



NEW GUIDELINES OF BUSINESS ACTIVITIES OF THE JSC RUSSIAN RAILWAYS



The JSC Russian Railways has taken steps since first days of 2016 for attracting new passengers, and cargo shipments, improving available service for forwarding companies, developing ties with partners in joint ventures and foreign contractors, enhancing capacity of infrastructure, traction facilities and rolling stock.

On February, 9, 2016 Oleg Belozеров, the President of Russian Railways, summing up the Company's work in January 2016 during a conference call noted that the company should increase customer confidence and improve service quality, as well as become more predictable and transparent.

Belozеров paid particular attention to the **passenger complex**. He noted that Russian Railways continues to interact closely with the public via its website, which receives mail from across the country, including on the quality of passenger service. «I personally read all the messages, am aware of all the problems, and I bring them to the attention of the Board members at each operational meeting. If I am given reports that our suburban trains run on time, and that all trains are warm and clean, but passengers continue to write about delays and cold carriages, I make my own conclusions. Passengers must be sure that their messages will be considered and processed most effectively not only on paper, but also in practice. Yes, this is not an easy job, but it is within our reach», said Oleg Belozеров.

According to Belozеров, the Company is currently conducting thorough work on issues

involving the flexible tariff policy and attracting more freight customers.

«If we want to ensure the Company's uninterrupted operation, we not only need to adapt to the new economic reality, but use it to improve. It is important to remember that Russian Railways is a unique institution in the Russian economy and a major partner of the state in terms of lifting the economy out of stagnation and moving it into a growth trajectory», said Oleg Belozеров.

As a practical measure to improve the management and **efficiency of the tariff policy**, Oleg Belozеров, President of Russian Railways, has issued a regulation abolishing the Department of Tariff Policy Implementation for Rail Freight, the Department of Management Accounting and Long-Term Tariff Policy Methodology and the Department of Management of the Transport and Logistics Business Unit.

The functions of the abolished Department of Management of the Transport and Logistics Business Unit, including a flexible tariff policy and the preparation of proposals for developing new and improving existing transit transportation tariffs, have been transferred to the Centre for Corporate Transport Service, a branch of Russian Railways.

The newly created Department of Tariff Methodology, Expertise, Analysis and Application of Tariffs in Freight and Passenger Transport has been assigned the tasks of setting and implementing the Company's freight and passenger tariff policies, including:

- the development of new and the improvement of existing freight and passenger tariff guidelines, including tariffs for the provision of infrastructure for long-distance and suburban passenger transportation;

- the development and improvement of the methodology for long-term tariff regulation and the methodology for justifying changes to tariff levels within the price limits set by Russia's federal executive bodies in charge of the regulation of natural monopolies;

- preparing proposals for amendments to normative legal acts of the Russian Federation and regulations of Russian Railways;





- making assessments of the cost-effectiveness and expert reports on adopted tariff decisions, particularly regarding compliance with the current regulatory framework.

Besides, the Company has established a Department of Management Accounting and Reporting responsible for defining corporate policy and standards, accomplishing legal and methodological support of separate income and expenditure accounting according to the range of business activities of Russian Railways and the management accounting and the wording of financial statements of the Company and its subsidiaries.

Growing importance is attributed to interaction among transportation process stakeholders. Oleg Belozеров, President of Russian Railways, has held a meeting on February, 5, 2016 aimed to attract additional **freight volumes** to rail transportation which was attended by shippers, forwarding companies, and operators of rolling stock. The head of Russian Railways said that the success of each and every player in the transportation process depended on mutual understanding and the united efforts and synergies arising from joint and coordinated work. The meeting addressed questions on increasing technological efficiency and customer orientation and reducing the tariff burden on shippers. According to Oleg Belozеров, this was the best moment to offer customers new logistics services because industrial companies were now seeking to optimize the transport component in the price of products.

The use of a flexible pricing policy helps to attract freight from alternative modes of transport. It has also been shown that the right to change the level of tariffs for freight transportation services within price limits, as provided by Russian Railways, is effective. Work is currently ongoing to improve this mechanism.

Oleg Belozеров supported the initiative of shippers to create an effective platform involving all actors in the transportation process, and

allowing to address operational issues in railway transport. The initiative's should be carried out at a regular basis.

Important efforts are deployed to maintain appropriate level in investment in **construction program** of JSC Russian Railways.

During a meeting with the Company's construction units, held during the first days of February, Oleg Belozеров, President of Russian Railways, said that in 2015, the construction division as a whole fulfilled its set tasks, while fixed assets amounted at 120 billion RUB were realized.

