

COVID-19 in numbers:

UkraineCases: **2,270,226**Deaths: **53,368**Recovered:
2,199,118**Worldwide**Cases: **210,613,162**Deaths: **4,413,071**Recovered:
188,626,627

Reform Watch

Ukrzaliznytsia

Ukrzaliznytsia needs bold action to revive fortunes

By Max Hunder. Published Aug. 15. Updated Aug. 15 at 4:23 pm



 Ukrzaliznytsia cargo wagons standing at Darnytsia railway station on Aug. 12, 2021. The company's rolling stock is increasingly falling into disrepair due to low revenues.

Photo by Oleg Petراسиuk

Ukrzaliznytsia, the state-owned railway, is on the verge of technical default due to years of mismanagement compounded by losses during the COVID-19 pandemic.

Debts have exceeded \$1.5 billion, and the company lost \$426 million in 2020. Its only chance to dig itself out is to raise freight tariffs. But to do so, it needs to be in the hands of good management.

Ukrzaliznytsia's neglected tracks and equipment are outdated and in dire need of modernization. Of the nearly 19,800 kilometers of railway tracks, only 9,300 are electrified. Ukraine has to buy diesel fuel from Belarus, made from crude oil produced in Russia.

In response to the crushing economic losses of 2020, the company cut almost 9,000 staff out of more than 250,000 employees, but the financial results for the first half of 2021 were still \$52.3 million in the red.

The government had refused to help the company financially. The situation has gotten so bad that on July 30, the National Security and Defense Council of Ukraine asked the Cabinet of Ministers to step in to stop financial practices that NSDC Secretary Oleksiy Danilov called "dangerous to national security."

The council demanded that the Cabinet raise tariffs, update the aging rolling stock and "if necessary, take radical decisions in this regard, including on personnel."

On Aug. 11, the Cabinet did so. Ivan Yuryk was dismissed as acting CEO after five months and replaced with Oleksandr Kamyshin, who previously served on the boards of two companies owned by Ukraine's richest man, Rinat Akhmetov.

But this led to new concerns. Akhmetov's metal company Metinvest and energy company DTEK are the largest users of the country's railways. Transportation is a big part of Akhmetov's cost structure and he has done all he can to keep freight tariffs as low as possible.



 Oleksandr Kamyshin, the new CEO of Ukrzaliznytsia. (Latifundist)

Members of Ukrzaliznytsia's supervisory board insist that they are more committed than ever to raising cargo tariffs, and that Kamyshin's background will be a help rather than a hindrance.

Now, after gaining long-awaited approval from the State Regulatory Service, they might have their chance to increase revenues from iron ore and agricultural produce. If they fail,

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Ukrzaliznytsia will be in for a long and difficult winter.

Corruption schemes

The NSDC's request to the Cabinet came two weeks after a National Anti-Corruption Bureau of Ukraine investigation revealed a scheme through which Ukrzaliznytsia officials embezzled \$3.84 million (Hr 103 million) through overpriced contracts for the supply of diesel fuel.

In total, between 2019 and 2021, the Security Service of Ukraine exposed embezzlement schemes worth over \$37 million. Corruption is hard to root out at Ukrzaliznytsia because the company's procurement system is opaque. The nature of railway machinery makes it easy to manipulate tenders because it's difficult for non-specialists to gauge prices.

Volodymyr Omelyan, a member of the European Solidarity party who served as minister of infrastructure from 2016 to 2019, told the Kyiv Post that the company's management is aware of the corruption schemes being run by employees.

"You can't organize a (large scale) scheme in a way that doesn't become known to your supervisor," he said. Omelyan also believes that the President's Office is aware of the largest rackets. "They calculate everything and take part in it," he said.

Oleksandr Kava, the current deputy minister of finance and former deputy minister of infrastructure, rebutted this allegation. "There are

myriad myths surrounding this cash cow of Ukrainian oligarchs and the state budget... I would be happy to look at irrefutable facts instead of unjustified charges.”

Raising tariffs

Ukrzaliznytsia needs to raise tariffs to dig the company out of its financial pit. The cargo transport tariff system is currently a relic of the Soviet Union and the rates are far too low.

If the Ministries of Economy and Transport greenlight Ukrzaliznytsia’s proposed new tariffs, transportation of iron ore will go up by 30% and of agricultural products by 15%.

According to the company’s figures, this will lead to a \$378 million (Hr 10.1 billion) revenue increase in 2022, of which \$120 million (Hr 3.2 billion) will come from Metinvest, and \$37 million (Hr 1 billion) from DTEK.

Another way to shore up Ukrzaliznytsia’s finances is to waive the company’s obligation to pay land tax to regional governments, which currently costs it around \$150 million every year.

Railroads in most European countries are exempt from land tax, but Ukrzaliznytsia has been unable to convince the government to push this change through, as politicians are concerned about losing electoral support if they defund regional administrations.

Sevki Acuner, the chairman of Ukrzaliznytsia’s supervisory board, told the Kyiv Post that the

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situation is unsustainable. "Ukrzaliznytsia is presently paying exorbitant land taxes and some of the regions, on the other hand, are not even paying us what they owe for passenger services."

New CEO

Oleksandr Kamyshin is Ukrzaliznytsia's sixth CEO in two years. Acuner said that the board recommended Kamyshin's appointment because of his thorough knowledge of cargo transport, which makes up most of the company's revenue.

From June 2012 to December 2019, Kamyshin sat on the supervisory boards of Lemtrans, SCM's railway business, and Portinvest, another SCM subsidiary focused on seaports. Acuner insisted that there was enough distance between Kamyshin and SCM owner Akhmetov.

"Conflicts of interest arise only out of one's present and future actions, not from the past," he said, adding that the supervisory board was ready to take action if any problems occur.

Even Omelyan, who is otherwise critical of the current government, said that Kamyshin should be judged by his actions and the quality of the team he appoints.

Kamyshin has been appointed on a temporary basis until 31 December 2021. His primary focus will be to solve burning issues around debt repayment and push through the long-awaited cargo tariff increase.

However, if he stays past that date, he will be expected to restart Ukrzaliznytsia's stagnant progress towards its unbundling into separate companies. Acuner said that this needs to happen, as passenger travel ought to be subsidized with state funds, rather than profits from cargo transit.

"It's not fair for enterprises to support what is essentially a state obligation," he said.

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