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Market Development Reports

Railroad Tariffs

2000

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Report Highlights:

Proceeds from high international freight rates in Russia are used to subsidize passenger rail transport and, to a lesser extent, selected domestic freight rates.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Moscow [RS1], RS

Summary

The inefficient governing Russia's railway tariffs is reminiscent of its Soviet era economy -- designed to make locally produced commodities more affordable, supportive of internal product distribution, and protective against international competition. Domestic shipments are assessed an inexpensive flat basic tariff rate according to the weight and number of hours that the railway is utilized. However, tariffs for international shipments are calculated in a non-transparent manner according to an international shipment tariff schedule, with adjustments made for distance, weight, type of commodity, and negotiated reductions. In addition, both domestic and international rates are adjusted periodically by federal and local administrators according to economic conditions within the country. Because each product has a unique rate applied to it, traders of agricultural products need to understand the basic principles underlying Russia's railway transport tariff system.

Railway Tariff Policy

The Ministry of Railways (MRR) and the Ministry on Antimonopoly Policy (MAP) regulate transportation tariffs in Russia. MRR unilaterally sets rates on international shipments, while it must negotiate with MAP any proposed tariff changes for domestic shipments. For example, in August 2000 the MRR proposed to increase domestic railway tariffs by 26 percent, somewhat along the current rate of inflation. However, negotiations with MAP resulted in an average increase of only 18.5 percent. In the near future, the Ministry of Transportation is also expected to become involved in regulating railway tariffs.

Cheap domestic rail rates make local products affordable for domestic consumers. An increase in railway transportation tariffs can cause a significant increase in delivered grain prices, for example. According to the Russian Grain Union, at present, transportation costs account for 10-30 percent of the final delivered grain price. Following the 1998 economic crisis, the MRR and MAP reduced domestic cargo transport rate by 20 percent, on average. As Russian producers faced a 66 percent increase in the average cost of inputs, this reduction in the transportation component was a significant factor in helping reverse a trend of declining industrial output and furthering the economic recovery currently taking place.

Domestic Railway Tariff Rates

Russian companies and products are charged a flat railway tariff based on 1) required time of shipment; 2) weight of shipment; and, 3) number of wagons utilized.

Table 1: Basic Railway Transportation Tariffs for Domestic Cargo, rubles/hour

Time intervals	1 wagon	6 wagons
0-24 hours	2.50	5.50
More than 24 hours	4.50	9.90

Source: Ministry of Railway Transportation

Table 2: Basic Railway Transportation Tariffs for Domestic Shipment of Containers, rubles/hour

Time intervals	1 wagon	3 wagons
0-24 hours	0.20	1.00
More than 24 hours	0.35	1.80

Source: Ministry of Railway Transportation

In addition, the local railway administration can periodically declare regional reductions in the basic rate, taking into consideration economic conditions in the region or country. The MRR also publishes special rates for Russian companies utilizing specific routes for exports, often based on non-transparent, special relationships.

Although it is more cost effective for Russian firms to transport value-added commodities, the bulk of domestically produced commodities are low value-added (including exports) because Russia's food and agricultural processing industries are not well developed. In contrast, imported high value commodities have to utilize a rate different scheme for international shipments.

The International Tariff System

Imports are assessed railway transportation tariffs that, on average, are 3 times higher than domestic rates. The MRR uses revenues from high international rates to subsidize domestic passenger rail rates and, to a lesser extent, selected domestic freight rates. However, each rail user negotiates reductions based on their relationship with railway officials -- a non-transparent process that creates opportunities for corruption.

International shipments are fixed in "hard currency", often Swiss, francs paid into accounts in Switzerland. The Russian Railway authorities calculate a final tariff for international shipments based on: 1) weight of the container; 2) distance of the shipment; 3) type of commodity; and 4) an agreed upon reduction considering additional factors, including the economic necessity of the commodity, and relative proportion of transportation cost in the final cost of the commodity.

Therefore, each commodity and user have their unique railway tariff rate. Basic tariff rates are calculated according to "adjustment coefficients", as outlined in table 3. In addition, a coefficient for distance is applied. The final tariff is determined through reference to an index for the commodity group and a negotiated reduction. Indexed tariff rates for each commodity are published in "Railway Transport Price Catalogue 10-01." Relevant coefficients are periodically published by railway administrations.

Table 3: Adjustment Coefficients for International Container Shipments

Container Weight	25 MT	30MT	40MT	50MT	60MT
Coefficient	1.00	0.85	0.66	0.55	0.48

Source: Ministry of Railways

Calculation of Railroad Tariffs for Imported Commodities

Following is an example of a railway tariff calculation for imported grain:
Tb = Tmtt x Kd x Kp x Ka, where:
Tb= the basic tariff rate of the "Tariff Policy Price Catalogue 10-01"
Tmtt= the tariff rate of international transit for a 25 MT container (in Swiss francs per ton)
Kd = distance conversion coefficient
Kp = adjustment coefficient
Ka = conversion coefficient for the commodity group

Commodity: Wheat Grain
Distance: 2,913 km
Weight: 50MT
Agreed tariff reduction: 25 percent
Kd = 0.6 (for the distance between 2,501 and 3,501);
Kp = 0.55 (adjustment coefficient per table 3);
Tmtt = 148.3 Swiss francs (MRR tariff for 25 MT container)

The basic tariff equals = Tb = 148.3 x 0.6 x 0.55 = 48.94 Swiss francs;

Assuming a 1.1 transportation index for grain, the final tariff rate is 48.94 x 1.1 x 0.75 (the agreed reduction) = 40.38 Swiss Francs/MT.

Railroad Tariffs for 2000

From November 1, 1999 until December 31, 2000, the following reductions apply to international railway shipments:

Table 4: Coefficients Applied to the Basic Railway Tariff for Various Commodities

Commodity	Coefficient
Grain transhipment	0.90
Fruit/Vegs, potatoes, seeds of grain crops, grains and legumes, feed,	0.50
Refrigerated goods transhipped	0.78
Sugar (distance <1.5 thousand km)	0.83
Cotton (distance<2.5 thousand km)	0.89
logs (distance<3.5 thousand km)	0.83
Logs (distance> 3.5 thousand km)	0.67
Sawn wood (2,000 km or less)	0.92
Sawn wood (distance b/w 2 & 3.5 thousand km)	0.78
Sawn wood (distance> 3.5 thousand km)	0.59
Ag. machinery	0.50

Source: Ministry of Railway Transportation

In addition the following transportation tariffs apply to large containers of "special supplies" imported through the Russian Far East to Moscow:

Table 5: Tariff Rates for Shipments of "Special Supplies"

Weight of shipment	MRR owned container	Privately owned container
20 MT	$740.00	$630.00
40 MT	$1,332.00	$1,130.00
	: At Privately Owned Platforms	
20 MT	$629.00	$536.00
40 MT	$1,132.00	$961.00

Source: Ministry of Railway Transportation

Proposed Reform of Russia's Railway System

To date, the MRR functions as a State monopoly. However, on August 16, 2000, the MRR put forth reform measures to its board. The main focus of the reform calls for the creation of a national "Russian Railways," and the reduction in role of the MRR to that of only a regulator who at a later date may be folded into the Transportation Ministry – much as the Federal Railway

Administration is part of the U.S. Department of Transportation. The State enterprise, Russian Rail (RR), will own all the physical property (i.e. the 17 Russian railways), and it will not be subject to sale. The shareholding company will allow private businesses to operate as transportation companies. The government of Russia is expected to decide on some details of this plan as early as December 2000, although the final form of Russia's railroad administration reform is not yet known.