



UKRAINIAN INFRASTRUCTURE

BECOMING A PART
OF THE WESTERN WORLD



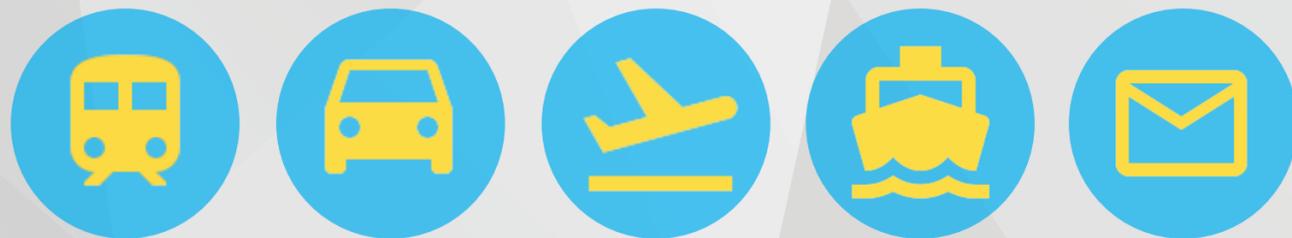
UKRAINIAN INFRASTRUCTURE BECOMING A PART OF THE WESTERN WORLD

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EXECUTIVE SUMMARY

Last year, the Ukrainian Government prepared what is in essence a revolutionary project to bring changes to Ukraine's infrastructure. The scale of the project is comparable only with the integration of East European countries into the European Union's infrastructure in the 1990's and 2000's. The project, which the Ministry of Infrastructure of Ukraine has already begun implementing, embraces all the key areas of the country's infrastructure - airports, roadways, railroads, sea and river ports, and the postal service:

- In 2017 the process of turning Ukrainian Railways into a corporation should be completed
- Approximately 1,000 km kilometers of roadways have been repaired in 2016, and more than 2,000 km are to be completed in 2017, improving the transportation infrastructure
- A number of investment and development agreements were signed in 2016. Those agreements were aimed at competition development, logistical independence, and infrastructure modernization
- Leading low cost airline companies intend to start operating flights to Ukraine in the nearest future, increasing the tourist stream and reducing ticket prices
- In April 2017 the process of turning the Ukrainian Postal Service from a state owned company into a public corporation was completed, paving the way towards transparency and implementation of Western corporate culture

Ukraine is very important to the European Union as one of the key countries involved in transportation to and from the EU. However, Ukraine's excellent transit capabilities have not been yielding a positive result in the 21st century; it is estimated that the country's transit potential utilization rate is currently only 25-30%.

Insufficient anti-corruption legislation and implementation, lack of funding, absence of control mechanisms, and ineffective regulation and tax system are the main challenges that the Ukrainian infrastructure needs to overcome in the foreseeable future.

Each of the parties involved – the Ukrainian government, the Western establishment and organizations, and the Western business – need to take a series of steps in order to secure Ukraine's fast and efficient transition into the world of modern infrastructure.

The package of planned reforms is beneficial and valuable not only to residents of Ukraine, but also to the entire Western society. These reforms will deal a major blow to corruption in Ukraine and decisively re-orient the Ukrainian economy, trade, and people away from the destructive way – which they have been drawn to because of historical factors – and towards West Europe and the USA. Implementation of these reforms will also strengthen the Ukrainian security system, which in the future may merge into the global common system of security aimed at protecting the entire civilized world from the global threats.



INTRODUCTION

The reform of Ukrainian infrastructure is in its very first stages. During the 25 years of independence, over the course of which constantly changing governments did not define their geopolitical choice, the Ukrainian roads have come into disrepair and need an almost complete overhaul, the rolling stock of the railroad is 90% worn out, the ports have lost a major share of strategic cargo, only 5% of the country's population use air transportation, and 80% of post offices do not have computers.

The scope of activity is vast, and one should admit that Ukraine is unable to carry out the tremendous efforts to reform the industry on its own. Ukraine needs the support of Western partners – political, technological, managerial, legal, and financial.

Three years ago Ukraine made its geopolitical choice having paid for it with the lives of Maidan revolutionaries and continuing to pay for that choice every day with the lives of soldiers and citizens lost in the war with Russia and the separatists supported by her. We believe that there is no way back for Ukraine – no return to totalitarianism, back to USSR. Now our Western partners should also believe in the finality of this choice.

Believe in it and start aggressively investing into Ukraine. It is important that Western companies

in particular, ones that possess global experience and the most cutting edge technologies, believe in the future of Ukraine and come to manage Ukrainian ports, build toll freeways, and fly Ukrainians in their planes around the world. We believe that Western companies will be able to bring with them the newest, most advanced standards of management to Ukraine, teach Ukrainian workers, grow a generation of competitive managers, bringing them up using Western standards of labor culture. Those are the people who will build the new Ukraine, modern and European.

We believe that only the unification of Ukraine with the Western world by means of modern infrastructure – roads, airplanes, railroads, ports, postal service – will allow the Ukrainian residents to become Europeans. It will bestow upon them the feeling of having been accepted into the European family of peoples. In June 2017 the European Union will be visa-free for Ukrainian residents to travel. The goal of the Ukrainian government infrastructure projects is to provide Ukrainians with the opportunity to utilize this chance – to see Europe and to create business and cultural contacts there.

We call upon the West to believe in Ukraine, invest into Ukraine, assist Ukraine, and to help her make it along the tough journey of transitioning from the East to the West.

22 000 km

Railroad which interact with railroads of seven neighboring countries

300 mln

Metric tons of loads carried annually

21

Airports

After the outbreak of conflict in eastern Ukraine

In the last 10 years the amount of cargo carried by Ukrainian transportation has dropped by 40%. The greatest decrease happened after the outbreak of conflict in eastern Ukraine in 2014.

