



Country: UKRAINE

Airport Development Opportunities in 2008-2011 Airport Development Opportunities in 2008-2011

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Summary

Ukraine's current airport network consists of 30 civilian airports, of which 24 have an international status. Most Ukrainian airports were built under the Soviet Union during 1960-80, and have drastically diminished traditional transport flows since Ukraine's independence in 1991. Kyiv-Boryspil (KBP) airport is the main Ukrainian international airport servicing over 60% of entire air passenger traffic in Ukraine. The Government of Ukraine identified nine strategic airports and prioritized their development. Besides Kyiv-Boryspil these are: Odessa (ODS), Donetsk (DOK), Dnipropetrovsk (DNK), Lviv (LWO), Kharkiv (HRK), Simferopol (SIP), Zaporizhzhya (OZH), and Kyiv-Zhuliany (IEV). GOU still owns KBP and four regional airports, 20 airports are municipally owned and five more are privately owned as of May 2008

Most Ukrainian airports are outdated and provide only a minimal required level of services for passengers. Practically all regional airports require significant investments to improve runways, passenger and cargo terminals, technological systems, air traffic control, transport and communications. Government investment programs on airports restructuring and development have been carried out slowly, and are constantly revised. However, the 2012 Euro Soccer Cup to be co-hosted by Ukraine will offer a major incentive to expedite regional airport redevelopment program. The total estimated cost of Euro-2012 related airport reconstruction opportunities is at UAH 9.46 Billions (est US\$2 Billions).

The performance of Ukrainian airports is directly related to the general economic situation in the country and performance of airlines. Since the break-up of the Soviet Union in 1991 and a protracted economic crisis that lasted through 1999, the airport traffic slumped drastically. Many small regional airports were closed. Since 2002, the market has been demonstrating an impressive growth of over 20% per year. Increased international travel placed additional demands on existing airport facilities. To date, international air travel accounts for 77% of overall passenger traffic in Ukrainian airports.

In response, local, regional, and central government comprehensive airport development programs call for improvements in airport capacity; the level of services; renovation of passenger and cargo terminals; construction of additional runways, hangars, and warehouses; improvement of ground transportation facilities; the upgrade of air traffic control equipment, optimization of take-off and landing schedules, and the development of airport transport infrastructure.

Funding for many of the airport development programs comes from a combination of sources including, but not limited to, the Ukrainian government (roughly 25% of total investments needed), municipal authorities (4%), Ukrainian and foreign private investors (71%). At present, up to 90% of airport revenues come from airport charges, takeoff and landing fees and ground

handling charges, thus making airports excessively dependent on airlines' performance. These charges have often led to complicated relationship between airport and airline management.

Market Demand

Due to Euro-2012 soccer competition, growth in business and tourism activities, expansion of low-cost air services, and the rapid growth of a middle class in Ukraine, the passenger traffic in nine major Ukrainian airports is expected to at least double between 2007 and 2015. Kyiv-Boryspil and Lviv are expected to experience the most acute discrepancy between rapidly increasing passenger demand and airport capacities and capabilities.

The table below describes existing passenger turnover and take-off/landing statistics in major airports and GOU estimates till 2020.

