Sector in Ukraine

Update / Upgrade National Transport Strategy 2030
PART 2: Transport Sector Analysis

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1 INTRODUCTION

This technical Note contains one of output of the activities carried out within Component 2 of the project – Assistance to the Implementation of the National Transport Strategy, the introduction of the SWOTs of the transport sector in Ukraine.

1.1 THE METHODOLOGY

The **SWOT analysis** method has been applied for identification of the Ukraine transport sector strengths, weaknesses, opportunities, and threats as a base for considering and presenting the priorities for sector development up to 2030.

The SWOT approach involved specification of the objectives of the transport sector and identification the internal and external factors that are favourable and unfavourable to achieve these objectives.

Keeping this in mind, the updated National Transport Strategy shall take into account existing:

- “strengths” of transport sector, which Ukraine can leverage to promote further development;
- “weaknesses”, which Ukraine would need to address to eliminate current restraints to transport development;
- “opportunities” that Ukraine can use to promulgate major improvements in transport sector and/or specific modes of transport;
- “threats” exhibited by transport sector environment that might preclude it from development.

The global framework of SWOT (strengths – weaknesses – opportunities – threats) approach shall conduce the Government of Ukraine to reshuffle transport sector priorities that will cut way to Ukraine`s social and economic development.

The SWOTS introduction followed a deep transport sector diagnosis activity, carried out by the project team in cooperation with some project stakeholders, mainly with the Strategy Work Group.

The following data has been collected and assessed for SWOT analysis:

- Transport Strategy of Ukraine for the period up to 2020
- Transport sub-sectors strategic plans for development up to 2020
- Ukraine 2020
- EU transport policies
- Statistical data of the State Statistical Service of Ukraine
- Data provided during the meetings with staff of the MIU and other stakeholders
- Studies on Ukraine or Ukraine transport carried out by EBRD, WB, IMF, GIZ and others
- Others, including data of an official web of the MIU and transport agencies and enterprises

The SWOTS have been identified and formulated for the whole transport, for passenger transport, freight transport, transit, transport financing, as well as for individual transport modes and for intermodal transport.



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1.2 LIMITATIONS OF THE APPROACH

The assessment of SWOT of the transport sector is to be considered as a step that provides further background to establish the starting point of the support determining the priorities for the Strategy. The approach has been limited with the availability of information on the status of Ukraine transport sector development, its history and the recent and forecasted trends.



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2 TRANSPORT SECTOR SWOTs

2.1 TRANSPORT SECTOR (GENERAL)

High contribution of transport sector to economy. Transport contributed to 7% of Ukrainian GDP and 6% of employment. 4% of Ukrainian enterprises operate in transport. More than 95% Ukrainian transport enterprises are SMEs.

Aged rolling stocks and vessels. 62% of passenger railcars are operated beyond their service life; 90% of freight railcars value is written off. The majority of commercial and passenger vessels exceeds 15 years.

Slow rates for transport infrastructure maintenance and overhaul/rehabilitation. 30% of road transport infrastructure maintained in due time, which puts at risk road transport safety. The majority of river locks are in urgent need for capital overhaul. Several air ports need to rehabilitate their runways.

Lack of public investments in transport sector. The majority of state transport development (road infrastructure, railway transport, air and sea ports development) programs are underfinanced. In 2015 the effective road construction and maintenance funding constitutes up to 80% of planned amounts.

Establishment of the National Committee for Transport Regulation. Transport sector contributes to 2.9% of subsidies provided to all sectors of Ukrainian economy. The law on establishing the National Committee for Transport Regulation drafted and is under the Parliamentary consideration now. The Committee shall monitor transport tariffs, but also help to eliminate cross-subsidizing between the freight and passenger transport.

Trade intensification with EU and Asia. Although during the last 4 years the overall foreign trade turnover of Ukraine considerably reduced, the share of foreign trade with EU and Asian countries increased considerably. This gives an opportunity for Ukraine to adapt to transport needs of these two growing markets.

Perspective for the development of green transport modes. EU targets at shifting to “green” transport modes, which will inevitably involve multimodal solutions within the scope of international long-distance haulage chains.

