

The Regulatory Challenge in Russian Railways

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Regulation

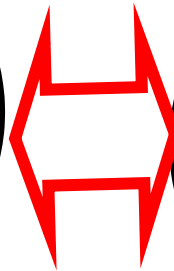
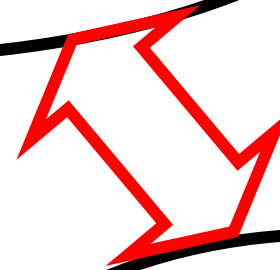
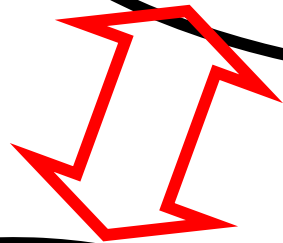
Level/structure of infrastructure charges
Freight Tariffs

Competition

Intermodal competition
On the same lines
On competing lines

Structure

Infrastructure
Freight enterprise
Intercity passengers
Suburban passengers
Subsidy policies



Regulatory Principles

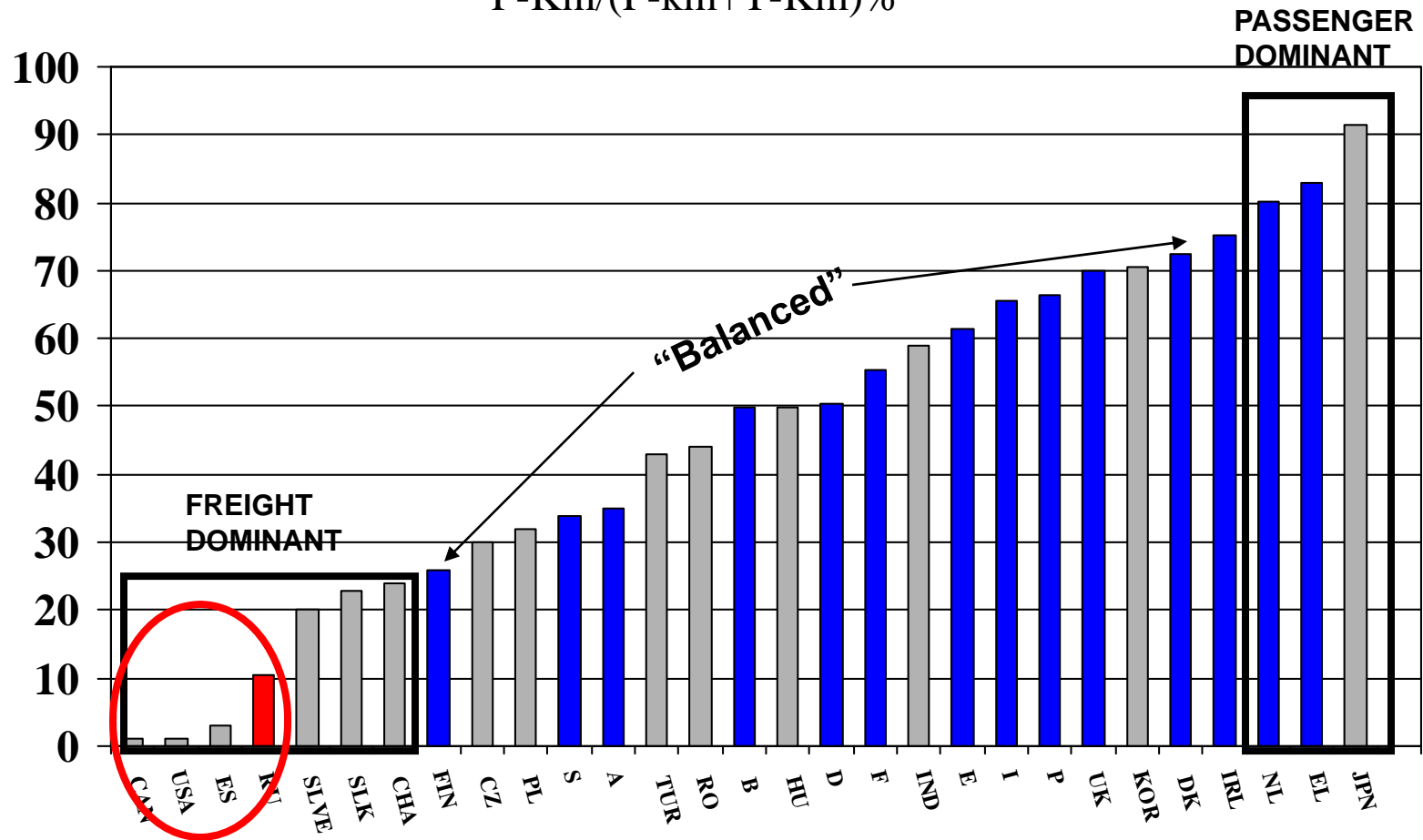
- Russia is different – no existing model of structure or regulation will work directly
- Unique dual challenge – regulating both freight tariffs and infrastructure charges at the same time
- Regulatory approach, competition policy and system structure require consistent choices
- Access charges and freight tariffs are related but separately established and managed
- Regulation, access and tariffs have to evolve