Prior to the warfare in the east of the country, six Ukrainian railroads generated \$5 billion annually, provided 37% of all cargo transportation, and served as one of the most important channels for the exportation of goods.

30

International railroad gauge changeovers

EUROPE

ASIA

170 000 km

Automotive roadways

The geographic infrastructural potential utilization rate is only **25–30%**

Development of the infrastructure requires **\$8-10 bln USD** of private investments annually over the course of 12-15 years.

On its own Ukraine is able to finance the infrastructure in the amount of **\$1.5 bln USD** annually.

2 200 km

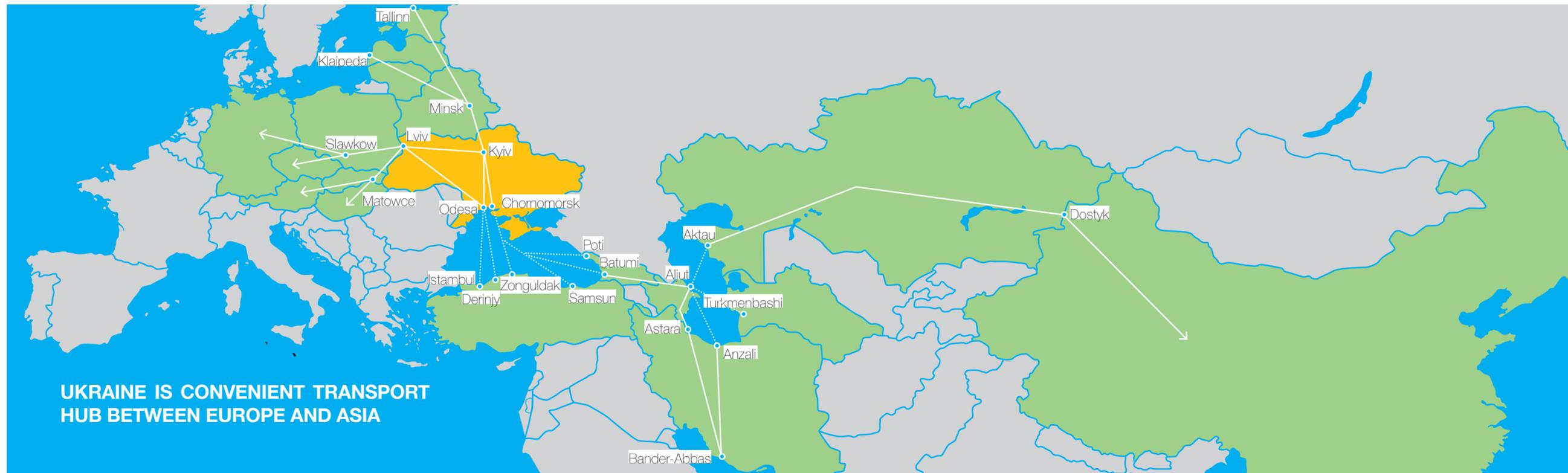
Waterways

13

Seaports

11

River terminals



LOCATION+EDUCATION. TWO DEFINITE ADVANTAGES FOR THE WESTWARD ADVANCEMENT

GEOGRAPHIC LOCATION

The strategic location, whose potential is without a doubt far from being utilized, can be a powerful catalyst for the development of the country as well as for the West.

Historically, over the course of many centuries, Ukraine has been at the crossroads of world trade routes and a major stronghold on the way from Europe to Asia.

International transportation corridors pass through Ukraine, among them: pan-European transport corridors, Organization for Cooperation of Railways corridors, and the Europe-Caucasus-Asia transportation corridor which connects Europe with Central Asia via the Black Sea, the Caucasus, and the Caspian Sea.

However, Ukraine's excellent transit capabilities

have not been yielding a positive result in the 21st century. Various estimates put Ukraine's transit potential utilization at 25–30%, although experts believe that Ukraine's transit capabilities can exceed 200 million metric tons per year.

Ukraine is very important for the European Union as one of the key countries for the transportation of goods to and from the EU, especially since the European Parliament approved the new concept of transportation infrastructure development and turning the national transportation systems of European countries into a unified trans-European transportation network (the TEN-T program) in 2013. The cost of the project phase 1 is estimated to reach €250 billion by the year 2020.

As part of this development the key transportation network will consist of nine main trans-

portation corridors. Priority financing will be allocated to transportation corridors connecting the eastern and western parts of the EU. An accent has been made on the corridors being multimodal – regardless of the direction, each transportation corridor should comprise at least three types of transport, connect three countries, and have two trans border sections.

A central axis passes through Ukraine; that axis defines the primary railroad and automobile routes generally correlating to the directions of the new European TEN-T network transportation corridors. This includes the water axis, which connects the Black Sea area with the Mediterranean, Baltic, Barents, and Red Seas and the Suez Canal, and incorporates inland waterways: Belarus-Kiev (along the Dniro) with access to the Odessa and Chemomorsky ports.

The Ministry of Infrastructure works closely with Georgia, Azerbaijan, Kazakhstan, and China on the launching of the South Silk Route which can become a competitive alternative to the Russian option.

THE LEVEL OF EDUCATION

Ukrainians have a historical predisposition towards wanting to be educated people. Contributing factors include the makeup of the population, the nation's striving towards being educated and cultured, the western influence, and the historic connection with the USSR – nationwide enterprises, global thinking.

LEVEL OF EDUCATION AMONG THE POPULATION

6% of the total employed population of Ukraine – approximately 1 million persons – are working in the transportation infrastructure. Overall, the Ukrainian job market is noteworthy for its high rate of highly qualified specialists. 76% of the Ukrainian population have higher education. Ukrainian universities annually confer 350–400,000 bachelors and masters degrees. More than 70 institutions of higher education in Ukraine prepare specialists with technical majors.