Work was well underway regarding development of the rail network in Eastern Russian, construction of approaches to the ports of the North-West and the Black Sea basin, reconstruction of the Moscow hub and the design of the Moscow–Kazan High-Speed Rail Line.

«These projects are very large and important for the country, and they are being financed from every possible source, including from the Company's own funds, the National Wealth Fund and directly from the federal budget. Moreover, despite the overall optimization of public spending, all planned funds have remained in the Company's investment program», said Oleg Belozеров.

The meeting also noted in particular that in the current difficult economic situation, Russian Railways had undertaken major efforts to make savings. By updating the action plan for the development of the rail network in Eastern Russia, savings of more than 8 billion RUB had been achieved, while another 2.8 billion RUB had been saved during development of the Small Ring of Moscow Railway. This work will be continued in 2016.

The participants at the meeting also discussed improving the pricing system and improving the effectiveness of the technical and technological solutions used in the projects, as well as reducing the time required for conducting the expert reports necessary for the technological and price audit of the developed project documentation and consolidating the comments received.

The Company's construction program for 2016 amounts to 251.2 billion RUB in all and aims to achieve a balanced development of the Company, increase income from transportation operations, remove restrictions on Russia's economic growth and create favorable conditions for business development in the country.

During similar meeting held late February, 2016 in Sochi with the Company's **infrastructure** units, Oleg Belozеров underlined the importance of increasing features and quality of medium-term planning, labor productivity and reducing

costs and equipment failures. This year should be the first one to record an improvement in the overall state of the track's technical condition, which should continue to get better in the years ahead. And we know that together with you, we can achieve that goal», said the President of Russian Railways.

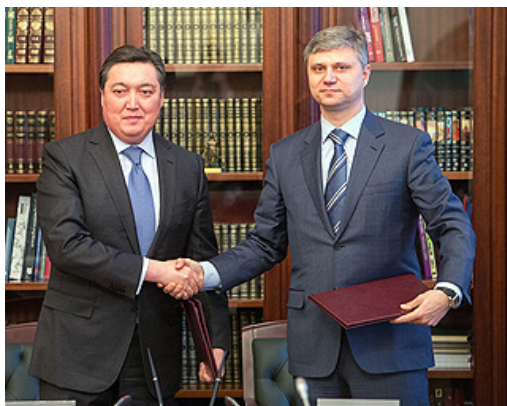
The volume of repair and track work on the Russian Railways' network will increase by 23% this year compared with 2015. Repairs of all kinds in 2016 will see improvements to 6,097 kilometres of track, including upgrades to 2,144 km of track, the replacement of 1,885 km of rail lengths.

Construction sites in Eastern Russia are of special interest. There the large-scale modernisation of the railway infrastructure on the Baikal-Amur Main Line and Trans-Siberian Railway now being undertaken will increase all types of repair about 1,210 kilometres.

Efficiency growth of JSC Russian Railways business activities passes also through development of new platforms of **interaction with small and medium-sized business units** in relation to acquirement of their innovative products. In particular this goal is implemented by development of an automated system called «SME One Window». The task of that service is to automatically redirect innovative proposals to specialized corporate experts working in the respective area of innovation. Representatives of small and medium-sized businesses are invited to enter the characteristics of their research, project or product in electronic form through the website of Russian Railways. This automated service will enable rapid searching and the selection of promising proposals, followed by access to a tender.

Along with the infrastructure development the JSC Russian Railways attaches special attention to renewal of the **rolling stock**.

Oleg Belozеров, the President of Russian Railways, who was speaking at a meeting on the situation in the domestic engineering industry under the chairmanship of Russian Prime Minister Dmitry Medvedev in Tver on 9 February 2016, pointed out that «Transport engineering products accounted for 11% or 119 billion RUB of the total procurement of Russian Railways in 2015. The Company plans to increase this proportion to 20% or 186 billion RUB in 2016. Oleg Belozеров also emphasized in his address to the meeting that Russian Railways had declared 2016 «Year of the Passenger» and set itself the task of implementing a range of measures to improve significantly service quality and passenger comfort. Thus, the Federal Passenger Company, a subsidiary of Russian Railways, has allocated



up to 85% of its investment program to updating passenger rolling stock. In 2016, the Company plans to double its purchases of domestically produced carriages, including double-decker cars, to 186 units worth 10 billion RUB. «The purchase of double-decker carriages not only represents the renewal of the stock, but also an opportunity to reduce fares by 30%. This was made possible thanks to the decision of the Government of the Russian Federation to reduce the VAT rate from 18% to 10% on domestic passenger transportation», said Oleg Belozеров.