Russia **is** different

- Rail traffic mix and density are different from Europe and North America (N.A.)
- Railway role in freight is highest in the world
- Size and scale of operations much more like N.A. (or China) than Europe
- Only Europe has experience with infrastructure separation. N.A. and China integrated
- Only N.A. has experience with freight tariff regulation under competitive (intra modal and inter modal) conditions

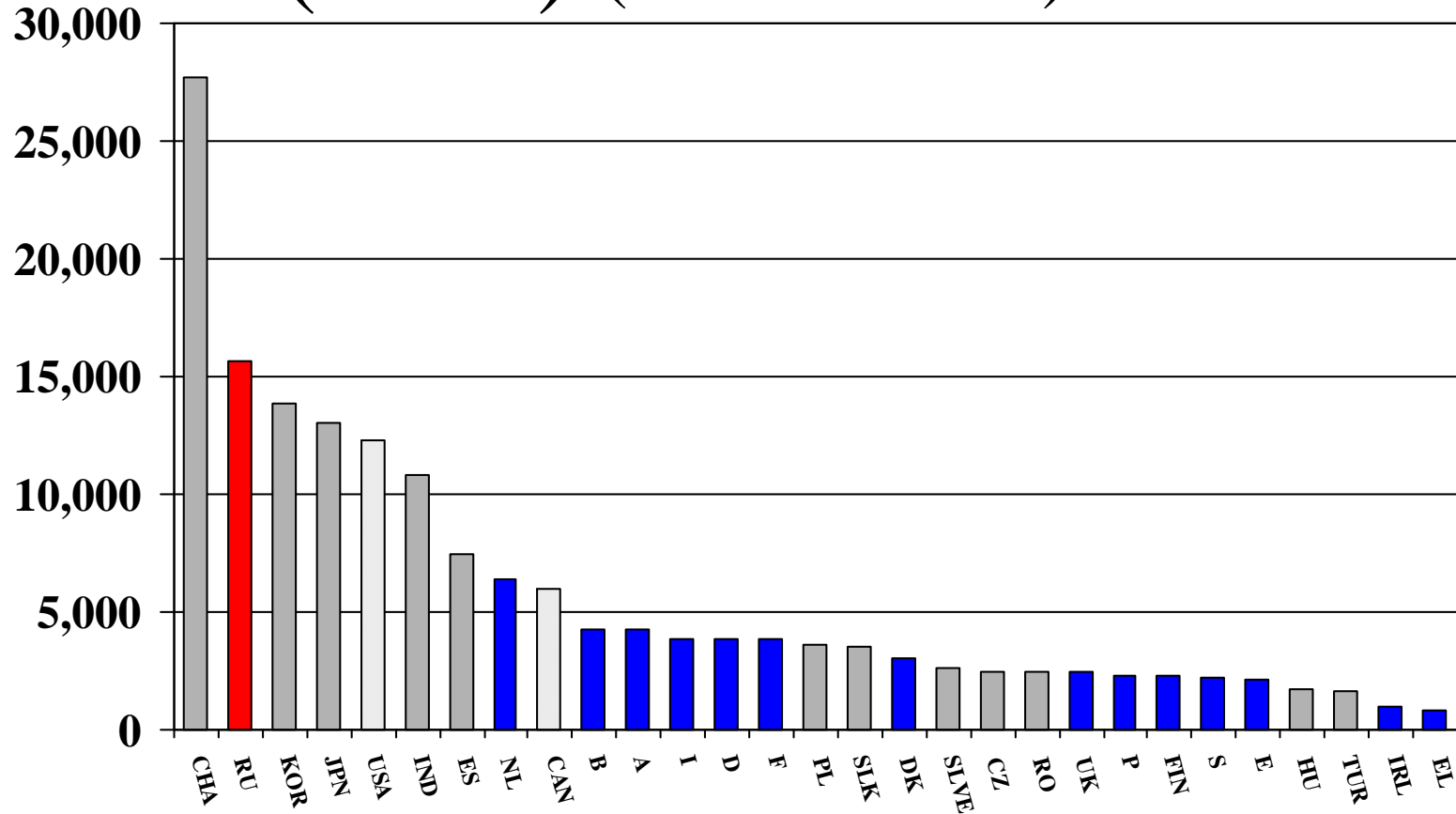
Percent of Rail Passenger Traffic to Total Rail Traffic