Reduction of foreign trade volumes. Owing to the overall reduction of Ukrainian foreign trade (exports and imports) the occupancy rate Ukrainian transport infrastructure might reduce. In this connection, it becomes reasonable to reorient Ukrainian transport network towards the needs of domestic and transit traffic. This can help sustaining transport operations in a mid-term perspective.

High competition on alternative routes connecting EU and Asia. Ukrainian transport network is integrated into international transport corridors competing with each other in terms (travel time and cost) and conditions (transport and clearance technologies, safety) of transport. To succeed in bringing international traffic.

Transport sector	
Strengths	Weaknesses
<ul style="list-style-type: none"> Association Agreement and deep and comprehensive Free Trade Area with EU in place; 	<ul style="list-style-type: none"> Lack of transport sector continuous financing; Lack of instruments for PPP implementation;



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<ul style="list-style-type: none"> • Strategic position in the region favourable for integrating the national transport networks with extended TEN-T to neighbouring countries and the third countries; • Strong industry of Ukraine background and increasing volume of international trade; • The density of railways and relatively satisfactory length of navigable inland waterways; • Law on railway transport drafted; • Law on National Committee for Transport Regulation drafted; • Thirteen operating seaports; • Satisfactory capacity of the Kiev’s international airport; • Strong political support to transport; • Low environmental impact and low accident rate of railway and inland waterway transport; • Adequate split of shares of freight transport between railway, road and inland waterway transport; • Skilled labour force. 	<ul style="list-style-type: none"> • Transport market liberalisation in an early stage, No foreign competitors on local market; • Insufficient state property management (corporate governance); • Insufficient transport planning; deficit for a long term (multiannual) planning and programming; • Transport market disproportions (subsidies, tariffs, ...), unfair competition; • Low levels of maintenance and infrastructure development in last decade; • Lack of continuous project documentation development; • Lack of project preparation facility; • Transport network limitations (critical sections and bottlenecks, infrastructure of ports, etc.); • Lack of interoperability and coordination between transport modes; • Lack of the safety management systems established; • High rate of road accidents; • Insufficient political support to intermodal transport; • Restructuring of transport sector/system still in early stage.
<p>Opportunities</p>	<p>Threats</p>
<ul style="list-style-type: none"> • Transport sector as a driver for the Economy, reduction of costs, and improvement of the accessibility; • Transport sector attracting EU,IFIs and private funding; • Increase of public mobility; • Increase of national industry grow and demand for fast and save transport services; • Adoption of new technologies; • Transport traffic model and the General Master Plan for Transport in Ukraine development in consideration; • Perspective for concluding Open Sky Agreement • The demand from the European Union to extend TEN-T Network and improve the interoperability; 	<ul style="list-style-type: none"> • Regional and local political and economic crisis; • High ageing rate of sector fixed assets as a result of permanent shortage of investments; • Lack of investment in Ukraine; • Change of government priorities; • Conflict in state management model(separation of functions and authorities); • Insufficient financing of infrastructure maintenance and development; • Losing qualified staff because of low motivation; • Losing geographical advantage by slow harmonisation of legislation and implementation of European standards;



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<ul style="list-style-type: none"> • Increasing demand for fast passenger interregional and regional transport; • High demand for improvement of transport planning in the cities and sub-urban areas; • Enhancing potential for higher productivity by improving the quality of transport networks and services and the capacity of cost-effective intermodal transport; • Potential for stabilisation of the share of railway and waterway freight transport by providing infrastructure of necessary capacity and quality and by improving the services; • Reduction in the negative impact of transport on the environment by supporting environmentally-friendly transport modes; • Policy support to green transport modes. 	<ul style="list-style-type: none"> • Inability to meet challenging environmental requirements in sufficient time; • Falling share of railway and water transport due to a faster development of the road infrastructure and road services and rail transport support; • Losing funds because of slow/late project documentation development; • Force majeure.
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2.2 FREIGHT TRANSPORT

