

Primary investigation of the railway investment plans

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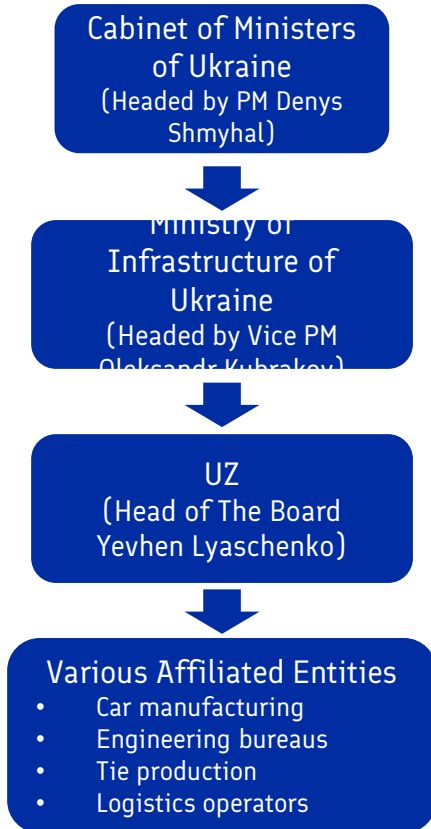
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Ukrainian Railway Network: SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> • Extended railway infrastructure • Modal split is dominated by rail • Rail system owns large areas along the existing railway lines • Existing generous alignment offers high potential for increasing operational speed • High axle loads and train development length offer capacities for heavy bulk • Decentralised management of the rail network make it resilient to operational disturbances 	<ul style="list-style-type: none"> • Low level of traffic organisation and traffic management • Budgetary constraints leading to lack of investments and maintenance • Outdated rolling stock • Lack of siding tracks • Lack of consolidation of the power supply system (AC/DC) • Different track gauge than in the neighboring EU countries
Opportunities	Threats
<ul style="list-style-type: none"> • Availability of EU funding • Possible Operational integration into the EU rail system <ul style="list-style-type: none"> • Integration of the UA economy into the EU economy • Integration into European Transport Corridor 	<ul style="list-style-type: none"> • War or similar hostilities continue • Growing number of private cars • Growing competition from the road infrastructure • Growing competitiveness from other transport modes • Possible delays in accession of Ukraine to EU

Ukrainian National Railway Network Operator - UZ



- Company turnover - 2.5bn EUR, and a net profit of 0.2bn EUR (2023, projected)
- Freight transport – 292mn tons (as of 2020)
- Vertical integration with substantial engineering and manufacturing capacities makes the company self sufficient in a number of activities
- The company is challenged by rapidly depreciating assets (wear of a rolling stock is up to 90%)
- Financial plan for 2024 foresees:
 - revenue of 2.6bn EUR
 - net losses of 0.3bn EUR
 - capital investments of 1bn EUR
 - EBITDA of 0.3bn EUR
- Capital investments are to be directed for rehabilitation of destroyed infrastructure and development of railway corridors TEN-

UZ: ongoing major modernisation activities

Financing party	Details	Signature/announcement date	Funding amount
USAID	Construction of 1435 mm gauge (Mostyska - Lviv)	24.11.2023	Undisclosed
Connecting Europe Facility (CEF)*	Development of border crossings with Moldova, Poland, Hungary, Romania, Slovakia. Construction of 1435 mm gauge at Vadul-Siret and Hlyboka-Bukovynska (Ukraine-Romania border)	22.06.2023	250mn EUR
EIB	Ukraine Railway Modernisation (Urgent rehabilitation needs)	07.06.2023	6.7mn EUR
EIB	Ukraine Transport Connectivity (repair of road and railway infrastructure)	07.06.2023	50mn EUR
EBRD	Loans to support the upgrade of railway links with EU	10.05.2023	250mn EUR
WB	RELINC – repair and development of rail lifeline connections	02.05.2023	**585mn USD + 195mn USD in the pipeline

*Ukraine became full participant in EU CEF as of 22.11.2023 and [applied](#) for several new projects. Awards are expected at the end of 2024

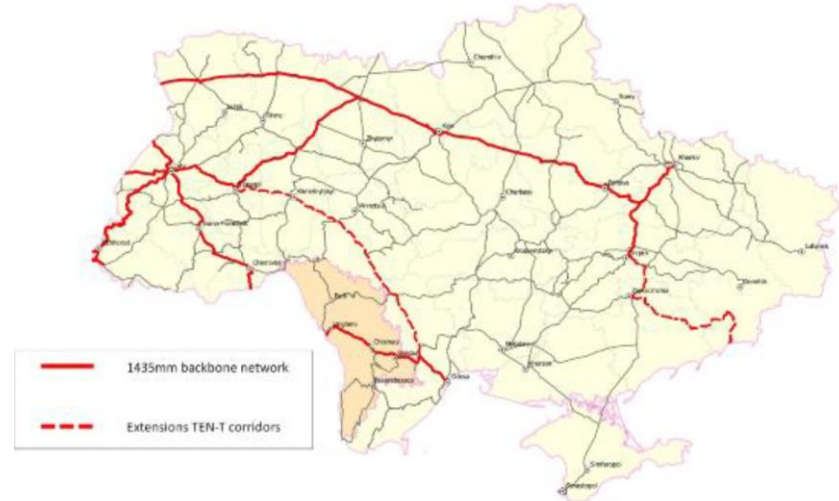
**Total project cost. Railway project component is estimated up to 100mn USD