$$P\text{-Km}/(P\text{-km}+T\text{-Km})\%$$



Note: blue indicates E.U railways.

Rail Traffic Density (1999) (T-km+P-Km)/Km



Regulating **both** access charges and freight tariffs

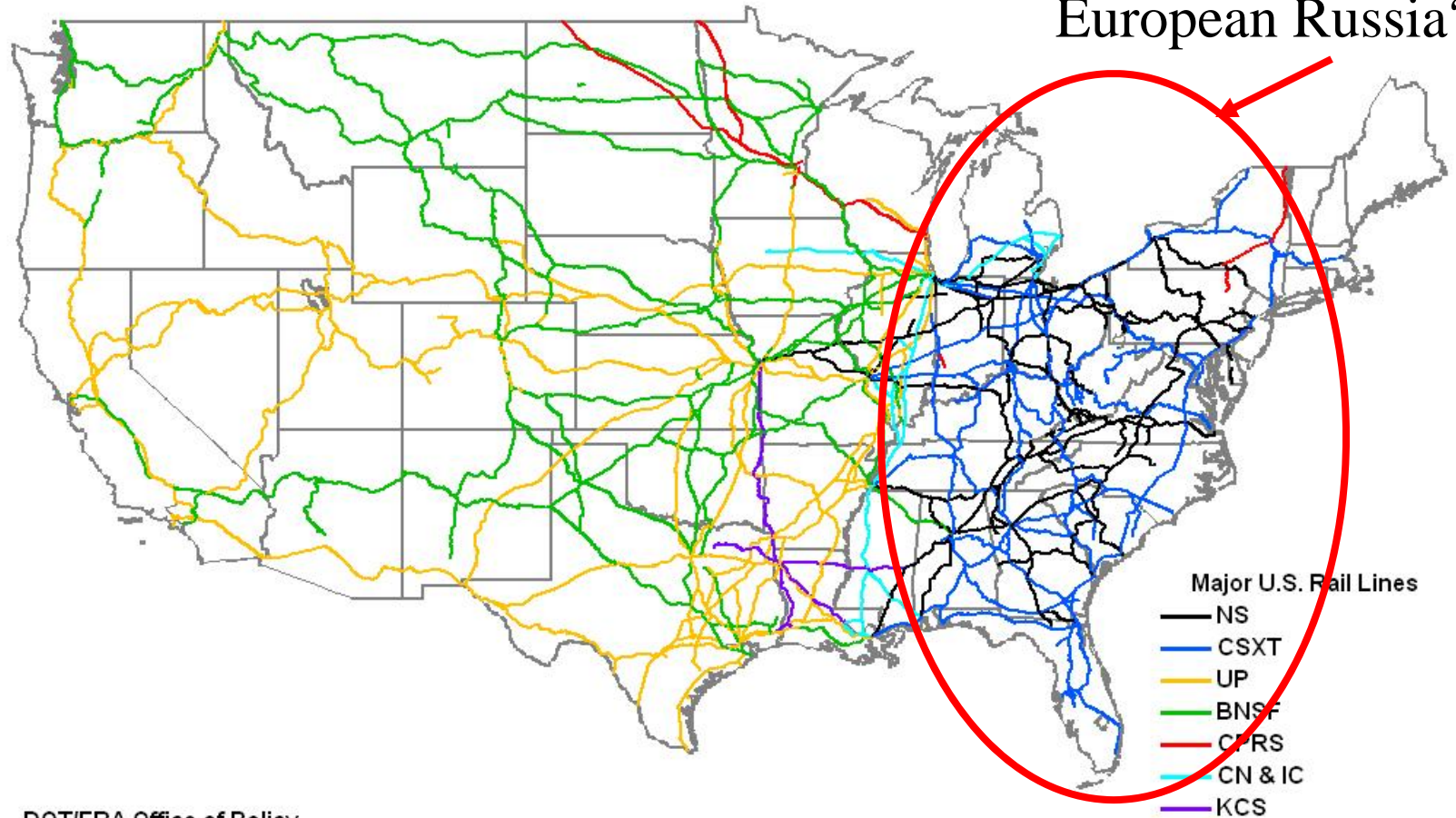
- E.U. access charges regulated country-by-country. Freight tariffs not regulated at all.
- North America lightly regulates freight tariffs, not access charges.
- Russia can borrow from both.