According to Belozеров, in the current economic conditions one of the most effective mechanisms that affects the pricing of the purchased products is the realization of the import substitution program.

The Company is examining long-term cooperation with innovative industrial enterprises, including the development of locomotive manufacturing for the period up to the year 2020.

This activity resulted particularly in including of localization clauses in contracts for the supply of rolling stock. For example, the level of localization in Lastochka electric trains reached 60% in 2015. In the future, the aim is to increase that figure to 80% by 2018.

Oleg Belozеров expressed confidence that in accordance with the government's goal, Russian Railways would increase the share of innovative and high-tech products in its purchases to 10% by 2018.

The 2016 investment program of Russian Railways allocates 69.2 billion RUB for the purchase of new locomotives. The Company plans to purchase 507 new units particularly 257 electric and 250 diesel engines.

Following models will be purchased:

- mainline electric DC freight locomotives with asynchronous traction drive 3ES10 Granite (15 units); electric AC freight Yermak 2ES5K engines (20 units) and 3ES5K (78 units); electric





DC freight 2ES6 Sinara engines (86 units); electric DC freight 3ES4K Donchak engines (15 units); freight diesel locomotives with asynchronous traction drive 2TE25A Vityaz (4 units); diesel locomotives 2TE25KM (100 units); diesel freight locomotives 2TE116U (6 units), 3TE116U (1 unit) and 2TE116UD (6 units); GT1h main gas turbine engine (1 unit).

Besides, it is planned to purchase four electric passenger EP20 Olympus locomotives with dual power, 35 EP2K passenger electric DC locomotives, 4 passenger electric AC EP1M locomotives and 15 TEP70BS passenger diesel locomotives.

The Company's fleet of shunting locomotives will also be supplemented by 80 TEM18DM diesel locomotives, 26 diesel engines with twin-diesel TEM14 power plants and 1 diesel locomotive with hybrid TEM9N propulsion.

As part of the program to upgrade locomotives operated in the island of Sakhalin the Company plans to purchase 10 mainline TG16M diesel locomotives capable of operating on the island's two track gauges of 1,067 mm and 1,520 mm.

The Company's fleet now consists of more than 20,000 locomotives.

In 2016, Russian Railways will increase investment in purchasing new commuter electric trains. In particular, the Company will invest 3 billion RUB in purchasing new motorized multiple engine and carriage units. The Company intends to purchase 82 ED4M and ED9E series electric train carriages manufactured by the Demikhovo Machine-Building Plant.

Besides purchasing suburban rolling stock, Russian Railways also conducts an annual overhaul of its commuter fleet. In 2015, 923 motorized multiple unit railway carriages were overhauled at a cost of nearly 2.8 billion RUB. In 2016, the Company plans to overhaul 956 cars of suburban railway carriages.

All new rolling stock designed for commuter rail is equipped with air conditioning, hermetically sealed inter-car gangways, sliding

automatic plug doors, video surveillance systems, forced ventilation in the carriage vestibules and on-board diagnostic systems and monitoring of the trains' condition.

International cooperation is among priority issues for JSC Russian Railways.

Oleg Belozarov, President of Russian Railways, and Askar Mamin, Chairman and President of **Kazakhstan Temir Zholy**, met in Moscow on 18 January 2016 to discuss the further development of the Integrated Transport & Logistics Company (ITLC).

The development of the project for the ITLC envisages the formation of a single integrated platform in the Eurasia Economic Union space with the aim of uniting efforts to build the global competitiveness of the Eurasian corridor with optimal customer routes passing through the territory of countries participating in the project.

In this context, the parties emphasized that the ITLC's initial practical results validate the company's business idea as an integrator of container services.

The parties noted that for the successful implementation of the ITLC's business model, it was important to continue harmonizing national projects in the field of transport and logistics infrastructure, to provide a guaranteed logistics through service referring to freight delivery, develop a long-term tariff policy and synchronize the timetables of container trains.

These measures will help the Transport & Logistics Company to respond flexibly to market changes and offer the participants the most competitive logistics product.

The President of Russian Railways Oleg Belozarov and the head of **Belarusian Railways** Vladimir Morozov met to discuss the further development of the Integrated Transport and Logistics Company (ITLC) in Moscow on 4 February 2016.

