



Eesti Raudtee's private interlude is over

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BALTIC Rail Services announced on January 9 that the sale of its 66% holding in Eesti Raudtee had been completed, ending five years of private-sector operation of the Estonian rail network.

The move was followed by the appointment as Chief Executive of former infrastructure director Kaido Simmermann, who immediately said his objectives included separating infrastructure management and freight train operations, as suggested in November by Minister of Economic Affairs Edgar Savisaar.

The story offers a salutary warning about the political risks involved in railway privatisation. At first everything seemed to go well, as BRS invested to drive up productivity. With just 2 000 staff, EVR carried a record 44.38 million tonnes of freight in 2006, supporting the assertion by former Board Member Henry Posner III that the legacy of BRS 'is reflected not only in EVR's operating results — by the numbers, EVR's safety, traffic and financial performance since privatisation — but also investment in rolling stock, infrastructure and best practices'.

Posner insists 'our deal was good. We put in the money. Under normal circumstances it would have been a sound investment. But the Estonian government let the foreign investors down.' Having bought its stake for 680m kroons in 2001, BRS had driven up the value of the company to an estimated 5bn kroons four years later.

Following an election in 2003, the new administration changed the rules on open access rights and capped the level of track charges, which reduced the railway's viability. Posner suggests that 'a limited group' of politicians was behind the move, but managed to achieve sufficient consensus to drive the changes through.

'Faced with regulation that in economic terms represented confiscation of most of the value in EVR, we made the best deal that we could under the circumstances', he explains. After an appeal to independent arbitration, agreement was reached late last year for the government to buy back the BRS stake for 2.35bn kroons (RG 12.06 p768).

Posner believes 'the alternative would have been worse for all concerned.' He insists that EVR is 'now well-positioned to maintain Estonia's role in the increasingly-competitive Russian transit business', with new traffic including Russian containers and grain from Kazakhstan.

Highlighting an improved safety culture at EVR, Posner reports 'a 75% reduction in the personal injury rate' and fewer level crossing incidents despite increased traffic and higher vehicle ownership. The cultural legacy includes establishment of the BRS Foundation 'which will continue to support railway safety, railway history and railway employees in Estonia'.

Reflecting the bitter disputes that characterised the final period of BRS ownership, the company is understood to have agreed to deposit 50m kroons as security for possible claims by the state. Savisaar said last month that the railway would never be privatised again.

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