Dear ladies and gentlemen,

Allow me to express my gratitude to you for the invitation to take part in this seminar.

The Republic of Kazakhstan is among the first of the newly independent countries to embark on a radical restructuring of the economy, having chosen market relations, decentralization and privatization, demonopolization and liberalization, free enterprise and business initiative as the main targets. Market relations have actually penetrated all the spheres of production and everyday service. The economic growth of Kazakhstan in the past years has graphically proven that the policy of reforms is a correct choice made by the country.

Presently the total length of the railroads, which cross the Republic of Kazakhstan from north to south and from east to west, makes 13,600 km.

The volume of cargo carriage by railroads was in 2004 as big as 213,200 thou. tons, with 7,800 thou. tons being transit. An overall cargo turnover accounted for 149,900 mln. ton-km in 2004.

Today the railroad branch of the Kazakh economy employs 125,000 highly skilled specialists. It is the branch with the highest investment rating among the Republic’s enterprises, a segment of the national economy which pursues the policy of gradually entering into market relations with consideration. An appropriate regulatory basis has been created for introducing up-to-date technologies and furthering market liberalization. Worth noting is the growing role played by private companies on the market of railroad services. Today private companies render services not only in an auxiliary sphere, but in the basic one, as well. As a result of the second stage of restructuring, private cargo companies, with more than 22,900 wagons at their disposal, successfully operate on the market of rail traffic.

The adoption of the Law on the Railroad Transport of the Republic of Kazakhstan in 2001 and the implementation of the first Program of Restructuring signified the onset of radical transformations which are dictated by the present-day requirements of the economy.
Restructuring was predetermined by objective reasons connected with the changes inside and beyond the railroad transport. These factors are as follows:

- structural changes in the economy;
- decrease in cargo turnover;
- assets structure imbalance;
- demand for investments and high technologies.

Objectives and tasks of restructuring the railroad transport:

- To adjust the railroad transport to market conditions provided that the state shall retain control over the trunk infrastructure;
- To guarantee efficiency of the railroad transport by stepping up competition in the spheres of transportation and provision and attracting to the branch private initiative and investments;
- To develop the railroad transport's own production base in order to eliminate import;
- To make railroad transportation competitive on the market of transit carriage.

A series of measures was carried out at the first stage of restructuring with the aim to optimize operation, improve the mechanism of interaction between newly created entities within the railroad branch and bring the regulatory base in conformity with the new conditions.

The services of repair and maintenance of the rolling and hauling stock have been finally separated. This included the creation of a competitive environment in major overhaul of the railroad lines and protection of cargo and stationary railroad facilities; further stepping up of competition on the market of depot repairs of wagons and locomotives; optimization of production including modernization of poorly operating lines and stations, and also preparatory measures for the second stage of restructuring.

Production cooperatives and limited liability partnerships have been set up on the basis of state enterprises DGP "Remlokomotiv", "Remvagon", "Zheldorremmash" and "Passazhirskiy Perevozki" to expand the market of competitive services in the sphere of repair of the rolling and hauling stock.

Property of the state enterprise RGP "Kazakhstan Temir Zholy" has been used as a material base of "Kazakhstan Temir Zholy" closed joint stock company, with the 100%-controlling block of shares belonging to the state. This CJSC has become the owner of the main train lines. Simultaneously with that, state enterprises "Zheldorremmash", "Passazhirskiy Perevozki", "Zheldorvodoteplosnabzhenie", "Remvagon" and "Remlokomotiv" have been reorganized into an open joint stock company, with the transfer of 100% of state controlled block of shares to the authorized capital of CJSC "NK Kazakhstan Temir Zholy". State-held blocks of shares of a number of enterprises carrying out auxiliary activity have also been transferred to the authorized capital of CJSC "NK Kazakhstan Temir Zholy".
The following measures have been effected at the second stage of the Program of restructuring:

- setting up of the main train system operator;
- establishment of joint stock company "Lokomotiv" to ensure equal access to locomotive traction for all the carriers;
- maintenance of an optimal number of wagons;
- sale, in conformity with the law, of access roads possessed by OJSC "Tsentr Transportnogo Servisa" (Center of transport service) and used by one consignor, to the given user. The transfer in the account of JSC "NK Kazakhstan Temir Zholy" of the access and connecting railroads remaining in general use;
- transfer of the block of shares of JSC "Passazhirskie Perevozki" and "Kedentransservice" from the authorized capital of JSC "NK Kazakhstan Temir Zholy" to an authorized state body.