**FRAMEWORK AGREEMENT
BETWEEN THE GOVERNMENT OF UKRAINE AND
THE GOVERNMENT OF HUNGARY
ON PROVIDING**

The Government of Ukraine and the Contracting Parties) agree about the relationship and promotion of the devel

For the purpose of this Agreement

- a) *aid credit*: export credit tie from Hungary and supported official concessionality level not less than 3
- b) *concessionality level*: the difference and the discounted present value expressed as a percentage of the net credit for the borrower;
- c) *grant element*: interest rate
- d) *OECD Arrangement*: OECD effective on the day of this Agreement
- e) *Hungarian exporter*: legal procedure for the realisation of
- f) *starting point of credit*: to the m) point of Annex XIV. of
- g) *DDR*: Differential Discount aid, determined in the OECD.
- h) *ODA*: Official Development
- i) *OECD*: The Organisation
- j) *Ukraine*: Ukraine, represented instructions of the Cabinet of
- k) *project*: any project de

Establishment

The Government of operation policy, offers aid credits (further on: Pte. Ltd. (further on: Agreement, available for Ukraine.

The Government of with its own legal system present framework pr

The Government of conformity with the transactions confirm statement of the OECD

For the Government of Ukraine



**AGREEMENT
between the Government of Ukraine and
the Government of the Republic of Poland
on extending a tied aid credit**

The Government of Ukraine and the Government of the Republic of Poland, (hereinafter referred to as the "Contracting Parties") seeking to promote and deepen economic co-operation between the Republic of Poland and Ukraine, have agreed as follows:

Article 1

The Government of the Republic of Poland shall extend a credit in the amount not exceeding 100 million EUR (one hundred million euro), (hereinafter referred to as "the Credit"), to the Government of Ukraine for financing of projects for development of border road infrastructure and construction of border crossing points of the Ukrainian-Polish border or other projects agreed upon by the Contracting Parties to be financed under the individual contracts between exporters from the Republic of Poland and entities - residents of Ukraine (hereinafter referred to as "the Contract").

The Credit shall be used to finance 100 % (one hundred percent) of the value of the Contracts for deliveries of goods, works and services from the Republic of Poland to Ukraine.

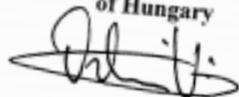
Article 2

1. This Agreement, all projects as well as the Contracts financed under this Agreement are assumed to be in accordance with the Organization for Economic Cooperation and Development (hereinafter referred to as "OECD") regulations concerning tied aid, as defined in the Arrangement on Officially Supported Export Credits and other relevant OECD documents.

2. The Government of Ukraine confirms its readiness to utilise the Credit in conformity with the OECD regulations on tied aid and shall provide its support to the Government of the Republic of Poland in ensuring the compliance with such OECD regulations.

3. The Republic of Poland shall notify the OECD on this Agreement, all projects as well as the Contracts to be financed under the Credit in accordance with the procedures outlined in the Arrangement on Officially Supported Export Credits. In case of any objections of the OECD as to relevance of the projects or the Contracts financed under this Agreement to the provisions of the Arrangement on

For the Government of Hungary



MAIN CHALLENGES

01. An imbalance exists between the geographic and logistical vectors of the transport infrastructure. Geographically Ukraine is much closer to the European Union. But logistically it is still drawn to the infrastructure network of the former USSR.

02. Integration of the Ukrainian transportation infrastructure into the all-European transportation map will allow Ukraine to notably speed up its economic growth and get out of Russia's sphere of political influence.

03. Development of the transportation infrastructure using progressive policies and approaches will also contribute to the decrease of general corruption risks inherent in Ukraine.

04. Development of the infrastructure requires \$8–10 billion of private investments annually over the course of 12–15 years.

05. On its own Ukraine is able to finance the infrastructure in the amount of \$1.5 billion annually. European financial institutions are also unable to fully satisfy the investment demands of the Ukrainian transportation infrastructure.

06. The new leadership of the Ukrainian Ministry of Infrastructure has achieved notable successes in reforming the industry segment and reducing the corruption risks in business operation. The world's largest providers of port business, container transportation, and passenger air transportation are already entering the Ukrainian market.

07. For the successful implementation of reforms Ukrainian infrastructure needs to secure additional \$20–25 billion by the year 2030.

08. New roads to the West will have the ability to finally pull Ukraine out of the «post-Soviet province» status and make irreversible the processes of integrating Ukraine into the Western civilization.

General Problems of the Ukrainian Transportation Infrastructure Requiring Solutions:

- Insufficient funding of state-owned entities in the transportation sector
- Imperfect fiscal policy which results in outflow of funds from state-owned entities in the transportation industry segment and does not facilitate growth of the segment
- Insufficient amount of private investments into the transportation sector, limited choice of instruments of private investment into infrastructure facilities, low investment attractiveness of transportation entities
- Ineffective statutory regulation on the issues of state-private partnership.
- Ambiguity in the procedure of securing private capital for construction and reconstruction of roads
- Absence of a control mechanism to gauge the effectiveness of the use of funds allocated to repairs, reconstruction, and new construction of road infrastructure
- Absence of an effective tax system mechanism to stimulate fleet renewal
- Absence of mechanisms for the repayment of investments made into strategic facilities of the port infrastructure



RAILWAYS 2016

3

bIn USD

Revenue

12

mln USD

Net profit

262

mln USD

National taxes

143

mln USD

Local taxes

In 2017 the process of turning Ukrainian Railways into a corporation should be completed

WHAT HAS BEEN DONE

- In 2016 General Electric signed a Memorandum of Cooperation with Ukrainian Railways. **Westernization of Ukrainian industry.**

«This decision was not made at random; we evaluated the positions of all players in the world market for a long time. We understand that GE is number one in the world when it comes to manufacturing diesel locomotives,» said in this regard Minister of Infrastructure Volodymyr Omelian. According to him, the document signed with Ukrainian Railways lays the legal foundation for the further strategic collaboration to manufacture locomotives in Ukraine.

