

Restructuring and Privatization of Estonian Railways

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After the three Baltic States of the former USSR declared their independence in 1991, each country established its own railway organization. Estonian Railways (EVR) became operational in 1992 and its subsequent planning has been aimed at the nation's eventual membership of the EU. In June 1995, EVR joined the Baltrail-2000 project, which proposed faster operation speeds, improved rolling stock, and coordinated timetables. In June 1996, the Estonian government approved a draft 5-year railway development plan, quickly followed in June 1997 by the EVR Reorganization and Privatization Plan. This latter plan prescribed changing EVR into a limited company, followed by formation of four limited companies with all shares held by the government. This division and privatization will then be finalized by a future public offering of shares in these companies.

First, EVR was privatized as Estonian Railways Ltd., with the Estonian government holding all 30 million shares at a par value of 10 kroon and totalling 300 million kroon (US\$1 = 15 kroon). These shares are managed by the Ministry of Transport and Telecommunications.

In October 1998, Estonian Railways and Fraser Group, an investor selected by competition, established EVR Ekspress Ltd., an international passenger traffic company. Estonian Railways holds 49%

of EVR Ekspress shares and Fraser Group holds the remaining 51%. EVR Ekspress manages passenger trains on the international Tallinn–Narva–Moscow and Tallinn–Tartu routes. In addition, the company serves Russian trains on the Tallinn–St. Petersburg line.

In December 1998, Estonian Railways established the Tallinn suburban passenger traffic company Elektriraudtee Ltd., in line with the 1997 privatization plan. Elektriraudtee Ltd. is responsible for offering high-quality passenger services at minimum expense to people in the Tallinn and Harju regions.

As the next stage in the plan, Estonian Railways has started preparing to establish a railway locomotive and rolling stock management limited company based on its Rolling Stock Department.

In the future, Estonian Railways and an investor selected by competitive bidding will establish a freight traffic company. A concession contract will be concluded with the freight company under the terms of which the company will have the right to develop, construct and maintain the railway infrastructure. The investor will be selected based on its promised investment in the railway infrastructure, and its technical and logistical solutions, experience and guarantees. The primary aim of the infrastructure management contract is to release the state from its role as sole

shareholder in Estonian Railways.

In April 1999, Estonian Railways and the European Bank for Reconstruction and Development (EBRD) signed a loan agreement to finance railway infrastructure projects. Estonian Railways will take a 234 million kroon loan to improve the Narva border station. The loan is a continuation of the investment programme started in 1996.

After concluding the contract, the railway infrastructure will still be owned by Estonian Railways but the freight company will have the right and obligation to maintain, develop and use the infrastructure, which includes providing access to third-party operators. To ensure open access and competition, the initial contract period will be for 50 years, with the right to apply for a further 25-year extension. Estonian Railways' business performance is definitely improving; the traffic volume in 1998 increased by approximately 21% over 1997, including a 31% increase in oil shipments. International transit freight formed 59% of shipments, 95% of which was from Russia or the Commonwealth of Independent States (CIS). Companies engaged in international passenger transport contributed significantly to Estonia's economic growth and gross domestic product.

Estonian Railways' biggest investments in 1998 were reconstruction of the Tallinn–Narva line and refitting the locomotive yard. To improve capacity, the company also purchased eight 2TE116 main-line diesel locomotives. ■



Tallinn Freight Terminal handling more than 30% of freight in Tallinn area. (EVR)



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Mr Juchnewitsch has been Chairman of the Board of Estonian Railways Ltd. since 1994. He joined the Estonian Road Administration in 1975 after graduating from the Tallinn Technical Institute. In 1993, he was appointed Maintenance Manager for the World Bank Estonian Highway Project.