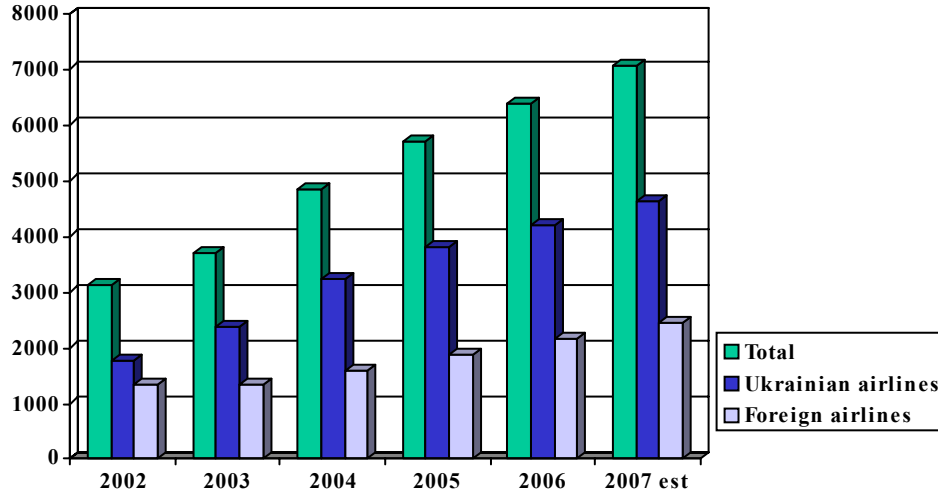
Airport	Type of Activity	Year					
		2005	2006	2007	2010 (Est.)	2015 (Est.)	2020 (Est.)
Boryspil	Passengers carried in '000	3,930.4	4,621.9	5,675.3	8,100	13,100	18,373
	Take offs/Landings Per Year	67,146	79,084	83,726	113,385	179,303	259,990
Donetsk	Passengers carried in '000	410.2	486.7	580.2	959.4	2,103.4	4,230.7
	Take offs/Landings Per Year	9,314	10,520	11,591	19,188	42,068	84,115
Simferopol	Passengers carried in '000	621.4	633.6	744.6	896.8	1,257.8	1,605.4
	Take offs/Landings Per Year	11,316	11,828	13,358	21,360	30,899	41,006
Kharkiv	Passengers carried in '000	140.5	201.9	258.4	434.6	1,081.4	2,175
	Take offs/Landings Per Year	4,834	7,070	7,084	10,870	27,024	54,499

Airport	Type of Activity	Year					
		2005	2006	2007	2010 (Est.)	2015 (Est.)	2020 (Est.)
Dnipropetro- vsk	Passengers carried in '000	242.5	288.7	357.8	467.7	824.2	1,327.4
	Take offs/Landings Per Year	8,173	8,988	9,583	13,386	23,560	37,925
Odessa	Passengers carried in '000	445.3	527.4	670.7	862	1,519.2	2,446.7
	Take offs/Landings Per Year	10,952	12,436	14,659	19,156	33,760	54,371
Lviv	Passengers carried in '000	235.9	278.2	424.1	1,070	1,720	1,980
	Take offs/Landings Per Year	6,643	7,640	9,115	11,778	23,778	38,222
Kyiv (Zhuliany)	Passengers carried in '000	110.1	75	92.4	115.5	161.7	242.5
	Take offs/Landings Per Year	8,867	7,580	11,118	17,789	26,683	40,024
Zaporizzhia	Passengers carried in '000	90.2	110.8	118.4	130.2	156.3	234.4
	Take offs/Landings Per Year	3,236	4,081	3,805	3,881	4,075	4,482

Source: Ministry of Transportation and Communications of Ukraine

Market Data

The civil aviation industry in Ukraine has experienced steady growth since 2000, the first year for increased passenger traffic in over a decade. Airport traffic volumes have been increasing at average annual rate of 20% since 2002. This positive trend is expected to continue. The graphs below illustrate the international passenger traffic from 2002-2007.



Number International Passengers in Ukrainian Airports in ,000 **Best Prospects**

Euro-2012 Related Airport Developments:

Since Ukraine and Poland will jointly host the Euro-2012 Football Cup, reconstruction of key regional airports is now one of the Government of Ukraine (GOU) priorities. Euro-2012 games are expected to be played in Kyiv, Lviv, Donetsk, and Dnipropetrovsk, with Odessa and Kharkiv being backup cities.

GOU estimates the cost for modernizing key airports at UAH 9,468 millions (approx US\$ 1,95 billion as at 06/10/2008). GOU has committed to allocate UAH 2,413 millions (US\$ 497.5 millions) to the 2008-2011 airport reconstruction program. Municipalities will finance a small fraction of the required investment – UAH 38.6 millions (US 7.95 millions). Private investors are expected to cover the major chunk of necessary funding – UAH 7,016 millions (US\$ 1,5 billions), which is roughly 77% of overall amount.

