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Private Operator Seeks to Improve Commuter Rail Services

By Alexander Bratersky

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CSPC operates traditional green trains, as well as gray-colored express rains under the Sputnik brand name. **Igor Tabakov**

Mikhail Khromov has an issue with hares. They make him very angry.

It's not furry creatures that are causing stress for the head of the Central Suburban Passenger Company, the biggest commuter train company in the country, but *zaitsy* — the nickname for those who jump turnstiles and platforms and ride public transportation for free.

"I was always struck by people who don't buy tickets. It is like sticking a sign on yourself: "I am a thief," said Khromov, whose firm is the busiest commuter train company in Russia, transporting 1.3 million passengers daily.

Beyond battling freeloaders, Khromov's mission is daunting. The Central Suburban Passenger Company, or CSPC, partially owned by Forbes list billionaire Iskander Makhmudov, is

planning to transform run down commuter train operations into an even more profitable business that is also comfortable for passengers.

Free riders are one of the biggest concerns for the Central Suburban Passenger Company, partially owned by Iskander Makhmudov.

In 2011, CSPC transported 506 million passengers, receiving 4.7 billion rubles ($150 million) profits.

"For me it is very interesting to develop a well-run transport system which also offers quality services," said Khromov during an interview with the Moscow Times at CSPC headquarters on Goncharnaya Ulitsa in Southeast of Moscow.

CSPC is 50 percent owned by the Moscow Suburban Passenger Company, which is controlled by Makhmudov and his business partner Andrei Bokaryov.

The other 50 percent is controlled by Russian Railways. The Moscow Passenger Company said earlier that it was interested in buying the 25 percent stake of CSPC owned by the Moscow region government. Although the tender announced in December, it was rescheduled and then canceled in March.

"We don't have an idée fixe to consolidate all of that business, although it would be a good thing," said Khromov, who declined to further elaborate on investment plans concerning his firm.

The company said earlier that it would buy new rail cars, since around 60 percent of them have reached or exceeded their service life.

"But one shouldn't expect that at all at once, all of the old trains will be retired and new ones will be introduced. It is an unbearably expensive task; all of this will be done over time," he said.

According to investment analysts, the company will spend about 20 billion rubles ($645 million) for new trains over the next several years.

Khromov said new cars would be produced locally. "Judging from our past experience, I would say that Russian-made trains are optimal as far as quality and price is concerned," Khromov said.

Prior to taking the helm of CSPC in 2012, Khromov worked as a senior manager in Transmashholding, the country's leading producer of trains and rail cars, which is also partially owned by Makhmudov and Bokaryov. The other shareholders are French train producer Alstom and Russian Railways.

Both partners also own 25 percent state in Aeroexpress, which provides express train services to all three Moscow airports. The train cars for Aeroexpress are locally produced but are more comfortable and presentable than standard commuter trains.

Differentiation and Pricing

Along with traditional green-colored trains, CSPC also runs gray colored express trains on some suburban lines. They operate under the brand name Sputnik and are more luxurious than the green cars. The express trains are becoming popular with passengers, who, the company said, are all fare paying.

Khromov said the company was allowed to set prices for the Sputniks, since they are serviced by ?SPC, although they are owned by Russian Railways.

But according to rail regulations, the price for Sputnik tickets cannot be more than twice the price of the standard commuter train.

However, CSPC is currently negotiating with the Moscow region to adjust tariffs for all commuter trains, in the face of inflation. "Frankly speaking, tariffs have not been adjusted in the last four years," Khromov said.

"If tariffs will be not adjusted we will devour ourselves," he added. In most countries, commuter train operators receive state support, Khromov said.

Another move that will not only bring more revenue eventually but also help address Moscow's traffic nightmares is CSPC's ongoing effort to build parking lots near suburban train stations. According to the Moscow regional transportation department, 10 parking lots for 830 cars were built last year. This year, 57 parking lots with space for 5170 cars are planned.

Department spokeswomen Zhanna Terekhova said that all of the CSPC parking lots were currently free of charge. In the future, they will only be free for those who are buying train tickets, she said.

Run hare, run!

Protecting revenue streams is a key issue for CSPC, which is indirectly subsidized by Russian Railways. CSPC pays only 1 percent of ticket proceeds to the state rail monopoly for using infrastructure, including rail lines and stations.

Khromov told Kommersant in April that if company did not get such support, it would have generated a loss of 7 billion rubles in 2011.

But in 2012, the CSPC itself was targeted by the Federal Tax Service, which said the company had understated profits and failed to pay 740 million rubles ($23.6 million) worth of taxes.

According to tax officials, last year CSPC paid both Russian Railways and its own contractors for cleaning and service work in order to minimize profits, Vedomosti reported. Company officials said Russian Railways' pricing policy was to blame for the situation. The case is still pending in court.

Free-loading *zaitsy* are one of Khromov's biggest headaches. He estimates up to 30 percent of possible revenue is lost because of them. But Khromov admits that the company has few resources to fight the *zaitsy*.

Scenes of the company's burly guards blocking the aisle on train cars while train conductors attempt to get passengers to buy tickets have made a splash on You Tube, but for Khromov it is not a laughing matter. "Sooner or later all of our conductors will be qualified to open law offices, since once they ask passengers to buy tickets, the passengers lecture them on their own rights," Khromov said sarcastically.

Helpless Russian Railways police and station personnel can often be seen ignoring the situation at central and regional train stations as even well-dressed passengers crawl through holes in fences and jump on and off platforms.

Another big issue *zatsepery* (train hoppers) — young people who hang on to various outside parts of the trains as they set off, often putting their life at risk. A Moscow Times reporter recently witnessed a young man standing on the back of a suburban train heading for the center. A police officer, riding in the same car paid no attention, despite been alerted by the passengers.

Khromov said that during the Soviet era, measures against free rides were tough, and offenders were often brought to police stations and forced to pay a fine.

Now, Khromov said, the only solution is to install costly ticket barriers. "We can only beat the hares using technology," he said.

Staff Efficiency

One method used by CSPC for improving the bottom line has been outsourcing non-core functions. This year the company eliminated the jobs of 200 "controllers" whose role was to sit at the turnstiles and make sure no one leaped over, under or past them. They were replaced by private security guards, who cost much less.

"To have had such a large number of people with way too many functions was useless for the company," Khromov said.

The reduction led to protests by the controllers who staged a picket near the company headquarters in March.

Khromov said the company followed all the necessary labor procedures, and offered the laid-off employees other positions within the company. "We have laid them off, following all the legal procedures. All of them got termination benefits," he said.

Two Big Hats

In addition to leading CSPC, Khromov also presides over another ambitious project: the development of the Moscow ring railway, which is planned to be used for suburban trains to connect with the Moscow city metro.

The project, which will cost around 80 billion rubles ($2.6 billion) and is slated for completion by 2015, is based on existing infrastructure built during the Soviet era to move freight around the city. Moscow Mayor Sergei Sobyanin said earlier that the revamped lines would carry up to 285 million passengers per year.

"Passengers will have the choice of going by above ground rail road and watching the beauty of the countryside, or riding the metro," Khromov said.

CSPC plans to take part in a tender to select the company that would service the new railroad, but Khromov said that he did not see any conflict of interest.

He told Forbes magazine in March that the tender would be transparent and it would be open to other companies. "Yes, the Central Suburban Passenger Company has everything it needs to participate in this tender and win it. But victory is not guaranteed," he said.

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