- Also in 2016 Ukrainian Railways and Canadian machine building giant Bombardier signed a memorandum regarding the formation in Ukraine of a joint venture to man-

ufacture rolling stock. **Westernization of the Ukrainian industry, increasing the transportation reliability.**

- Projects to electrify the primary sections of Ukrainian railroads and bring the network of transportation up to Western standards have been planned:

Reconstruction of certain areas with the support of The European Investment Bank (EIB) and The European Bank for Reconstruction and Development (EBRD). **Involving European financial institutions.**

The construction of a new double-track railroad tunnel in the Carpathian mountains is nearing completion. It will increase the transportation by 50-60%. The new tunnel will connect Ukraine and the European Union. The total cost of construction will be approximately 85 mln USD. **Euro-integration.**



4.2

bIn USD

Total funds needed to update the Ukrainian Railways rolling stock

7.6

bIn USD

Total funds needed for the railroad infrastructure

PERSPECTIVES

- Launching a competitive railroad transportation market. Implementation of universal market rules for state and private companies.
- Creation of a network of interconnected logistics centers and multimode terminals in the largest transportation hubs, state border checkpoints between Ukraine and countries of the EU.
- Design, financing, reconstruction of existing railways, stations, pedestrian bridges, passenger platforms, and other railroad facilities intended for passenger service on state-private partnership basis.
- Construction of high-speed railroad corridors to increase the economic efficiency of passenger transportation.

- Updating the railroad rolling stock by means of acquisition, modernization, and major overhaul of locomotives, passenger and cargo cars, electric and diesel rail buses. Collaborating with leading manufacturers of rolling stock, such as Alstom, Bombardier, Siemens, General Electric, Newag, Pesa Bydgoszcz SA, CRRC International Corp. LTD, and others.
- Fast speed rail connection between the city of Kyiv and the Boryspil International airport.
- Capitalizing on Ukraine's transit potential. Implementation of new logistical solutions using the transportation infrastructure on the EU-India and EU-China routes.



ROADS 2016

2%
↑ 2,7%

Category 1 corridors

170 000
km, total

49 200 km, state | 120 400 km, municipal

Approximately 1,000 km of roadways have been repaired in 2016, more than 2,000 km to be accomplished in 2017

Nine out of ten Ukrainian roads are in poor condition. This is according to official Ukravtodor (Ukrainian State Automobile Roadway Agency) statistics. In order to bring Ukrainian roads into the proper state of repair, regular financing of \$4,7 billion USD per year is necessary.

WHAT HAS BEEN DONE

- The new Ministry of Infrastructure team has put forth efforts to establish in November 2016 the State Roadway Fund of Ukraine. The Fund will start operating full-scale on January 1, 2018. The Roadway Fund will receive monies from fuel taxes, special dues, and penalties. The planned saturation of the Fund is 40 billion Hryvnia per year. **Transparent budgeting, effective planning.**
- Starting in 2016 the dimension and weight enforcement has been increased,

especially on primary roads leading to the Odessa area ports, since uncontrolled use breaks down automobile roadways. Overall, 80 dimension and weight complexes will be acquired for Ukraine this year. **Protection of road surfaces, implementation of universal standards.**

- Approximately 1,000 km of roadways have been repaired in 2016, more than 2,000 km to be accomplished in 2017, **improving the transportation infrastructure.**
- Starting in 2017 Ukraine is implementing independent roadway quality control. From now on the technical oversight of road work performance will be carried out by an engineer consultant (authorized by FIDIC). This approach will provide for high quality of construction work and is currently being used by the majority of European countries. **Western approach to quality control.**



4.7
bln USD/yearly

In order to bring roads into the proper state of repair, regular financing is necessary

PERSPECTIVES

- Decentralization of the automotive roadway management system: transition of municipal road administration into the jurisdiction of local executive governments and joint territorial community administration units.
- Development of a standard form of agreement (contract) to maintain automotive roadways on the basis of long term (up to seven years) contracts.
- Implementation of the €200 million EIB «State Public Transportation in Ukraine» project to upgrade the rolling stock of state passenger transportation and provide for the safety of passenger transportation by bus, streetcar, and electric trolley bus.
- Implementation of the European princi-



ple of allowing access of businesses to the automobile transportation market.

- Developing the electric automobile market in Ukraine: legislative initiatives will reduce both the retail prices of electric cars (by 20%) and the cost of their manufacturing, providing special preferences for establishing production of electric vehicles in Ukraine.
- Creation of equal conditions for automotive transportation companies interested in entering the market of regular passenger transportation.
- Construction of new automotive roadways on concession basis and the mechanism of state-private partnership.
- Management of automotive roadways using geoinformational technologies.
- The most sophisticated road from Gdansk (Poland) to Odessa (Ukraine) is going to be constructed to connect Baltic and Black seas, starting 2018.



PORTS 2016

298

mIn USD

Revenue

↑ 23%

69

mIn USD

Net profit
(excl. operating expenses)



1.2

bIn USD

Total funds needed for the
port infrastructure



WHAT HAS BEEN DONE

- In 2016 P&O Maritime, subsidiary of the international seaport operator DP World (UAE) announced its plans to invest into the development of a towing fleet of the Odessa Yuzhny trade port. **Development of competition, improvement of technological capabilities.**
- In December 2016 the Chemomorsk trading seaport signed an agreement with one of the world's largest seaport operators Hutchison Ports. The company should become an operator at the Chemomorsk port in 2017. **Development of competition, transparency.**
- In May 2017 the Ukrainian Government approved the feasibility study for the project of reconstructing Berth number seven in the Odessa trade seaport. The project provides for the expansion of this berth's capabilities and creating the conditions for an obstacle-free access of oversize vessels by increasing the depth and re-designing the crane and gantry rails. **Development of logistical independence.**