JSC "NK Kazakhstan Temir Zholy", acting in accordance with the adopted statutory acts, provides new railroad enterprises with equal rights of using the main train lines. The stepped-up competition in the sphere of transportation is stimulated by the emergence of independent carriers with leased or their own rolling stock.

Locomotive traction services are rendered by JSC "Lokomotiv" set up for this purposes within JSC "NK Kazakhstan Temir Zholy".

In order to make interstate and special transportation available, JSC "Kazzheldortrans" was set up on the basis of the inventory rolling stock of JSC "NK Kazakhstan Temir Zholy", the nationwide carrier, which renders cargo transportation services. Moreover, "Kazzheldortrans" can lease out its excess rolling stock.

The container park is retained by OJSC "Kaztransservice" whose main task is to develop railroad container traffic and multimodal carriages, transit included.

The detachment of specialized joint stock companies from JSC "NK Kazakhstan Temir Zholy" has led to the redistribution of functions and powers among the newly emerged enterprises within the branch.

Tariffs (fares) for services rendered by JSC "NK Kazakhstan Temir Zholy" are established by an authorized body regulating the activity of natural monopoly enterprises, which also exercises control over equal and free access to the Main Train System (MZhS) of JSC "NK Kazakhstan Temir Zholy". Customers' fares for transportation include regulated tariffs for monopoly services and free market prices for other railroad services. The tariffs are, as a rule, divided into that for an access to MZhS and traction services, and that for carrier services and provision of wagons.

As provided for by the Program of restructuring of the railroad transport of the Republic of Kazakhstan for 2004–2006, approved, as it were, by Decree No. 148 of the Government of the
Republic of Kazakhstan dated February 6, 2004, subject to state price regulation are carriers’ payments for the services rendered by MZhS. The size of such payments is determined by a state body which exercises control and management in the natural monopoly.

According to the Law "On the Railroad Transport" of the Republic of Kazakhstan, the National company (the MZhS operator) secures equal rights of using MZhS for all the carriers.

In order to promote the fulfillment of the Program, tariffs for MZhS services were introduced as of July 20, 2004. These were approved by the Agency for Control over natural monopolies and promotion of competition of the Republic of Kazakhstan.

Tariffs for locomotive traction services, cargo and commercial operations and services and also the use of freight wagons and containers do not refer to monopoly activity and are regulated as if they are rendered by enterprises holding the dominant position on the market (as approved by JSC "NK Kazakhstan Temir Zholy").

In this way, transportation, a potentially competitive kind of activity of the railroads, was separated from the services rendered by natural monopolies (provision of locomotive traction and cargo railroad transportation). It should be noted that this measure is an intermediate stage preceding the introduction of new tariffs for MZhS services, based on standard costs of the national railroad company.

By now, fundamental aspects of the new methods have been coordinated, which include:
- complete coverage of the costs sustained by the main train system;
- calculation of proceeds depending on the degree to which the assets have been employed;
- transparency of the expenditures;
- measurement of production and finance indicators (existence of the accounting and reporting system).

The price list of tariffs for MZhS services, calculated according to the above methods, is to be coordinated, approved and put into effect by the Agency for Control over natural monopolies of the Republic of Kazakhstan.

Today there exists an adequate legal basis for the railroad transport operation, which makes possible further development of the competitive market environment in the sphere of basic transportation business.

As a result conditions have been created for the formation of the market of services and the development of competition inside and beyond the branch. All these measures make it possible to exclude the railroad industry from the category of monopolists, except for the entities, which it is impossible or difficult to render competitive.