«Our foreign partners consider ITLC a serious player in the logistics market, a view which is evidenced by the interest of our European colleagues in the development of such a harmonized transportation mechanism», said the President of the Russian Railways

Belozarov informed his Belarusian colleagues that on the initiative of Kazakh Railways, which is also a shareholder in ITLC, in January 2016 the company's further development was discussed, including the mechanism for bringing in assets.

Oleg Belozarov also said that the Russian and Belarusian sides had completed all the arrangements for the first phase of the company's creation. The second phase includes completing the formation of the company's assets and the

transition to the target model of corporate governance parity.

The sides gave a high assessment of ITLC's first practical results, both in terms of its financial and volume indicators, and expressed confidence that it would take on even more ambitious targets in 2016 and the following years. During the meeting, the sides also noted that modern logistics companies «without assets» have a significant advantage in making operational decisions compared to companies «with assets». In addition, by attracting transportation resources, such companies are more competitive on the market compared to traditional players. This is confirmed by the experience of the logistics company GEFCO, which is a subsidiary of Russian Railways.

The RZD Holding and **CJSC Azerbaijan Railways** agreed mid-February to cooperate to attract freight flows to Azerbaijan Railways and Russian Railways by organising goods transportation via India–Iran–Azerbaijan–Russia route and vice versa. The cooperation agreement is within the framework of the development of the North–South International Transport Corridor (ITC).

The project's logistics operators will be RZD Logistics and ADY Express. The first shipments along these routes are scheduled to take place before the end of March 2016.

Currently, cargo from India to the European part of the Russian Federation is shipped by maritime transport (Route A), with an estimated travel time of about 40 days from Jawaharlal Nehru Port (Mumbai) to Moscow. The new multi-modal Route B will include the use of marine, rail and road transport and will halve transportation time, with a long term plan to optimize journey's duration to just 14 days.

As part of the negotiations, the parties agreed on competitive rates: the tariff for transporting a 40-foot container from Mumbai to Moscow will not exceed 3,000 US dollars.

A container train left at the beginning of January, 2016 Dalian in China to Vorsino Freight Village in Kaluga region of Russia passing by border passage Zabaikalsk. The project was organized by **JSC Russian Railways together with PJSC TransContainer, administration of Dalian sea port, Chinese railways and China Container Transport Corp. Ltd. (CRCT)**. The trains comprised particularly 49 containers owned by PJSC TransContainer and containing cargo of Samsung corporation. New itinerary gives an opportunity to Korean shipping companies using containers to deliver cargo to Dalian, to profit from advantages of rail transit of goods to Russian and European

countries through border transit point Zabaikalsk.

Oleg Belozеров, President of Russian Railways, took part in the **forum «Russia-Japan Business Cooperation Priorities»**, held by the Ministry of Industry and Energy of the Russian Federation in Tokyo on 29 February 2016.

In his speech at the session «Russian-Japanese Cooperation in Modernising Infrastructure», the Company President noted that Russian Railways attaches great importance to developing relations with Japanese companies, primarily in the field of transport and logistics. The RZD Holding successfully cooperates in particular with the major companies of Japanese industry, such as Toyota, Mazda, Mitsubishi and Subaru.

«I believe that our cooperation has significant potential. This view is confirmed by the fact that in recent years, freight rail transport between the two countries has witnessed an overall positive trend», said Oleg Belozеров.

Transit freight traffic between Russia and Japan in 2015 increased almost nine-fold due to shipments to Japan, and amounted to more than half a million tons. Transit container freight in 2015 increased by 17% compared to 2014 and totaled more than 2,400 Twenty-Foot Equivalent Units (TEU). The beginning of 2016 was also marked by a positive trend: in January, the volume of traffic shipped in large containers by rail between Russia and Japan reached almost 5,000 TEUs, that is by 7% more than in January 2015, whereby the volume of container traffic increased due to an increase of imports from Japan by 78% to a total of 779 TEUs.

Belozеров also said that the Company was working on improving logistics schemes for freight delivery. In particular, Russian Railways company has developed a new transport service called the Baikal Shuttle for transporting goods from Japan and other Asian countries from the port of Yokohama to Moscow. The Baikal Shuttle makes it possible to deliver freight door to door on a regular and frequent basis with strict adherence to the timetable over Russia's vast distances. This new service will reduce the delivery price gap for containerized cargo from the port of Yokohama to Moscow, and will also reduce the delivery time from 42 to 25 days.

(According to news releases by Press service of the JSC Russian Railways,
<http://press.rzd.ru/news/public/ru>
<http://eng.rzd.ru/newse/public/en>)

Review has been compiled by editorial staff of World of Transport and Transportation Journal, Evgeny Zarechkin •