Individual cost breakdown by airports has been identified by GOU as follows: Donetsk - US\$ 395M, Odessa - US\$ 351M, Lviv - US\$ 226M, Kharkiv - US\$ 169M, Dnipropetrovsk - US\$ 243M, Simferopol - US\$ 398 M, Kyiv-Zhuliany – US\$ 76.4 M. Kyiv-Boryspil is being funded separately by JBIC (Japan Bank for International Cooperation) - US\$ 185M, and by Aerosvit Airlines – US\$ 140 M.

Major services and equipment categories that will be procured in 2008-2011:

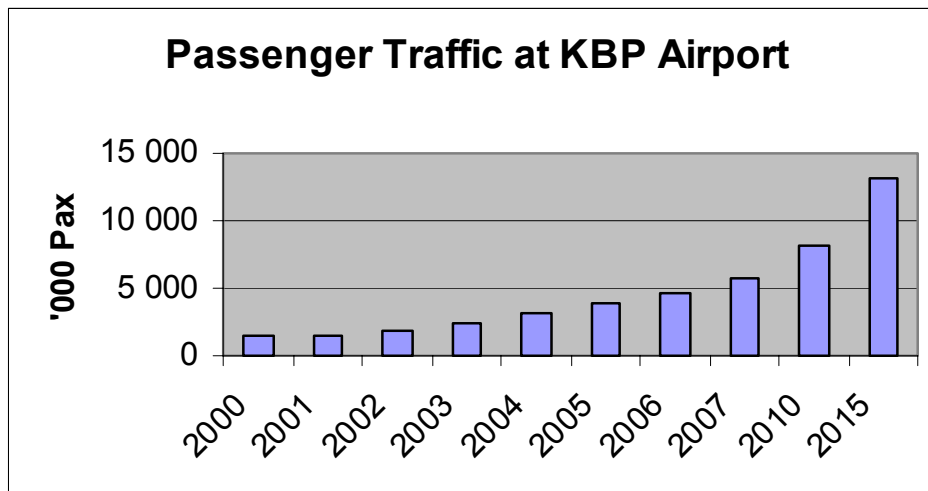
Airport equipment: lighting and signaling equipment, air bridges, de-icing equipment and de-icing fluid, baggage and cargo handling systems, elevators, loaders and reloading containers, airfield movers, security equipment, and air-conditioning and heating systems
Engineering and consultant/management services

Air Navigation Equipment: satellite-based Communication, Navigation and Surveillance/
Air Traffic Management (CNS/ATM) systems
Security Systems

Kyiv-Boryspil Airport (KBP)

Kyiv-Boryspil (KBP) is the largest Ukrainian airport servicing more than 60% of the country's commercial air traffic. Over 5,675,000 passengers flew through Boryspil in 2007, double the number in 2004. The airport served 73 local and foreign airlines with scheduled flights to 75 destinations. In 2007, KBP Airport served 83,726 take-offs and landings.

The Government of the Ukraine has high hopes to convert Boryspil Airport into a Central and Eastern European hub for international traffic with regional airports feeding passengers from other areas. An expansion to Boryspil's Terminal B was opened in January 2006. The government has plans for further expansion of Boryspil, considering additional land acquisition and development of two new terminals. The development of a new Terminal D with an estimated cost of \$260 million (USD), funded largely by a \$185 million (USD) loan from the Japanese Bank for International Cooperation (JBIC), is scheduled to be commenced in summer 2008, when at that time redevelopment of Platform M can begin without major traffic impacts. Construction on Platform M is anticipated for in the 2009-2010 timeframe. Aerosvit Airlines, Ukraine's largest airline, intends to develop its own terminal in KBP Airport. The \$140 million has been stalled since 2005 due to a land dispute with the airport authority.