Regulation, Competition and System Structure

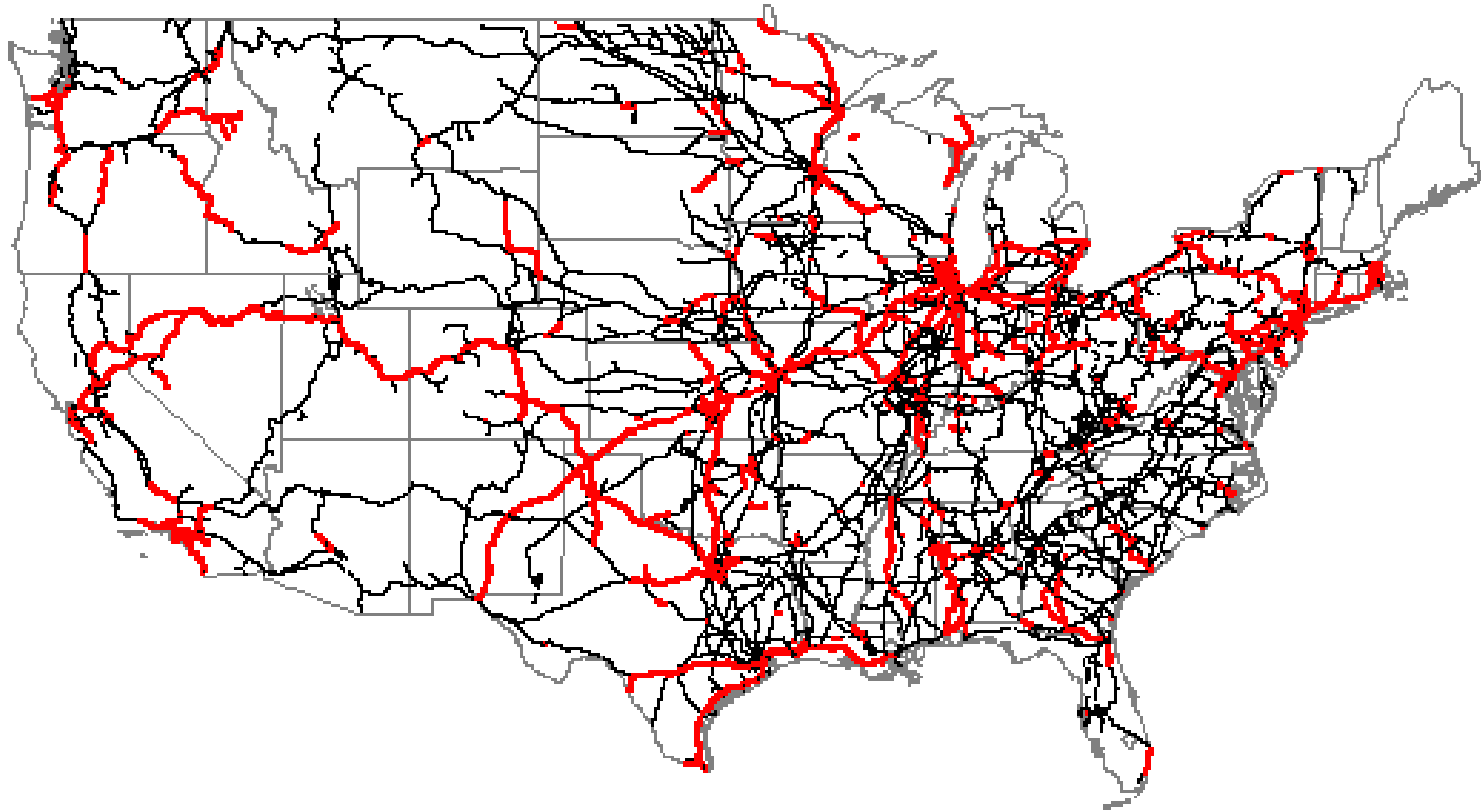
- Effective inter-modal competition limited in European Russia, very limited in Asian Russia
- Surface competition depends on intra-rail competition created by system design
- Competition models – on same line (Europe, or N.A. trackage rights) or between integrated operators (N.A. model). Russia could use BOTH
- Market economy **philosophy**: regulation needed **only** where competition is inadequate
- Market economy **experience**: competition destroys cross subsidies

Competition on **Parallel** Tracks:

Model for
European Russia?



Competition on the **same** tracks: (Amtrak operating rights not included)



Red lines show tracks where, in addition to the owning railroad, there is at least one or more competing freight railroad which has operating rights (trackage rights)

Access Charges and Freight Tariffs

- Access charge **tradeoffs**: cost recovery, efficiency, competition, discrimination?
- Access costs high in Russia: level and structure impact freight tariffs directly
- Market-based approach: maximum flexibility in freight tariffs subject only to abuse of market power.

