MISSION REPORT BY DARRYL BIGGAR ON A SEMINAR ON RAILWAY REFORM, RESTRUCTURING AND COMPETITION

-- Moscow, 4-5 December 2000 --
MISSION REPORT BY DARRYL BIGGAR

Seminar on Railway Reform, Restructuring and Competition

Moscow, 4-5 December 2000

Summary

1. This was truly an extraordinary outreach event. Natural monopoly reform is one of Russia’s highest priorities, and railway reform has been the subject of heated debate and public disagreement between the Antimonopoly Ministry and the Railway Ministry. We were very pleased when the Antimonopoly Minister asked for this 1.5 day meeting to discuss OECD approaches to railway reform. We were more than pleased when he essentially chaired the entire meeting, included five vice ministers from his and other Ministries, and that he now wants similar meetings on three other infrastructure industries in 2001.

Background

2. One of the top priorities of the current administration in Russia is reform of the so-called “natural monopolies”. This event was requested by the Russian Minister for Antimonopoly Policy (Minister Yuzhanov) in order to assist the Ministry for Antimonopoly Policy to develop policies towards reform of the rail industry in Russia. Following a meeting between President Putin and Secretary General Johnston, this event was singled out in a press release as one of the items of upcoming work:

“The OECD has also identified reform of Russia’s system of large infrastructure monopolies as an important priority. In many of the sectors covered by these monopolies, competition could be introduced without major difficulties. The Russian government’s economic reform programme calls for a competition policy approach to the regulation of infrastructure monopolies, with a view to promoting investment, efficiency, and lower prices by introducing competition where possible and efficient regulation where necessary. In December, the OECD will hold the first of several meetings with the Ministry for Antimonopoly Policy to discuss ways in which OECD countries have dealt with these matters.”

3. The Russian railroad industry is one of the biggest in the world, employing well over one million people and carrying more than 80% of Russia’s total freight and passenger traffic (compared to between 10-30% in OECD countries). Reform of this key infrastructure sector is both important and particularly sensitive in Russia.

4. The reform process in the Russian rail sector has been on-going since at least 1998. Recently the Russian Rail Ministry prepared a full outline of a reform proposal known as a “Concept” document. The Antimonopoly Ministry has opposed certain elements of that proposal. Certain broad principles of reform were agreed by the Russian government in November 2000. In April of 2001 a final decision on the reform strategy will be taken.

---

5. The objective of the event was to assist the Minister and his officials to learn about the OECD experience with rail reform. The OECD experience was conveyed by representatives from the US, Canada, the UK, Sweden and Italy. A representative from Mexico was also scheduled to attend but was forced to cancel at the last minute. In his place, I presented a summary of the Mexican paper.

6. We remained in contact with the European Conference of Ministers of Transport (which has expertise in the rail sector) during the planning for this meeting.

**Highlights**

Although we expected that the Minister himself would be present for at least some of the time, we did not expect that the Minister would remain for virtually the entire event and chair the meeting himself. His comments and questions showed his personal level of knowledge and involvement with this sector and his commitment to being informed.

7. In addition to the Minister, two of the Deputy Ministers of the Ministry for Antimonopoly Policy also stayed for the entire event (Golomolzin and Tsyganov). Also present were Vice-Minister Nabiulina and Deputy Minister Sharonov from the Ministry for Economic Development and Trade and Vice-Minister Misharin of the Ministry of Railways. We were pleased with the high level of interest shown in this event.

8. The presentations were organised into two groups – the “North American” approach on the one hand and the “European” approach on the other. The first day focused primarily on the “North American” approach, with presentations from the US, Canada and Mexico. All of these regimes feature competition between integrated rail companies. These railroads have also achieved very high levels of efficiency and experience a reasonably effective level of competition. Hearing about this “North American” approach seemed to have a big impact on the Russian participants. The Minister mentioned that the “North American” model had not been seriously considered, since at the time the reform process was initiated, it was generally assumed that they would move in the direction of the UK.

9. The primary debate that emerged was over the issue of vertical separation. Some of the Ministry officials were clearly in favour of separating the track “infrastructure” (which in Russia, is taken to include locomotives) and the rolling stock. Other officials were more inclined towards promoting competition between competing integrated infrastructures (as in North America).

10. We distributed various documents to the Russian participants, including copies of our CLP/WP2 roundtable on Railway Reform, a World Bank document on Railway Restructuring and Privatisation and copies of the OECD presentations (in Russian). Copies of these documents are available.

11. Minister Yuzhanov has invited us to prepare a “Summary and Conclusions” of the seminar, putting in writing some proposed directions for reform.

12. At the end of the seminar Minister Yuzhanov met with the Secretary General of the OECD, who was in Moscow at the same time, and requested more events of this kind – specifically on natural gas, telecommunications and electricity.