Kyiv-Boryspil (KBP) Airport 2007 Data:

Revenue – UAH 663.2 million (approx \$132.0 M)

Profit – UAH 101.6 million (\$20.5 M)

Passenger traffic – 5.675 million

Investment required - \$260 M

Lviv (LWO)

Lviv International Airport (LWO) is strategically located in the western part of Ukraine providing easy access to EU countries. In 2007, passenger traffic at LWO increased by over 50% yoy from 278,200 to 424,100 passengers. Regular services are provided to/from 12 international destinations. However, existing infrastructure does not provide the capacity needed to accommodate these international flights. In addition, the 2,300 meters runway creates serious limitations on the size of aircraft.

Market experts predict that LWO will continue to experience a very healthy increase in traffic in the next five to ten years. Projections indicate further growth significantly above average estimates for the country, particularly from international traffic.

Lviv (LWO) Airport Characteristics:

- International Airport – ICAO Category 4 D
- Precision Instrument Flights ICAO CAT II
- Passenger Capacity 1,000 pax per hour (peak hours)
- Critical Aircraft Boeing 767-400

Needed Investments:

Runway:

- Extension of RWY up to 3.510 m including surface regulation
- Reconstruction of existing RWY including taxiways
- Reconstruction of de-watering and drainage systems
- Installation of new ILS including approach lightings for CAT II ICAO

Passenger Terminal:

- Construction of new Passenger terminal for 1,000 pax (at peak hours)
- Reconstruction of existing airport building for further use as VIP lounge and business aviation terminal
- Procurement of new airport safety and baggage handling equipment
- Development and managing new pattern for passenger flow

Landside Facilities (not included in cost estimates):

- Construction of parking areas
- Public Access (access roads, public traffic)

Cost Estimates:

NN	Object	Remarks/ Action	Cost Estimates
1.	Runway	Extension, reconstruction	€ 25 M
		Surface Regulation	€ 18 M

NN	Object	Remarks/ Action	Cost Estimates
2.	Taxiway/ Apron	Extension, reconstruction	€ 22 M
3.	Supporting System	De-watering, de-icing, drainage	€ 12 M
4.	Cable Protection Piping System		€ 5 M
5.	Airport Perimeter Fence		€ 1 M
6.	Electrical Power Systems	3 sub-station, power and communication cables	€ 3 M
7.	Airfield Lighting System, Docking System VDGS	Approach 31 (CAT II), Approach 13 (CAT I), 2 PAPI, Signage, VDGS	€ 8.5 M
8.	Navigation Aides	ILS 31 (CAT II), ILS 13 (CAT I), NDB	€ 2 M
9.	Apron Flood Lighting		€ 1 M
10.	Meteo Equipment, Pollution Control	CAT II	€ 1.5 M
11.	Terminal Building	Construction for 1,000 pax/h, 18 check-in positions, 8 immigration positions, 4 security control positions, two baggage claim carousels, Total are 18,000 sq. m.	€ 45 M
12.	VIP Terminal	Reconstruction of Existing Building	€ 1.5 M
13.	Other Costs	Planning, Design, Supervision	€ 14 M
	Total Amount :		€ 159.5 M (US\$ 226 M)

Time Schedule:

- 2008 - Master Plan (ongoing, performed by Honeywell Airport Systems)
- 2008 - Approval by Airport, development of financing structure (three months)
- 2009 - Detailed planning design, GOU approvals (12 months)
- 2010-2011 - Project Implementation Phase (24 months)

The Ukrainian government will finance the Master Plan, runway and taxiways reconstruction, navigation and lighting improvements, air bridges and ground handling equipment. An investor for the Terminal building has not yet been identified as of June 10, 2008.

Donetsk (DOK)

Donetsk International Airport is the fourth busiest airport in Ukraine and the main gateway to heavily industrialized Donbass region. The airport serves scheduled and charter flights that connect Donbass with important locations in Ukraine, Russian, Western and Eastern Europe, as

well as with busy resort areas in the Mediterranean and the Near East. Air traffic at the airport has growth around 20% per year since 2004, totaling 580,200 passengers in 2007. Over half of total passenger traffic is international. As a result of Aerosvit's acquisition of DonbassAero, the major local airline based on Donetsk, DOK airport is gradually becoming an alternative hub for Aerosvit Airlines.