Freight transport	
Strengths	Weaknesses
<ul style="list-style-type: none"> • High density of transport infrastructure available; • Increase of Ukraine export/import and a demand for transport services; • Started transformation of PJSC Ukrzaliznytsia; • Transport market reform under consideration; • Availability of private freight transport operators (e.g., stevedore companies, freight forwards, shipping lines); • Existing pre-shipping cargo solutions at sea ports and National Transport Control System (export module); • Available dry port facilities to speed up customs clearance. 	<ul style="list-style-type: none"> • High ageing rate of rolling stock (railway cars, trucks, vessels); • Poor conditions of infrastructure resulting in decreasing transport safety and slowing down the traffic; • High share of road transport in freight segment (up to 24.5% of cargo (in tons) and 11% of cargo (in tkm) transported by road); • Poor weight control leading to soon deterioration of road infrastructure; • Poor connection between sea ports and hinterland (e.g., access roads and rails) transport infrastructure; • Absent public logistic centres; • Lack of multimodal transport solutions benefiting long-distance haulages; • Lack of city bypasses to re-direct freight traffic leading to low commercial speed;



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Opportunities	Threats
<ul style="list-style-type: none"> • Improvement of transport services by transport market liberalization; • Increasing safety by adopting ITC; • Private investors are ready to take up initiatives to renew rolling stock, cargo handling equipment and transport infrastructure; • A perspective involvement of waterborne transport (IWW and maritime) in multimodal transport solutions; • UZ restructuring, implementation of PPP projects (sea and airports) will favour further private sector involvement; • Trade intensification with EU and Asian countries 	<ul style="list-style-type: none"> • Over-challenged capacities of sea ports in handling grain. • Cargo transport safety and security behind European standards.

2.3 PASSENGER TRANSPORT

Passenger transport	
Strengths	Weaknesses
<ul style="list-style-type: none"> • About 50% of passengers carried by urban transport (trams, trolleybuses, metro); • The availability of private transport operators in road transportation services; • Demand for transport mobility shall resume after stagnation (international and national transport) ; • The availability of high-speed train solutions for inter-regional transport; • The competition between railway and air transport at low-cost domestic market segment 	<ul style="list-style-type: none"> • Poor conditions of public infrastructure decrease public transport safety and slowing down the traffic; • High ageing rate of busses, trolleybuses and trams, • About 40% of passengers travel by road (cars and buses) mostly in urban areas and to suburbs. In 90% of cities buses is the only available public transport mode; • Only 8% of passenger transport is covered by railways; • Lack of public passenger transport planning; • About 23% of rural inhabitants suffer from absence of regular transport services; • Absence of multimodal passenger transport terminals at key regional transport nodes (e.g., central railway stations normally remain apart of road



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	<p>transport stations, airports without access to railway network, etc.);</p> <ul style="list-style-type: none"> • Absence of integrated passenger information systems on modern ITC technologies; • Absence of public transport prioritization, dedicated public transport lines and bicycle paths, parking area in urban settlement; • High number of socially vulnerable people enjoying transport subsidies
Opportunities	Threats
<ul style="list-style-type: none"> • Establish transparent competition in railway passenger transport; • Establish transparent competition in road passenger transport; • Getting rid of cross-subsidies between passenger and freight transport; • introduce Public Service Contract scheme to ensure a desirable Service Level in passenger transport; • Promote e-ticket solutions to enjoy the benefits of integrated transport (e.g., cover several modes), better control over revenues generated by operators, possibility to integrate a targeted social assistance module; • Increasing safety by adopting ITC; • Policy support to non-motorized transport; • Policy support to green modes of transport. 	<ul style="list-style-type: none"> • Growing rate of private passenger cars and decreasing demand for public transport vs. private cars utilization; • Decrease of population incomes can trigger a decrease in transport demand; • Existing regional disparities might make it difficult to propose sustainable passenger transport; • Lack of measures addressing passenger's security.