Infrastructure Costs as Percent of Total Costs

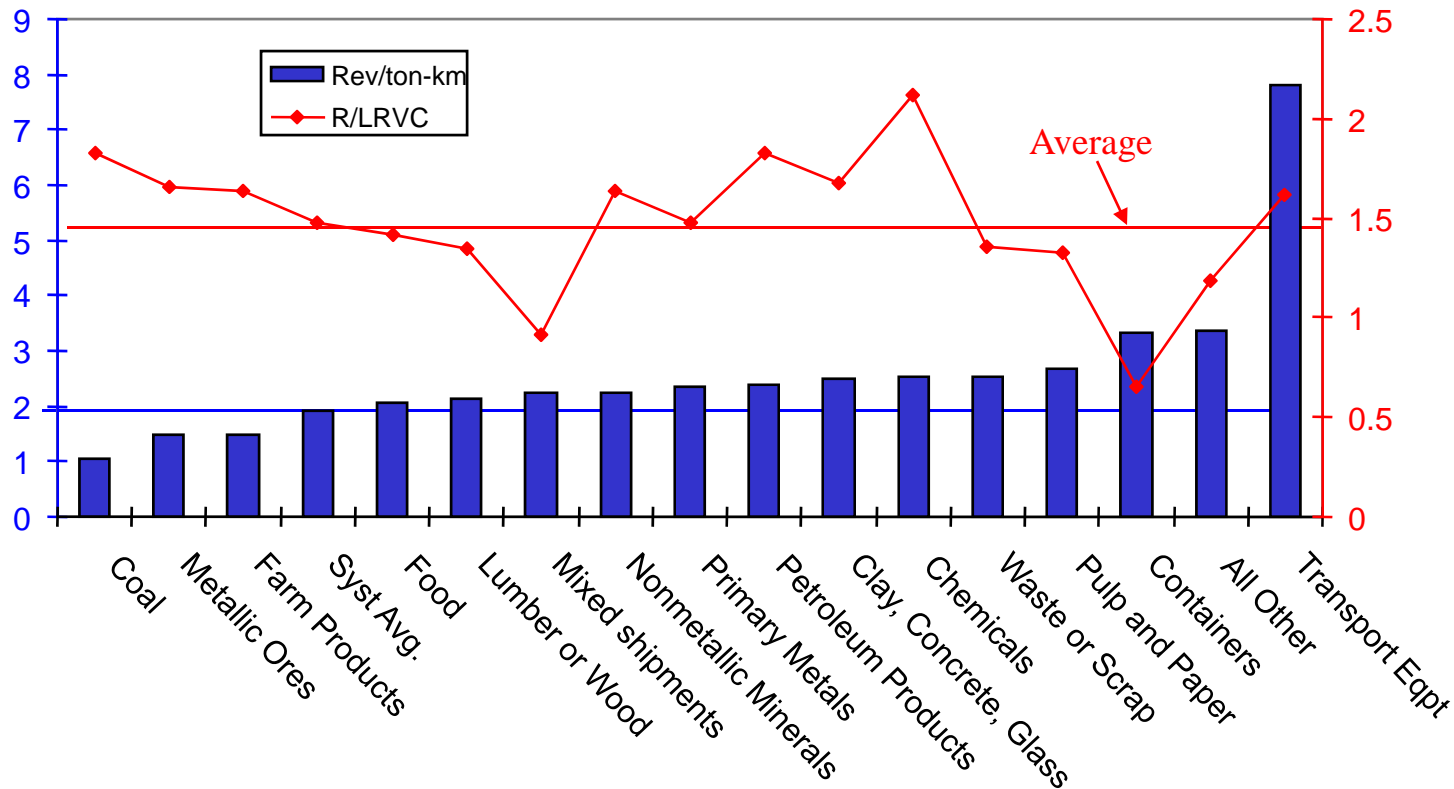
	Percent	Year	Source
U.S.	17 - 27	2001	AAR
U.K.	25	1995	UIC
France	20.5	1999	UIC
Sweden	30.9	1997	UIC
India	10	2000	Annual Report
Russia			
Freight	45	1999	MPS
Intercity passenger	20	1999	MPS
Suburban passenger	27	1999	MPS

U.S. railroad freight tariffs in 2001:

Revenue/ton-km (U.S. cents) by commodity
and ratios of revenue to variable cost

Revenue/ton-km

Ratio: revenue/LRVC

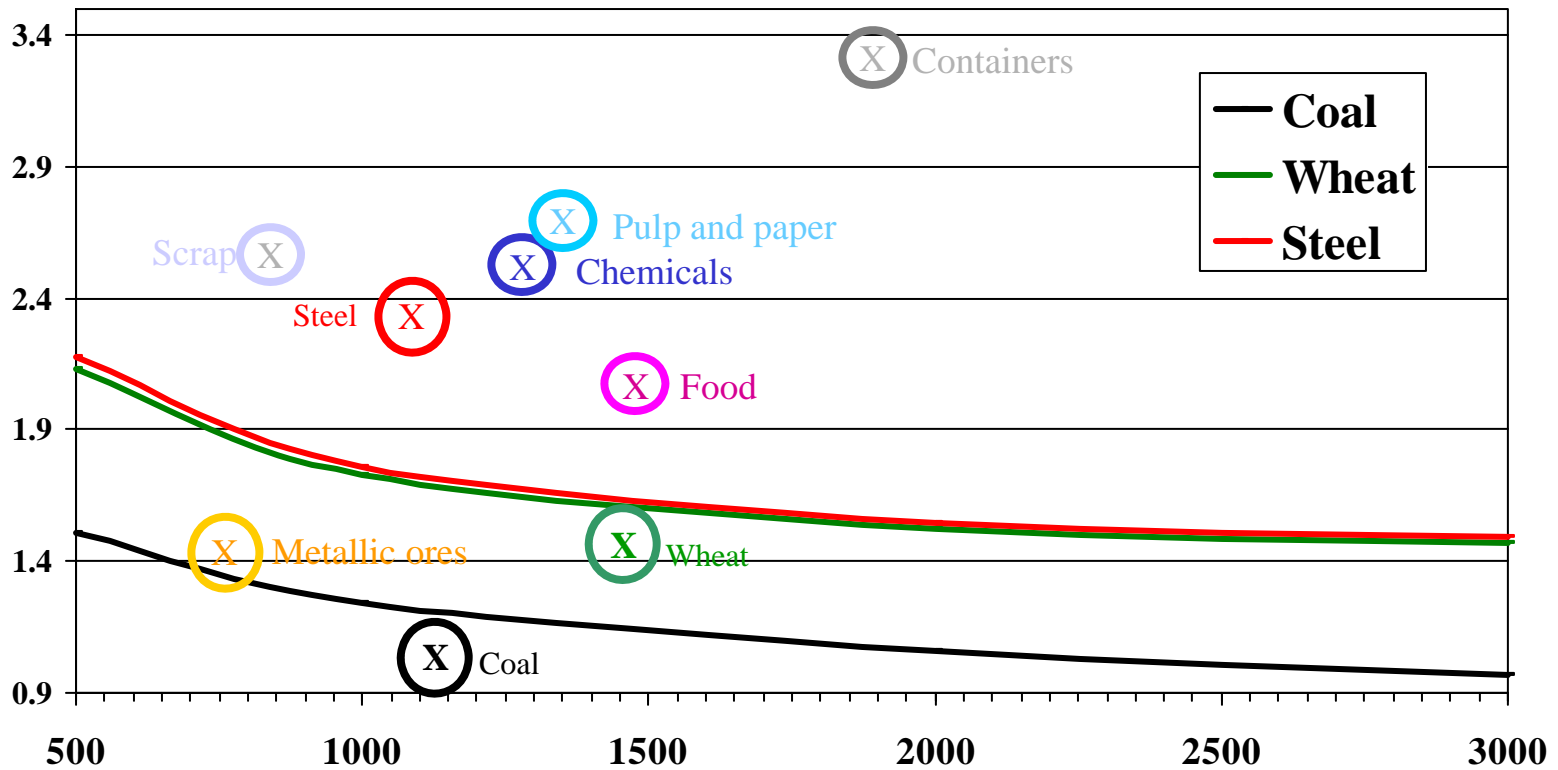


Source: STB data. Read revenue/ton-km on **left axis**,
Read revenue/variable cost ratio on **right axis**

Figure 9 Freight tariff comparisons: U.S. and Russia

Solid lines show Russian tariff schedule versus distance for 50 wagon train,
Circled points show U.S. average tariff for commodity chosen at average distance of haul

Tariff in
(PPP cents/ton-km)



Source, Russian tariffs from MPS, US tariffs from STB Costed Waybill Data for 2001

The Impact of Change

- Russian economic development is rapid, but hard to predict details of transport markets
- Regulatory flexibility needed to permit systems to adapt to changing markets
- Improved, and **public** data, vital: nothing is better than the underlying information available