

## **Summary**

Railways in Russia present a crucial and in some cases even the only means of transport for passengers and cargos.

In January-July 2016, the freight turnover by rail transport amounted to 2928.7 billion ton-kilometers which accounted for 45.7% of the total volume. Over the same period, passenger turnover by railway amounted to 70.0 billion (27.6% of the total volume).

Regulation of competition and innovations in the railway sector in Russia takes place mainly on the governmental level (document created in 2001 and amended in 2009 "On Structural Reform Program for Railway Transport"). One of this Program's goals was the development of a competitive sector in the field of rail transport, including the creation of commercial companies.

The reforms to enhance competition in the Russian railroads were started long ago. In 2003 – 2005, the Government issued the resolution No. 585 of September 18, 2003 "On Creation of Open Joint Stock Company "Russian Railways" (JSC "RZD "). With that, the federal executive authority in the field of railway transport (the Ministry of Communication Lines of the Russian Federation) were abolished.

The reform has allowed the division of the activities of JSC "Russian Railways" into suburban passenger transportation and long-distance passenger transportation, as well as the organisational and legal separation out of the JSC "RZD" of enterprises on rolling-stock reparation and production of spare parts, as well as some other non-core activities.

The principles of competition in the railway transport in the Russian Federation include the vertical separation of infrastructure management and transport operations, as well as horizontal competition between interspecific and potentially competitive markets (with an example of the route Moscow - Saint-Petersburg).

Further priorities for the development of rail transport based on the governmental plans include improving technological model of freight carriages management, increasing productivity of freight carriages and reducing empty runs, developing competition in the passenger transportation sphere.

In the beginning of 2010s liberalisation of the freight transportation market took place in Russia with the transfer of ownership and selling out carriages that before had belonged to JSC "RZD". Currently 1,700 freight operating companies conduct their activities in Russia.

In passenger transportation, intra- and interspecific types of competition have started developing during the recent years.

The above-mentioned factors form the base contributing to the development of competition and innovations in the Russian railway industry.

## **Competition and Innovations in Rail Transport**

**1. Industry and its reforms.** The Russian railroads is one of the largest rail networks in the world, and railways in Russia present a crucial and in some cases even the only means of transport for passengers and cargos.

In January-July 2016, the freight turnover amounted to 2928.7 billion ton-kilometers, including: by rail transport 1.3391 trillion (45.7%), by auto transport 125.8 billion (4.3%), by sea 25.9 billion (0.9%), inland water 35.9 billion (1.2%), air transport 3.5 billion (0.01%), by pipelines 1398.6 billion ton-kilometers (47.8 %). Passenger turnover in January-July 2016 constituted 253.2 billion passenger-kilometers, including by railway 70.0 billion (27.6%), auto transport 67.2 billion (26.5%), by air 115.7 billion (45.7%).

In the Russian Federation at the governmental level, steps are being taken to ensure competition in the field of railway transport. In 2001, the Government approved a policy document (resolution of May 18, 2001 amended on July 22, 2009) "On Structural Reform Program for Railway Transport" (hereinafter - the Program).

One of the Program's objectives and main tasks is the development of a competitive sector in the field of rail transport, including the creation of commercial companies - operators of railway rolling-stock with their own rolling-stock and interacting with carriers in shipping of cargo-luggage, as well as empty wagons and containers not belonging to the carrier, by rail.

In accordance with the plan of measures on realisation of the Program on 2003 - 2005 years, the Government issued the resolution No. 585 of September 18, 2003 "On Creation of Open Joint Stock Company "Russian Railways" (JSC "RZD "), which approved the charter of the Company (100% minus 1 share owned by the state).

With the establishment of JSC "Russian Railways" the federal executive authority in the field of railway transport (Ministry of Communication Lines of the Russian Federation) was abolished.

In the course of conducting the reform, JSC "Russian Railways" were divided into the enterprises with the activities of:

- suburban passenger transportation;
- long-distance passenger transportation.