2.4 TRANSIT

Transit	
Strengths	Weaknesses
<ul style="list-style-type: none"> • Due to economic stagnation/downturn (reduced turnover in foreign trade) the occupancy rate of transport infrastructure is reducing thereby providing more capacities at key transport nodes for processing transit cargo; 	<ul style="list-style-type: none"> • In 90% of cases transit is served by road; • In 2010-2014 transit reduced by 33%; • Unfavorable transit terms at Silk Road concerning time, formalities and cost; • Limited capacity in passing cargo via the territory of Russian Federation (only 1 border crossing in Belarus operated for



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<ul style="list-style-type: none"> About 28% of transit cargo is transported by rail; About 50% discount on transit cargo recently launched; National Transport Control System (NTCS) tested to facilitate documentation flows in transport. 	<p>processing Ukrainian transit to Central Asian countries), existence of non-physical barriers;</p> <ul style="list-style-type: none"> Prolonged embargo on transiting via Russian Federation to Kazakhstan (2% of UA exports) and Kyrgyzstan (increased the cost of transit by 30%); Rigid tariff rates at sea ports and railway transport; Absent through rates; high disbursement costs at Ukrainian sea ports.
Opportunities	Threats
<ul style="list-style-type: none"> Attracting transit by better marketing Ukraine transport capacity and adoption ICT technologies in transport. 	<ul style="list-style-type: none"> Strong competition for transit traffic in the region; Slow integration of Ukraine networks into international transport corridors.

2.5 TRANSPORT FINANCING

Transport financing	
Strengths	Weaknesses
<ul style="list-style-type: none"> Public financing system established and evolved in transport; PPP scheme introduced; Targeted state budget programs available for transport projects financing; Private operators interested in financing and operating transport infrastructure (e.g., leasing several sea port terminals, 5 river ports owned and operated by one private company); National Transport Strategy in place; The interest of IFIs in supporting transport sector development confirmed (grant and loan funding for infrastructure, loans and mixed financing for private operators, etc.); Experience in budget support to transport. 	<ul style="list-style-type: none"> Underfunded operation and maintenance of transport infrastructure; Absence of mid-term budget planning prevents transport authorities from properly assessing the available public funding vs. transport infrastructure in due technical conditions; High share of state budget subventions to local budgets signals of low financial sustainability at local level; Strong need to prevent public financing misuse in transport, namely, in infrastructure finance; Public funding provision to projects that do not demonstrate the highest evident added value and could be implemented by a proper operation/management or rehabilitation of existing infrastructure.
Opportunities	Threats
<ul style="list-style-type: none"> Output-based contracts (OPRC) scheme in road operation and maintenance in 	<ul style="list-style-type: none"> Persistent economic downturn limiting the revenue side of the state and local budgets;



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<p>place for utilization by other modes of transport;</p> <ul style="list-style-type: none"> • Road fund is in place and shall become more effective; • Private sector interest in taking the share from the market currently operated/financed by the state; • Decentralization, administrative and territorial reforming increase the attractiveness of local authorities in keeping adequate transport infrastructure and operating transport services at local level; • Open platform ProZorro providing opportunity for Local authorities (e.g., oblavtodors) to publish their public procurements; • NTS update due to the conclusion of Association Agreement between Ukraine and EU. 	<ul style="list-style-type: none"> • Low willingness on the side of local authorities to establish territorial communities/agglomerations; • Lower priority of transport sector in public spending in comparison to other sectors of public finance (e.g., national security and defense); • PPP current legislation limits of promoting wider involvement of private investment.
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2.6 TRANSPORT SUB-SECTORS (MODES)

Railway transport

Sub-sector Strengths:

- High share of railway mode in total passenger and freight transport, which is seen as a strategic backbone for future sector development
- High railways density compared to EU member states
- Integration into international rail corridors
- Administrative and commercial operation functions of State Rail Transport Administration (UZ) have been separated in 2015; UZ corporatized and established as a public entity
- UZ, “Ukrsaliznytsia” (formerly state enterprise), transformed into a public JSC. This allows separating the functions of railways operator and regulator

Sub-sector Weaknesses:

- Shortage of rail cars (e.g., hoppers) and their delayed turnaround (7 days at the average)
- Restricted capacity of key railway stations/nodes
- Shortage of logistics centres
- Low commercial speed of rail transport (30 to 40 km/h)
- Rigid state regulation of rail transport tariffs
- Absence of competition in rail transport
- High load on UZ in terms of granting the privileges to socially vulnerable groups and subsidizing sub-urban transportations
- Obstacles to land transit via the territory of Russian Federation



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Sub-sector Opportunities:

- Ongoing State Rail Transport Reforming Programme can help liberalizing the market and develop competition
- The law of Railway Transport elaborated and submitted to the Parliament for consideration. It shall promote the maintenance of state ownership over rail tracks and locos, and establishing a competition in railway transport. The concept for social railways passenger transportations to be established

Road transport

Sub-sector Strengths:

- High contribution to passenger and freight transport in Ukraine
- One third of road network includes the roads of state importance
- High contribution to door-to-door deliveries
- The only mean of transport in small town and rural settlements

Sub-sector Weaknesses:

- Poor vehicle weight control
- Delays in O&M resulting in poor road driving quality
- Small share of 1A roads category
- High road accident rate
- Insufficient traffic intensity and poor legal environment to support the involvement of private operators based on the principles of public-private partnership
- High prevalence of illegal (shadow) operations on road transport market
- Lack of logistic centres and multimodal terminals
- Restricted capabilities of local authorities to ensure local roads O&M
- Poor legislation in the field of public-private partnership that is not capable of protecting the interests of private road operators
- Ban on land transit via the territory of Russian Federation

Sub-sector Opportunities:

- Reform of state roads management system, including a perspective establishment of public JSC "State roads of Ukraine"
- A growing pressure to revise the licensing requirements for road transport operators within the frames of Association Agreement
- Ongoing road sector management reforms are designed to better separate the road management and operation functions; road maintenance sector shall open to attract private O&M companies
- Piloting roads OPRC contracts for O&M of road infrastructure
- Implementation of automated weight control at road transport started;
- Mechanism to charge overloaded vehicles to be put in place
- Implementation of DSTU ISO 39001:2015 for road traffic safety management system shall be launched
- Road Fund of Ukraine shall transfer from a general to special fund facility with clearly defined targeted sources of funding



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Maritime transport

Sub-sector Strengths:

- Gradual progress with introduction of electronic documentation exchange at Ukrainian sea ports
- Elaborated and implemented procedures for container processing prior to their entry to sea ports
- Available dry port facilities, which can ease transport formalities outside of sea ports
- Ukrainian seafarers working on board foreign ships have a positive impact on the local economy

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Sub-sector Weaknesses:

- Modest share of maritime transport in freight and passenger transportation
- Lack of Ukrainian Flag fleet and a growing pressure for establishing a State Shipping Register
- Ukrainian flag listed in the “Grey” category of the Paris MoU on Port State Control
- 80% of sea ports infrastructure is depreciated
- Unbalanced cargo and reducing transit
- Long cargo dwell time at sea ports
- Ukrainian Port State Control practices not in line with international standards (does not target sub standards ships)
- Limited number of deep sea port facilities; restricted depths at approach channels
- Lack of infrastructure facilities capable of service large scale vessels (Capesize, VLOS, etc.)
- Rigid state control of transport tariff setting
- Sea port fees appear uncompetitive within the context of long-distance transport haulages
- Absent legislation in the field of port operations on PPP principles

Sub-sector Opportunities:

- Road Map for adaptation of EU directives and regulations established
- An agreement reached between USPA, regulatory and controlling authorities operating at sea ports, stevedoring companies, maritime agents and freight forwarding companies on information exchange
- Strong interest of state to attract private funding on the principles of public-private partnership (PPP)
- Methodology for sea port charges to be revised. It shall propose clear and transparent tariff setting

Inland waterways

Sub-sector Strengths:

- Presence of a private operator (JSC Ukrmorriflot operates 5 river ports)
- Availability of privately-owned river berths and terminals

Sub-sector Weaknesses:

- Low share of river mode in freight transport; river is currently used only for cabbotage (short shipments) purposes
- Obsolete vessels and lack of proper cargo handling equipment
- Growing pressure to open river to foreign flag vessels
- Low carrying capacity of river locks; high lock fees
- The navigation along Dnipro is limited to low capacity self-propelled vessel, which is the only alternative to slow barge convoys or 1500 th TEU vessels



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Sub-sector Opportunities:

- Ongoing revision of inland waterways legislation
- Opening of river navigation for foreign flag fleet can help bringing more operators and vessel to deliver river transport services

Air transport

Sub-sector Strengths:

- Significant role in long-distance passenger transportations
- Slow, but steady progress of Ukrainian air ports in attaining ICAO certificates
- Significant progress in the conclusion of Open Sky agreement
- FAA confirmation on flights safety from Ukraine (FAA category 1 previously granted in 2013)
- The integration of air flights safety indicator started
- Full membership in ICAO, EUROCONTROL and ECAC
- Extensive background in terms of bilateral international commitments
- Established transparent public tendering procedures to define a carrier for airline routes

Sub-sector Weaknesses:

- Lack of financial means to support infrastructure development
- Minor impediments to Open Sky finalization due to disagreement between UK and Spain regarding Gibraltar, which might resolve with UK withdrawal from EU
- Existing pressure for legal harmonization
- Needed separation of functions and authorities
- Inefficient state management approach
- Absence of sector-specific legislation regulating the implementation of public-private partnership

Sub-sector Opportunities:

- Perspective establishment of the National Bureau for Air Event and Civil Aircraft Incident Investigation to investigate air events and incidents with Ukrainian and foreign civil aircraft
- Air ports certification and airworthiness shall become in line with EU directives
- Signing new bilateral agreements to promote air transport
- Existing Concept of State Airport Development Program up to 2023 can give a chance for airport rehabilitation, expansion of runways, aprons, other facilities

Urban/regional transport

Strengths:

- Urban mobility plans adopted at some cities
- Started initiative on creating/conserving public space

Weaknesses:

- Absence of due attention to spatial planning both at urban and regional levels



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- Transport infrastructure is not supported by any thorough transport modelling
- Urban and regional transport dominated by carbon-intensive transport modes
- Lack of ITS solutions for traffic management
- Absence of dedicated traffic lanes and public transport priority in traffic regulation
- Obsolete rolling stock (buses, electric transport), absence of high capacity public transport vehicles
- Absence on multimodal passenger terminals
- Absence of urban parking space and control over parking rights

Opportunities:

- Initiative to delegate powers to local authorities in setting electric public transport tariffs is launched
- Further progress with integrating bicycle paths into urban infrastructure
- Perspective E-ticketing solutions

Multimodal transport

Strengths:

- Existing capacities for processing multimodal traffic (container terminals, multimodal railway stations, ferry lines, deep sea berths)
- Existing cargo flow that could be potentially transported by multimodal transport
- Private operators of multimodal transport and stevedores operate at Ukrainian sea ports; container lines making calls to Ukrainian sea ports
- River transport operators deliver containers to Ukrainian sea ports (short shipping)
- Available vessels, railcars and cargo handling equipment

Weaknesses:

- Small share of multimodal transport in total freight turnover
- Bureaucratic procedures in obtaining permits for constructing road and railway approaches
- Unbalanced container and RoRo traffic; high share of empty (or partially full) transport units in return direction
- Slow turnaround of railcars, especially in rail platforms
- Majority of containers belong to cargo owners; the share of containers operated by container lines still small
- Uncompetitive disbursement fees at Ukrainian sea ports
- Opaque and unclear railway tariff setting; long waiting to obtain quotations

Opportunities:

- Less time required for loading-unloading operations at Ukrainian sea ports
- Regular container and RoRo service increase their operation
- Facilitation of the side of customs formalities; implementation of electronic documentation exchange



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2.7 CONCLUSIONS OF TRANSPORT SECTOR ANALYSIS

Following the above analysis, it can be concluded that the transport sector of Ukraine, as well as its specific transport modes (sub-sectors), already possess a needed potential. The updated National Transport Strategy shall need to build around these strong points, but also leverages on existing weaknesses and opportunities.