Air traffic movements in 2007 increased by 9.5% to 11,591 aircraft movements or approx. 32 per day. The airport serves regular traffic from/to 11 international destinations. However, take-off mass of aircraft operating at the airport can not exceed 100 tons.

DOK airport has conducted a technical assessment to identify potential short and medium term infrastructure needs. Based on this assessment, DOK plans to increase the terminal capacity to 1,000 pax per peak hour. Runway extension to 4,000 meters is already underway. The runway replacement shall cost around \$120 million and is scheduled for completion in 2009. Ukrainian central government has allocated some \$40 million to reconstruct DOK airport. The passenger and cargo facilities are scheduled for completion by 2010. Some of the equipment and technologies identified by the airport include aircraft refueling equipment, baggage and cargo handling equipment, flight information systems, CCTV security equipment, escalators and elevators.

The overall cost of works and services to be implemented as part of the Euro-2012 is Euro 255 Million (US\$ 395 million as at 06/10/2008). Most private investment necessary to support DOK airport reconstruction is expected to come from business circles associated with Ukrainian-owned *System Capital Management Group*. Significant subcontracting opportunities should be available in 2008-2010.

Donetsk (DOK) Airport 2007 Data:

Revenue – UAH 62 million (approx \$12.6 M)

Profit – UAH 4 million (\$800,000)

Passenger traffic – 580,200

Investment required - \$395 M

Dnipropetrovsk International Airport (DNK)

Dnipropetrovsk, the third largest Ukrainian city with over 1.1 million of population, is a major industrial and banking center. DNK is the only airport in Ukraine where the airport authority and base airline – Dniproavia – is one corporate entity. Dniproavia is still enjoying a monopolistic position in domestic aviation market to and from Dnipropetrovsk.

Essential Investments in DNK:

Repair and reconstruction of runway and tarmac – UAH 558 M (US\$ 115 M)

Equipment of the airfield with boarding means - UAH 34.7 M (US\$ 7.15 M)

Reconstruction of existing terminal building and construction of new terminal – UAH 347.4 M (US\$ 71.6 M)

Development of technical and social infrastructure – UAH 157 M (US\$ 32.3 M)

Overall cost of reconstruction work and related procurements are estimated at US\$ 243 millions. Dnipropetrovsk-based Privat-Bank, the largest Ukrainian commercial bank, has committed to fund over US\$ 200 million under a conditionality that GOU transfers the airport in Privat Bank's ownership. GOU has not made a final decision as of June 10, 2008.

Odessa International Airport (ODS)

Odessa is Ukraine's third busiest airport with 2007 passenger traffic reaching 670,700. The airport works with 18 airlines serving 60 destinations. About 68% of total traffic is international. The airport belongs to the City of Odessa, which has been discussing potential investment with Russian aluminum giant *Bazovy Element (aka Oleg Deripaska)*, and Turkish company *IC Holding*.

The overall reconstruction in Odessa (ODS) is estimated at US\$ 351 M, it includes:

Repair and reconstruction of airfield – UAH 615.8 M (US\$ 127 M)

Equipment of the airfield with boarding means - UAH 143.6 M (US\$ 29.6 M)

Reconstruction of existing terminal building and construction of new terminal – UAH 518.5 M (US\$ 106.9 M)

Development of technical and social infrastructure – UAH 308.1 M (US\$ 63.5 M)

Kharkiv International Airport (HRK)

Kharkiv is the second largest Ukrainian city (over 1.6 million of population), and the capital of Ukraine before 1934. Kharkiv has been assigned to be a backup city for Euro-2012 Soccer Cup.

DCH Group, owned by Kharkiv-born Oleksandr Yaroslavsky, has committed to cover HRK reconstruction costs in entirety – US\$ 169 million. However, GOU's position on mandatory state ownership of runways and navigation radars distracts local investors.

