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Benefits to freight shippers and passengers are priority in planning Ukrzaliznytsya's future

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Ukrzaliznytsya, the state-run railway company and nation's fourth biggest revenue-maker, is known for poor comfort, while experts say sale of the corporation to a private investor could benefit both, government and passengers. However, as Ukraine is going through en economic crisis, prices for the local assets are near the historic lows. © Kostyantyn Chernichkin

As a railway investor and manager with experience in a diverse range of countries, I have been asked to comment on the prospects for privatization of Ukrazliznytsya (UZ) for the Kyiv Post. I am happy to do so based on personal experience in Ukraine since 1999, and particularly because of the importance of the subject to the country in these times of stress. I offer the following advice recognizing Ukraine's unique circumstances but with the additional caveat that this advice is more or less the same that I would give to most countries:

1. **Recognize the unique contribution of railways to the national economy**, which are much greater than any cash proceeds likely to be realized from the sale of the company. This is not to say that the railway should not be privatized, but rather that the economic benefits to freight shippers and passengers are substantially higher than, for example, the likely sale price of UZ as a company.
2. **Recognize the strategic value of railways**, which even if unused serve as an alternative to road and other forms of transportation. In a time of rapidly shifting markets, today's under-utilized railway may become a strategic corridor in the future. This has been demonstrated in both post-Soviet rail history and the North American experience, where railways that were once abandoned are now quite healthy (our own Iowa Interstate Railroad being an example) and others are handling traffic that was never contemplated as recently as 5 years ago (for example, oil traffic originating in the state of North Dakota).
3. **Recognize that railways are "worth more dead than alive"** and that because of the value of urban land and the scrap value of track, an economically rational investor would be motivated to liquidate a railway company unless the deal was structured to focus on transportation as opposed to liquidation; this is not difficult to achieve as long as it is imbedded in the structure. Our own experience in Guatemala is a cautionary tale; in that case, an oligarch saw value in the real estate related to the railway and forced us out of business. The end result was the loss of the national railway, which was literally stolen in broad daylight, with even steel bridges disappearing.

4. **Consider how privatization might be good for the country as well as railway investors**—our own experience in Estonia was improvement of the railway's safety record, modernization of the locomotive fleet, and defense of the railway's (and national ports') market positions in an extremely competitive environment heavily based on Russian exports. That we were able to do this was reflective of a focus on the country's position for port transit traffic. And while safety was not a government objective, it was our #1 objective and the results speak for themselves.
5. **Recognize that railways are only as good as the countries in which they operate**—while our experience in Estonia was one of contribution to the national interest, what we could not prevent was a corruption-driven and radical change to economic regulation which allowed competitors to use our railway below cost. This was ultimately a disservice to the Estonian national interest as it forced us into arbitration against the government and ultimately renationalization of the company. Fortunately for us it was "better to be lucky than good," as shortly after renationalization the so-called monopoly lost half of its business due to a political conflict with Russia.
6. **Recognize that in countries with a tradition of state ownership, local experts and policy consultants often lack the perspective, or even the motivation, to look elsewhere for both models and solutions**. Ukraine may be best served by looking for policy assistance, and ultimately governance, from abroad in structuring a privatization process. The good news is that at this point there are enough models and history that whatever course is embarked upon can be tempered with the experience of institutions such as European Bank for Reconstruction and Development that are experienced in working with railways.

While the above is biased by my personal experience, I believe it is broad enough that it can serve as a starting point for consideration of alternatives. UZ is an important company that is in relatively good condition and represents interesting prospects. The challenge is to optimize its position for the benefit of the nation, as opposed to the economic interests or agendas of individuals.

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