- The Ukrainian Sea Ports Authority is planning to begin the reconstruction of the berth maritime hydraulics at the Mariupol port and the construction of an additional berth at the Mykolaiv port. **Infrastructure modernization.**
- A reduction of port dues in order to increase cargo volume is planned. **Increasing the ability to compete on the international market.**
- For the first time, Ukraine's ports are not only deepened but also developed; hydroplane berths, hydro walls, and electric constructions are being built in 4–5 ports.
- Based on the Dutch and American experts' evaluations, in the next few years the Ukrainian waterways may start carrying 35 million metric tons of cargo per year. With the help of American specialists all the locks along the Dnipro have been inspected, and more than 110 million Hryvnia has been allocated for their repair. **Infrastructure development.**

PERSPECTIVES

- Raising more than 1.2 billion USD for the implementation of investment projects in the maritime industry sector. A number of projects to modernize and create port infrastructure strategic facilities has already been launched, valued at 615 mln USD.
- Creation of the State maritime and river transportation administration (Regulative agency).
- Re-organization of the port captains' duties.
- Preparation for the mandatory audit by the International Maritime Organization in 2018.
- Creation of the legislative and judicial terms and conditions for the realization of the goals to develop the country as a maritime state and building up the Ukraine's status as a member of International Maritime Organization.
- Development of the Order and terms of the repayment of investments made by business

- entities into the strategic facilities of the Seaport infrastructure.
- Securing investments into the modernization of the Seaport infrastructure, increasing transloading capabilities, creation of specialized hi-tech transloading terminals and increasing the ports' overall operation effectiveness.
- A new legislative initiative has been drafted jointly with EBRD and Hogan Lovell
- All commercial disputes will be resolved in international arbitration
- The new port dues calculation methods.
- Increasing the investments into the river business, modernization and upkeep of its infrastructure, increasing the fleet for river transportation of cargo.
- Ratification of the revised version of the Maritime Doctrine of Ukraine.



AIR TRANSPORTATION 2016

12

mln

Passengers

↑ 33%

129

mln USD

Revenue of Boryspil

The largest European low cost airline Ryanair announced that it would operate eleven new flights from Kiev and Lviv

WHAT HAS BEEN DONE

- The «Common Aviation Area» (open sky) agreement was initiated by Ukraine and the EU at the end of 2013 and may be signed this year. Ministry of Infrastructure of Ukraine jointly with its State Aviation Administration has created a working group with experts, representatives of airports and airlines, and developed an action plan to prepare for the implementation of the Common Aviation Area for Ukraine and the European Union in 2017. **Deoligarchisation and reduction of prices for the population.**
- During 2016 the revenues of Boryspil International airport, a state corporation providing 68% of all air transportation in Ukraine, grew by 33% compared to 2015, up to 3.35 billion Hryvnia. **Increase of tourist stream, increase of budget revenues.**
- The number of air passengers in 2016 grew

by 1.37 million – up to 8.65 million people. Boryspil may reach the 40 million passengers per year mark by the early 2030s. In the nearest six years a doubling of the existing passenger traffic is expected. Just by the end of the current year alone the airport may reach 10 million passengers.

- An open sky agreement has been signed with the USA.
- Ukraine is once again reemerging on the map of the world's low cost airlines. In March the Hungarian economy carrier Wizz Air announced their plans to launch four new flights in Ukraine this summer. **Reduction of prices, increase of passenger numbers.**
- In April the largest European low cost airline Ryanair announced that starting October 30, 2017, it would operate eleven new flights from Kiev and Lviv. Then, due to a very high



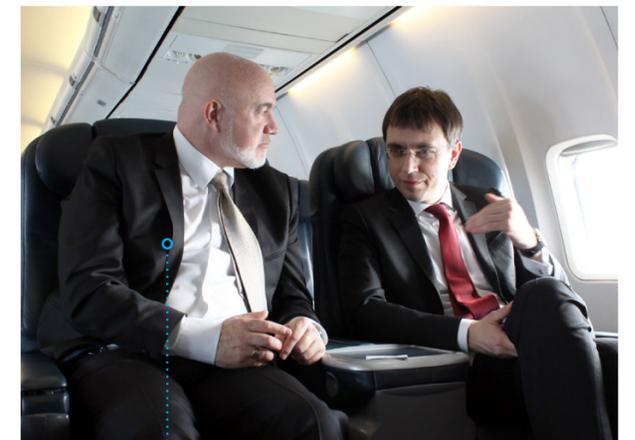
demand for flights among Ukrainians, the airline announced it would be pushing up some of the flights – for example from Lviv to Berlin – to September 2017. **Development of competition, transparency.**

- Minister of Infrastructure Volodymyr Omelian has announced the creation of a new airline in Ukraine. **Demonopolization.**

PERSPECTIVES

- Signing of the Common Aviation Area agreement with the European Union.
- Bringing in a greater number of airlines, including low-cost carriers.
- Development of regional airports. 20 small regional airports are able to receive medium-range aircraft. The airports belong to the cities, and the runways – to the state. The plan is to unify those

airports into a consortium; the state is then prepared to enter into a management agreement with a major airport operator. Currently there is a state program to develop 19 airports through the year 2023.



Minister of Infrastructure Volodymyr Omelian and David O'Brien, CEO of Ryanair



POST OFFICE 2016

173 240

mln USD

Revenue

↑ 15%

mln

Pieces of mail early



Ukrposhta (Ukraine Post) is the national postal service of the country and reports to the Ukrainian Ministry of Infrastructure:

- More than 50 types of services
- More than 11,000 offices across Ukraine
- Approximately 78,000 employees
- Processes and delivers more than 220 million pieces of mail
- 18 million packages and stated value deliveries
- 10 million transfers
- Pays more than 70 million pensions

WHAT HAS BEEN DONE

- In April 2017 the process of turning Ukrposhta from a state company into a public corporation was completed; stock worth 6.5 billion Hryvnia was issued. **Transparency, implementation of western corporate culture.**

- In 2016 Ukrposhta sustained 6,2 mln USD net loss, compared to 1,5 mln USD of net profit the year prior. Ukrposhta reported this loss as a result of reappraising of assets as part of the incorporation process and writeoff of insolvent banks' debts. As a result of the reappraisal, the company's assets increased fourfold which led to the growth of amortization deductions.