Besides, also took place the organisational and legal separation out of JSC "RZD" of enterprises on rolling-stock repair and production of spare parts, as well as other non-core activities not directly related to organising railroads work such as social services, construction, etc.

The underlying principles of competition in the railway transport in the Russian Federation are the vertical separation of infrastructure management and transport operations, as well as horizontal competition between interspecific and potentially competitive markets, the adjacent markets of railroad transportation (repair of railway rolling-stock, including the repair of specialised refrigerated and isothermal rolling-stock, terminal handling of containers, etc.).

As an example of interspecific competition between air, railroad and automobile transport can be mentioned the route Moscow - Saint-Petersburg, which is confirmed by the analysis of pricing policy and of changes in passenger traffic.

Competitive offer from the railroads is ensured by the development of speed and high-speed rail links with a special level of comfort and well-designed timetable.

The rail transport competes with:

- air transport in passenger transportation;
- automobile transport in freight transportation for short and medium distances; in passenger transportation by land transport, including urban, inter-municipal and inter-regional.

Among the priorities for the development of rail transport can be listed on the basis of the Action Plan for Developing Competition in Railway Transport of the Government of the Russian Federation (February 4, 2014):

- developing competition in transportation activities;
- improving technological model of freight carriages management;
- increasing productivity of freight carriages and reducing empty runs;
- developing of competition in the passenger transportation sphere.

**2. Cargo transportation.** For a long time final tariffs for freight transportation in the Russian Federation were fully controlled and included three costs components: carriages, infrastructure and locomotive. For a certain period of time, there was a large number of licensed carriers, but, in fact, rail freight was performed exclusively by JSC "RZD".

Then, in accordance with the Program the market of freight carriages was gradually liberalised. Ownership of the major part of carriages belonging to JSC "RZD" passed to two universal freight operating companies: JSC "First Freight Company" and JSC "Second Freight Company", as well as a number of operating companies specialising in containers' transportation (JSC "TransContainer"), refrigerators (JSC "Refservice") and others. The remaining carriages were sold out on a competitive basis to private operating companies.

JSC "First Freight Company" and JSC "Second Freight Company" (in 2013 renamed as JSC "FPK") were first created as subsidiaries of JSC "RZD". In 2011, JSC "FPK" was privatised.

The development of operator services' market has allowed to attract investment into the sector and to upgrade the rolling-stock. In particular, over the period starting since 2003, the total investment volume has reached 600-700 billion rubles, and more than 300 thousand of new freight wagons were built.

Today the market of freight operating companies in Russia is highly developed, and its participants are 1,700 firms.

It is worth noting that the FAS Russia also participated in the process related to the liberalisation of the Russian railroad industry, through supporting the direction to establish a competitive sector in rail freight services due to the creation of operators using their own rolling-stock, for instance, in 2010 the authority permitted creation of the Second Freight Company.

**3. Passenger transportation.** Currently the work is conducted on preparation of the law envisaging introduction of public procurement in passenger transportation, as well as change of the order of its subsidising in the long run.

An innovative step in the development of passenger transportation by rail transport in the Russian Federation became the introduction of speed and high-speed transportation

on the railway network - branches of JSC "Russian Railways", which launched intraspecific competition in the railroad transport.

Initially, the high-speed services were launched with the use of available reconstructed railway tracks, and then the creation of a new base of high-speed railways tracks and introduction of innovative rolling-stock was started. The above is provided in the Development Program until 2020 and the program "Strategy of Developing Railway Transport in the Russian Federation until 2030".

The introduction of speed and high-speed services is aimed at acquiring additional opportunities for attracting investment to the Russian regions, including from abroad.

It is planned that the connection of the large cities in the European part of Russia with a single high-speed rail network will allow a greater number of flights to facilitate and increase the air traffic between the European and Asian parts of the country.

All in all, the result of regulation innovations in the railroad transport in Russia is the development of inter- and intraspecific competition, which gives customers more choice and at the same time allows for the industry's changes. The introduction of high-speed trains, new carriages in Russia present the actual outcomes of this process.