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Working Party on Rail Transport

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**STUDY OF THE SITUATION OF THE RAILWAYS
IN MEMBER COUNTRIES**

Addendum

Report by Russian Railways

1. The programme of work of the Inland Transport Committee for 2006-2010 adopted at its sixty-eighth session (ECE/TRANS/166/Add.1, Item 2.5) requires the Working Party on Rail Transport to monitor harmonization of requirements concerning international rail transport, including rail safety, and facilitation of its operations. The present document is submitted for consideration by the Working Party in compliance with that mandate.

I. RESULTS OF THE ACTIVITIES OF RUSSIAN RAILWAYS

2. The open joint stock company Russian Railways is fully satisfying the increasing demand for rail transport, having achieved freight traffic growth of almost 17% and passenger traffic growth of more than 12% in the period 2003-2006. In addition, freight tariff increases were kept at a lower rate than industrial price increases, which stimulated economic development in the country and reduced the inflationary impact of rail transport (while tariffs increased by approximately 1% in 2002, this was reduced to 0.6% three years later).

3. The increasing demand for rail transport is being met by improving quality and enhancing rail safety. As a result, freight delivery is becoming faster, with the “just-in-time” delivery rate standing at approximately 90% and more than 95% for such key goods as coke, ore, machines and basic foodstuffs.

4. Owing to rapidly increasing traffic volumes and the maintenance of cost price increases below the rate of inflation, Russian Railways has achieved greater financial stability and profitability. The company’s net profits tripled within three years and exceeded 26 billion roubles in 2006.

5. The increase in net profits had a positive impact on a number of key financial indicators reflecting the company’s financial independence and stability. Russian Railways is the first Russian company to receive international investment ratings from the three major international rating agencies (Moody’s, Fitch and Standard & Poor’s). This demonstrates the company’s high degree of financial transparency and stability.

II. OUTCOME OF AND PROSPECTS FOR THE REFORM OF RAIL TRANSPORT IN THE RUSSIAN FEDERATION

6. During its reform, Russian Railways took steps to ensure expanded reproduction of fixed capital. In addition, private investment in rolling stock acquisition was boosted. Thus, the proportion of wagons belonging to independent carriers, operating companies and other private owners in the total freight wagon fleet increased from 27.5% to 33.2% in the period 2004-2006.

7. The splitting off from the company of competitive types of activity that can be performed by subsidiaries is continuing.

8. In the past two years, the Board of Directors of Russian Railways has taken decisions to establish a number of subsidiaries and affiliates, including in the following spheres of activity:

- (a) Container freight transport (Transcontainer);
- (b) Freight transport in isothermal rolling stock (Refservice);
- (c) Commuter transport;
- (d) Multimodal transport (Russkaya Troika, a joint venture with the Far Eastern Sea Shipping Company);
- (e) Transport of motor vehicles and timber;
- (f) Production of and major repairs to track equipment (Remputmash);
- (g) Major repairs to freight wagons (Roslavl, Barnaul and Saransk wagon repair plants);
- (h) Production of automatic and remote-control railway equipment (Elteza);

(i) Capital construction, and planning and surveying (Roszheldorstroy and Roszheldorproekt);

(j) Scientific research, and planning and surveying.

9. The main structural change, set to make Russian Railways' overall operations substantially more efficient is the establishment of the subsidiary First Freight Company. This has given the Russian Railways holding company the capacity to compete on equal terms with private operators in the freight transport market. In addition, the holding company will be able to attract additional financial resources for rolling stock renewal and infrastructure modernization.

10. With regard to passenger transport, Russian Railways has embarked on a new phase of structural reform.

11. July 2006 saw the establishment of the Federal Passenger Directorate, a Russian Railways subsidiary, which will subsequently serve as the prototype for the Federal Passenger Company. The long-distance and local passenger rail network has been transferred to the Directorate.

12. The operations of the passenger network are socially significant. On the decision of the Government, a mechanism for phased compensation from the State budget of losses incurred in long-distance passenger transport has been functioning since 2007.

13. As part of the reform of passenger transport, efforts are continuing, jointly with the constituent entities of the Russian Federation, to establish commuter rail companies and ensure their operation on a break-even basis.

14. To date, 10 commuter rail companies have been established in cooperation with the regions: in the city of Moscow and Moscow province; in Saint Petersburg; in Altai, Primorye and Krasnoyarsk territories; and in Sverdlovsk, Volgograd, Novosibirsk, Omsk and Kemerovo provinces. The Government of the Russian Federation supported the splitting off of this type of activity and will continue to compensate the losses incurred as a result of federal-level decisions providing for reduced-fare journeys. Thus, commuter rail companies will receive continuous support, partly from federal funds and partly from local resources.

15. Currently, a set of texts is being prepared on the establishment of five additional commuter rail companies, subsidiaries of Russian Railways, on the Severo-Kavkazsky, Oktyabrsky, Sverdlovsk and Kuibyshev lines.

16. In 2007, the Railway Station Directorate, a Russian Railways subsidiary, was set up within the management structure for passenger transport with a view to putting railway stations on a break-even footing, enhancing the quality and competitiveness of passenger services, and ensuring the efficient use of station property and non-discriminatory access by all carriers to the passenger services market.

17. All the major passenger stations, principally those on long-distance lines, have been transferred to the Directorate.

18. In the event that the Railway Station Directorate achieves financial and economic solvency, various options will be considered for the development of this subsidiary's activities as an independent business.

19. Joint projects are being carried out with foreign railways with a view to organizing express passenger transport within the Russian Federation and internationally.

20. Passenger transport reform will enable the Russian railways to become more attractive to investors through restructuring of the passenger network and renewal of facilities and equipment, while the maintenance within the framework of the Federal Passenger and Railway Station Directorates of both profit- and loss-making assets will help to boost morale among managers and staff.

21. The first results of the activities of the subsidiaries established in the period 2004-2006 are positive: their net assets increased, and profits from sales rose, as did the net profits of these companies. This bears witness to the increased effectiveness of the corporate management of Russian Railways and the steady increase in additional sources of cash receipts as a result of the activities of the company's subsidiaries and affiliates.

22. In the immediate future, it is planned to continue establishing subsidiaries and affiliates, as well as joint ventures with the participation of Russian and foreign partners. The organizational separation of subsidiary and support activities and of activities carried out in an environment where competition now exists will then be virtually complete.

III. INVESTMENT IN RAIL INFRASTRUCTURE AND ROLLING STOCK

23. One of the key tasks of Russian Railways in the next few years is to ensure steady growth of investment in infrastructure and rolling stock. The company has made significant advances in this regard, having organized the investment process on a project basis.

24. In 2006, taking account of leasing, more than 200 billion roubles was invested in the development and modernization of the company's production base, 19.3% more than in the previous year. Over 73% of that sum was devoted to infrastructure development and around 27% to rolling stock renewal.

25. This has made it possible to tackle the major tasks in respect of the development and renewal of infrastructure, including, in the first instance, the main transit and export-oriented infrastructure.

26. Russian Railways has succeeded in significantly increasing procurement and modernization of the rolling stock necessary to meet the growing demand for transport. In 2006, purchases of locomotives increased by more than 150% compared with the 2005 figure (to 277 units), purchases of passenger wagons by 22.6% and purchases of freight wagons by over 7%. The rate of modernization of rolling stock has also increased significantly.