Essential Investment Pattern for HRK Airport:

Repair and reconstruction of airfield – UAH 254.1 M (US\$ 52.3 M)

Equipment of the airfield with boarding means - UAH 21.4 M (US\$ 4.4 M)

Reconstruction of existing terminal building and construction of new terminal – UAH 366.5 M (US\$ 75.5 M)

Development of technical and social infrastructure – UAH 123.3 M (US\$ 25.4 M)

Prospective Buyers

Currently, only Kyiv-Boryspil (KBP) airport remain owned and controlled by the Government of Ukraine. Some airport decentralization occurred from 2001-2004, which transferred operating control of smaller airports to municipal ownership, including Kyiv-Zhuliany, Simferopol,

Donetsk, Odessa and Kharkiv. Lviv airport was transferred to municipal ownership only in fall 2007.

The Ukrainian State Air Traffic Service Enterprise (UkSATSE) operates five regional centers of flight information, which cover an area of 730,372 square kilometers and provide navigation services to over 290,000 flights per year (in 2007). The equipment and infrastructure used to provide air navigation services in Ukrainian airspace are in need of update and modernization. The estimated potential sales of necessary equipment and technology will be in excess of \$100 million.

Market Entry

The world of Ukrainian business is based on personal relationships. In an economy where rule of law is not yet firmly established, the quality and depth of key business relationships are often your best protection against loss, and your key to market access.

Selection of a local partner (or partners) is probably the most important decision your company will make in its market entry. It is also potentially one of the riskiest decisions: there have been numerous cases in which foreign companies have found themselves defrauded or their assets taken over by their trusted local partners. On-the-ground presence is crucial to business development here.

A foreign company starting business here has the choice of forming a joint stock company, a limited liability company, a wholly-owned subsidiary, or a representative office. For regulatory and taxation purposes, representative offices are treated as independent legal entities, with some exceptions. A representative office can carry out marketing, promotional, and other auxiliary functions. The establishment of a wholly-owned company in Ukraine is recommended if the company intends to carry out manufacturing or other significant local commercial activities. A foreign legal entity may have both a representative office and a wholly-owned subsidiary.

Registration of local offices of foreign companies is handled by Ukraine's Ministry of Economy, and is done within 60 days of submission of all required documents and upon payment of a \$2,500 fee (<http://www.mfa.gov.ua/usa/en/publication/content/14623.htm>). We recommend that U.S. firms work with local law firms or business advisory services to ensure this registration is carried out properly and in a timely manner.

For relevant regulations, please refer to:
<http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi>
<http://zakon.rada.gov.ua/>

To find a potential partner, we recommend the U.S. Embassy's Commercial Service's International Partner Search and Gold Key programs to conduct initial screening. (For more details please refer to <http://www.buyusa.gov/ukraine/en/8.html>)

Market Issues & Obstacles

The Ukraine is poised to join the European Common Aviation Area (ECAA), an endeavor by EUROCONTROL and EU member states, which liberalizes the air transport industry across much of Europe by eliminating borders among its members. This would open the EU market to Ukrainian air carriers and likely provide for an increase in passenger traffic at the main Ukrainian international airports. Ukraine's expected joining to the Open Sky Agreement in 2008 will open opportunities to low-cost airlines thereby generating additional traffic in regional Ukrainian airports.

The U.S. Federal Aviation Administration (FAA) has assessed the Government of Ukraine as a Category 2, which as not being in compliance with International Civil Aviation Organization (ICAO) international aviation safety standards for the administration of Ukraine's air carrier operations. This situation prevents Ukrainian airlines from expanding service to the United States.

Trade Events

4 Terminals, June 17-19, 2008, KyivExpoPlaza, Kyiv, Ukraine: www.4terminals.org

Resources & Contacts

State Aviation Administration of Ukraine: <http://www.avia.gov.ua>
Kyiv-Boryspil International Airport (KBP): <http://www.kbp.kiev.ua/>
Aerosvit Ukrainian Airlines: <http://www.aerosvit.com/>
Regional Air Navigation Services Development Association (RADA):
<http://www.rada.aero/main/en/news/top.htm>

For More Information

The U.S. Commercial Service in Kyiv can be contacted via e-mail at: Yuriy.Prikhodko@mail.doc.gov;
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<http://www.BuyUSA.gov/ukraine>

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