Transparency, implementation of western corporate culture.

- The company's net income increased by 15% last year and totaled 4.5 billion Hryvnia. **Increase of state budget revenues.**

- The company's operating expenses increased by 12%, mostly due to the increase of employee salaries. **New employee relations standards.**

- The company has been expanding its

product portfolio: it has relaunched the express delivery service, started working with corporate clients in the e-commerce segment, launched new financial products (e.g. transfers between cards and online payment for services), and increased the effectiveness of retail sales.

It has also begun renewing its fleet of vehicles, purchasing computers, conducting automation of post offices, reducing mail delivery time. **Bringing the Postal Service up to world standards.**

PERSPECTIVES

- Increasing revenues to compensate for the production of traditional postal services: increasing the market share in the growing e-commerce segment from 10–15% to 30–40%
- Providing for the stable growth of the

company and access of the population to modern financial services

- Expanding the assortment of financial services

- Transformation of the logistical infrastructure

- Thorough IT modernization: implementation of modern customer service and modernization of the obsolete «paper-based» internal processes.

- Establishing a postal bank for the purpose of providing access to modern financial services to the absolute majority of the population of Ukraine.

INTERNATIONAL COMPETITIVENESS OF THE UKRAINIAN INFRASTRUCTURE

The Global Competitiveness Index (GCI) calculated by the World Economic Forum (WFE) shows that on the general indicator of competitiveness rating list, Ukraine has been mid-pack among the participating countries over the course of many years. The infrastructure index for the period from 2009 to 2017 exceeds the general GCI indicators for Ukraine by 5–15%.

Traditionally, the lowest ratings of competitiveness in the transportation infrastructure belong to Ukrainian roads. In this area Ukraine is among the ten countries at the bottom of the world ratings.

However, the low quality of the roadway infrastructure is compensated by the high competitiveness of the Ukrainian railroads. Here, Ukraine used to constantly place in the top 30, and only 2016–2017 saw it drop four points and occupy the 34th spot among 138 countries. Unfortunately, world competitiveness ratings of the Ukrainian port and air transport infrastructures are not that much better than the automobile road competitiveness index.

The improvement of the infrastructure competitiveness rating from 2008 to 2012 is quite notable. The most growth was exhibited by the country in the «Quality of overall infrastructure» category – from 86th place it moved up to 56th. A number of Ukrainian specialists believe that this dynamic growth was the consequence of the country's extensive efforts to improve the transportation infrastructure as part of the preparation for the 2012 European Football Championship. Overall, about \$5 billion was invested into the Euro 2012 infrastructure.

But that trend was not irreversible, and the transportation infrastructure quality worsened between 2013 and 2016.

UKRAINE'S TRANSIT ABILITIES

Historically, over the course of many centuries, due to its geographic location Ukraine has been at the crossroads of world trade routes and a major stronghold on the way from Europe to Asia.

International transportation corridors pass through Ukraine, connecting Western Europe with Central Asia via the Black Sea, the Caucasus, and the Caspian Sea.

List of Pan-European Transport Corridors

Corridor	Route
	Helsinki – Tallinn – Riga – Kaunas/Klaipeda – Warsaw/Gdansk
	Berlin – Poznan – Warsaw – Brest – Minsk – Smolensk – Moscow – Nizhny Novgorod
	Brussels – Aachen – Cologne – Dresden/Berlin – Wrocław – Katowice – Kraków – Lviv – Kiev
	Dresden/Nuremberg – Prague – Vienna – Bratislava – Győr – Budapest – Arad – Bucharest – Constanta/Craiova – Sofia – Thessaloniki – Plovdiv – Istanbul
	Venice – Trieste/Koper – Ljubljana – Maribor – Budapest – Uzhhorod – Lviv – Kiev
	Gdansk – Katowice – Zilina, western branch: Katowice – Brno
	The Danube River (Austria, Hungary, Yugoslavia, Bulgaria, Romania, Moldova, Ukraine)
	Durres – Tirana – Skopje – Bitola – Sofia – Dimitrovgrad – Burgas – Varna
	Helsinki – Vyborg – St. Petersburg – Pskov – Moscow – Kaliningrad – Kiev – Liubashivka/Razdelnaya – Chishinau – Bucharest – Dimitrovgrad – Alexandroupolis
	Salzburg – Ljubljana – Zagreb – Beograd – Nis – Skopje – Veles – Thessaloniki

HOWEVER, UKRAINE'S EXCELLENT TRANSIT CAPABILITIES HAVE NOT BEEN YIELDING A POSITIVE RESULT IN THE 21ST CENTURY. VARIOUS ESTIMATES PUT UKRAINE'S TRANSIT POTENTIAL UTILIZATION AT 25–30%

Ukraine's Transportation Infrastructure in the Global Competitiveness Index

	2008-2009	2009-2010	2010-2011
Total countries	134	133	139
Global Competitiveness Index	72	82	89
Infrastructure	79	78	68
Quality of overall infrastructure	86	79	70
Quality of roads	120	125	136
Quality of railroad infrastructure	30	30	25
Quality of port infrastructure	87	80	94
Quality of air transport infrastructure	105	101	110
Available airline seat kilometers millions/week	58	60	62

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Total countries	142	144	148	144	140	138
Global Competitiveness Index	82	73	84	76	79	85
Infrastructure	71	65	68	68	69	75
Quality of overall infrastructure	71	56	70	75	82	88
Quality of roads	138	137	144	139	132	134
Quality of railroad infrastructure	27	24	25	25	28	34
Quality of port infrastructure	96	75	94	107	108	96
Quality of air transport infrastructure	101	85	105	99	97	103
Available airline seat kilometers millions/week	60	58	58	61	61	60

UKRAINE IS VERY IMPORTANT FOR THE EUROPEAN UNION AS ONE OF THE KEY COUNTRIES FOR THE TRANSPORTATION OF GOODS TO AND FROM THE EU.