Strategy for the EU integration of the Ukrainian rail systems

The Strategy: overview

Proposed 1435mm gauge backbone and future extensions

- Strategy for the EU integration of the Ukrainian and Moldovan rail systems was developed by EIB's JASPERS and published on 11.07.23
- The document provides "...strategy for the integration of the Ukrainian, Moldovan and EU railway networks, with the primary objective of creating a system that is interoperable, adaptable to a new economic landscape and competitive with other transport modes"
- The document bolsters close coordination with and input from ministries, rail infrastructure managers and operators, customs and border control bodies from Ukraine, Moldova and all EU member states
- Options to from full transformation into 1435mm gauge to modernization of existing 1520mm gauge were assessed
- A principal conclusion was to develop a new backbone 1435mm gauge to be used in conjunction with existing 1520mm gauge
- The study concludes the development of a 1435mm network in the two countries to be implemented in a phased manner, from West to East, with the largest urban agglomerations eventually connected to the new 1435mm corridors to support future economic development



The Strategy: preferred way for Ukraine (1/2)

- The strategy sets priorities for development of the railway corridors assessing a number of alternative ways to proceed
- Priority 1
 - Medyka/Mostyska (UA/PL border) to L'viv (segment A1).
- Priority 2
 - Dorohusk (PL/UA border) – Kyiv and L'viv – Kyiv
 - Chop (SK/HU/RO border) – L'viv
- Priority 3
 - Kyiv – Kharkiv/Dnipro
 - Rava Ruska (UA/PL border) – L'viv (Warsaw – L'viv corridor)
 - L'viv – Bahrynivka (UA/RO border)
 - Odesa – Chisinau
- **Ukraine began implementation of the Priority 1 with financing provided by USAID and several other donors**

Priority	Cost, mn EUR
Priority 1	434
Priority 2	5,897
Priority 3	4,896
Total	11,226

The Strategy: preferred way for Ukraine (2/2)

- The budgetary envelope for the overall interventions of each priority, including an initial estimate of the cost for the complementary measures is summarised in the table below:

Cost summary (mn EUR)*							
Development phases	Strategies, concepts, studies	Infrastructure (including planned development)	Rolling stock, maintenance equipment	Marshalling yards, transshipment facilities, equipment (including planned development)	ERTMS, IT, Ticketing	Administrative facilities and assets	Sum
Immediate	11	n.a.	0	0	0	0	11
Priority 1	13	699	250	200	0	0	1,162
Priority 1	2	5,897	300	300	200	300	7,799
Priority 1	5	4,896	250	1,000	900	0	6,351
Total	31	11,492	800	1,500	1,100	300	15,223

*Including investments needed for developing railway corridors in Moldova

Potential cooperation between UZ and Finnish businesses*

- UZ has well established communication channels with Finland's VR
- UZ implements railway infrastructure development projects in multiple areas (e.g. electrification, renewal of the rolling stock, construction of intermodal hubs, development of narrow gauge corridors etc.)
- Some projects are implemented under financing received from donor states (e.g. Japan, South Korea, France etc.) and with participation of their national businesses
- Being self sufficient in a wide array of economic activities, UZ implements multi-donor IFI projects either by itself or with major vendors/solution providers from a railway market
- Mr. Yakovenko suggests to open complex discussion on cooperation with Finnish private sector by introducing to UZ financing instruments (trade finance, loans etc.) that Finland offers
- Alternative to suggested approach is state procurement on Prozorro, where UZ regularly tenders according to their needs
- Priority 1 of the EIB's strategy is being implemented with the support of USAID and requires additional funding support. Mr. Yakovenko assumed Finland may join the the project by offering funding and relevant technological expertise
- Should Finland have interest in major railway infrastructure development projects, it is advised to include Ministry of Infrastructure into communication

*Cooperation prospects, were discussed at an introductory meeting with Mr. Oleg Yakovenko, Director Strategy and Transformation, JSC UkrZaliznytsia

Conclusions and recommendations

- UZ as a nationwide railway monopoly offers various business opportunities for vendors on a railway market
- Although UZ recognizes the high importance of developing narrow gauge railway corridors to EU, the company invests in multiple projects unrelated to them and procures a wide variety of solutions and equipment
- Most business opportunities are publicly available through state procurement at Prozorro
- The company prefers implementation of railway infrastructure development projects using financing instruments offered by donor states
- Only Priority 1 of the EIB strategy has been recently initiated. Schedules of the Priorities' implementation are not defined
- UZ is interested to prioritise cooperation with Finnish businesses as long as Finland may offer financing instruments (trade finance, loans, grants) for railway infrastructure development activities.
- Institutional capacity development projects are not interesting for the company
- Any negotiations on complex offering from the Finnish side should be channeled through the Ministry of Infrastructure of Ukraine

Thank you!

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