Government representatives believe that the competitiveness of the transportation sphere is negatively affected by the low level of transportation and logistics technologies and multimode transportation. For example, during 11 months of 2016 the amount of transit cargo carried by railroad totaled 15.5 million metric tons which is 30.8% less than during the same period of 2015.

Transshipment of transit cargo by sea ports of Ukraine in 2016 was 10.3 million metric tons, which is 35.1% – or 5.6 million metric tons – less compared to 2015. The transit volumes have dropped threefold since 2005, although experts believe that Ukraine's transit capabilities can exceed 200 million metric tons per year.

World Bank specialists also see other reasons for Ukraine's low success rate on the world logistics market. In World Bank's 2016 Logistics Performance Index (LPI) ratings Ukraine took the 80th place among more than 150 countries. World Bank's LPI ratings have been conducted biannually since 2007 by means of surveying carriers around the world. Six criteria are being judged: efficiency of the customs procedures, quality of the infrastructure, simplicity and affordability of international deliveries, ability to track loads during their movement, and timeliness of delivery. In logistics performance Ukraine notably loses out to its neighbors – Poland and Romania.

Ukraine is very important for the European Union as one of the key countries for the transportation

of goods to and from the EU, especially since the European Parliament approved the new concept of transportation infrastructure development and turning the national transportation systems of European countries into a unified trans-European transportation network (the TEN-T program) in 2013. The cost of the project phase 1 is estimated to reach €250 billion by the year 2020.

As part of this development the key transportation network will consist of nine main transportation corridors: Baltic – Adriatic, North Sea – Baltic, Mediterranean, Orient/East-Med, Scandinavian – Mediterranean, Rhine – Alpine, Atlantic, North Sea – Mediterranean, and Rhine – Danube. They will connect 94 European ports, 38 airports tied into the largest cities, 15,000 km of high-speed roadways, and 35 transborder projects.

Priority financing will be allocated to transportation corridors connecting the eastern and western parts of the EU. An accent has been made on the corridors being multimodal – regardless of the direction, each transportation corridor should comprise at least three types of transport, connect three countries, and have two transborder sections.

A central axis passes through Ukraine; that axis defines the primary railroad and automobile routes generally correlating to the directions of the new European TEN-T network transportation corridors.

This includes the water axis, which connects the

Black Sea area with the Mediterranean, Baltic, Barents, and Red Seas, and the Suez Canal, and incorporates inland waterways: Belarus–Kiev (along the Dnipro) with access to the Odessa and Chemomorsky ports.

Europe's new transportation network reaches the Ukrainian borders. However, EU officials believe that in order to successfully integrate into that network, Ukraine must modernize her infrastructure, actualize regulatory documents, improve flow and mobility of the transportation system. The EU will support Ukraine and her entrance into new markets, as well as her integration into the new transportation system; however, without any doubt, Ukraine must put forth major efforts as well.

In 2013 EU delegate Walter Tretton, head of the "Energy, Transport, and Environment" assistance program section, noted that this is a major chance for Ukraine. "If Ukraine can utilize it and 'merge' into the transportation arteries that reach the Ukrainian borders (which includes the Mediterranean and Danube transportation corridors), she will gain multiple factors that will promote export, business, and the transportation abilities of Ukraine and Ukrainian providers," noted Tretton. Today Ministry of Infrastructure of Ukraine is working towards the goal of utilizing this potential and turning Ukraine into the main transit country of the Eurasian continent providing comfortable conditions for transportation between Europe and Asia and a dependable international partner, supplier of the best logistics services on the continent.

Significant growth has already been noted: for the period spanning January-March 2017 passenger transportation by Ukrainian railroad into countries of the European Union have increased almost sevenfold compared with the same period last year, up to 34,500 passengers.

Overall, to dare passenger railroad service has been established between Ukraine and Slovakia, the Czech Republic, Hungary, Romania, Bulgaria, and Poland.

The Ministry of Infrastructure is also working closely with Georgia, Azerbaijan, Kazakhstan, and China on the launching of the South Silk Route which can become a competitive alternative to the Russian option (through Ukraine - Baltic states - Scandinavia).

Ukrainian Railways as well as the maritime industry, offer individual clients and businesses flat rates on the route Kazakhstan - Azerbaijan - Georgia - Ukraine, - the lowest in the region.

To develop the capabilities of Ukraine's transportation industry and to utilize her transit potential Ministry of Infrastructure has initiated the creation of an inter-agency consulting body – the Transit Council. It will include representatives of ministries of Infrastructure, Economic Development, Finances, Foreign Affairs, Internal Affairs, Justice, and the State Border Guard Service.

Ministry of Infrastructure of Ukraine has also presented its initiative to implement a multipurpose project entitled "Three Seas – Hundred Roads." It has to do with the organization of multimodal transportation between the Baltic, Black, and Caspian Sea regions.

Furthermore, Ukraine has initiated the development of a multilateral inter-government agreement setting forth the transportation policy for the organization of transportation between Baltic, Black, and Caspian Sea regions. Its draft has been sent for review to 18 partner countries.

FINANCING AND INVESTMENTS INTO THE INFRASTRUCTURE

The Ukrainian infrastructure is suffering from chronic underfunding. For example, state funding of updates and maintenance of public automobile roadways covers only 16.5% of the total needs. In 2017 the State Automobile Roadway Agency (Ukravtodor) can receive from the state budget 1,5 billion USD; however, that is insufficient.

Similarly insufficient is the assistance from international financial institutions. In the period spanning 1994–2016 eight projects using financing from the EBRD, EIB, and IBRD were carried out. Their total cost was €1.37 billion, of which €1.024 billion was financed. Currently, five joint projects with EBRD, EIB, and IBRD are being carried out, where €2.48 billion are loans, €948.6 million are internal funds, and €250 million are state budget funds.

According to Ministry of Infrastructure calculations, the Ukrainian transportation infrastructure will require more than €30 billion of investments through 2030 in order to provide effectiveness and safety and to satisfy the growing demand for transportation services.

«More than €30 billion needs to be invested into the infrastructure by 2030. Besides, €8–10 billion of private investments need to be secured every year,» said Oleksandra Klitina, Ministry of Infrastructure Design Office Head.

Minister of Infrastructure Volodymyr Omelian has been successful in attracting foreign investments into infrastructure projects. This is in reference to the interest of world port operators Hutchison Ports and DP World in Ukrainian ports and container transportation, as well as the project involving General Electric and Bombardier to create joint ventures with Siemens to manufacture electric and diesel locomotives for Ukrainian Railways.

Ministry of Infrastructure of Ukraine is also in ne-

gotiations with the German government to secure €100 million to purchase 10–15 new suburban trains.

STATE-PRIVATE PARTNERSHIPS

The state-private partnership model is highly salient for Ukraine as it allows to operate within the concession framework. A private investor/concessionaire provides higher effectiveness and efficient management of projects, and the state can rely on receiving fixed payments.

Ukraine has passed four laws in this area of regulation. However, experts believe that those laws are obsolete and do not correspond to the spirit of the time or the demands of the domestic infrastructure development. Drafting a new concession bill is underway; the new law should satisfy the interests of business and state and be in harmony with other Ukrainian laws.

Nevertheless, even under the existing legal guidelines, Ministry of Infrastructure is carrying out concession projects. The Ministry has expressed its readiness to offer for concession two ports and a ferry terminal, specifically the Kherson and Olviya ports and the Chemomorsk ferry. The preliminary feasibility study has been completed. The investment need for these sites is \$350 million for modernization alone.

Experts believe that overall, concession of ports can provide Ukraine with investments into construction and modernization of transshipping facilities and auxiliary roads, the target number being \$300 million to \$1 billion.

Expansion of the Ukrainian transit capacity, increase of cargo flow, sales, jobs, and development of the service infrastructure can also be counted upon. This is a point of motivation for any concessionaire. Development of transshipping capabilities in ports will lead to the reformatting of the transshipping market and reduction of its costs, making Ukraine more competitive.

UKRAINE AND THE WEST: MOVING TOWARDS EACH OTHER NECESSARY ACTIONS FOR EACH OF THE PARTIES

THE UKRAINIAN GOVERNMENT

- Development of competitiveness in infrastructural segments where monopolies have historically been formed
- Improvement of corporate law including the protection of minority shareholders rights
- Liberalization of currency regulation for foreign investors
- Recognition of western certificates and licenses for the implementation of infrastructure projects
- Conducting mandatory independent international evaluation and monitoring during tenders on major infrastructure projects
- Open governance is a key to reforms. Ukraine has improved its performance and entered the TOP 30 countries in Global Open Data Index ranking. Though there's still much to be done

THE WESTERN GOVERNMENT AND NON-GOVERNMENTAL ORGANIZATIONS

- It is necessary to take advantage of the historical opportunity to make Ukraine a part of the Western world not only in terms of values but also physically, by interconnecting the infrastructures of Ukraine and Western Europe
- With its 45 million population, Ukraine is a massive consumer and job market, and the development of Ukraine's infrastructure will aid in the integration of Ukraine into the European production and consumption cycle
- Improvement of the Ukrainian infrastructure system will facilitate the development and strengthening of the international system of common security
- Integration of the Ukrainian transportation system into the West European system will allow for the diversification of risks for European manufacturers and suppliers of goods

THE WESTERN BUSINESS

- Due to various circumstances, today's Ukraine is, for the most part, an underestimated growing market, and investments into the Ukrainian economy made today are capable of providing significant growth in the very nearest future
- Mechanisms of battling corruption created in the recent years have already proven their effectiveness and, along with the pro-West orientation of Ukraine, are capable of providing the security of western investments in the country
- International financial institutions, such as the World Bank and the EBRD, are interested in and ready to finance infrastructure projects in Ukraine, while the utilization of Western technologies will facilitate implementation of those projects and allow for them to be carried out transparently

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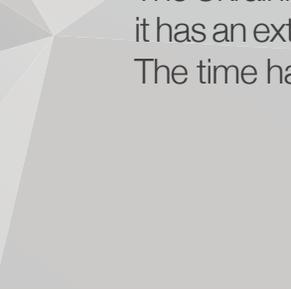
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In the 20th century new roads saved the USA from the Great Depression. Today they can also save Ukraine – not only from economic destruction, but also from the dependence on economic and geopolitical appetites of Russia and the reincarnation of the USSR.

New, high-quality roads are capable of connecting Ukraine with the civilized world. Development of the transportation infrastructure in Ukraine, considering her geographic situation and proximity to the European Union, is able to play the decisive role in the final definition of the pro-western direction of development for Ukraine.

Development of the transportation infrastructure is capable of increasing the reputation of Ukraine as a dependable business partner in the world arena. It is a reliable way to improve the state of affairs in many sectors of the Ukrainian economy. A high-quality infrastructure, transparent fees for its services, and scrupulous state-private partnerships in infrastructure projects are all positive factors in lowering the corruption risks for potential investors.



The Ukrainian transportation infrastructure needs investments; however, it has an extraordinary background and a high potential for development. The time has come to pave the way from Ukraine to the West.