

Features of Ukrainian Railway Pricing Policy

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Abstract – Theses are devoted to features of pricing at the state monopoly Ukrainian Railway (Ukrzaliznitsa). Important role of railway in national economy and infrastructure development is discussed. Prices on different trains of Ukrainian railways are compared and analysed. Features and problems of pricing policy are discussed. Measures of tariffs regulation are offered.

Key words – railway, infrastructure, monopoly, pricing policy, competition, quality of service, traffic rates, economic efficiency, compare analysis, deviation.

I. Introduction

Humans society transformed from industrial to information economic model, where role of knowledge, technologies and innovations significantly increased. Globalization led to acceleration of information, finance, goods and humans flows, strengthening the competition at all markets. In such conditions level of infrastructure development is very important factor of national economy efficiency and competitiveness.

Ukrainian railway serves about 86% of cargo traffic and almost 50% of passenger traffic in Ukraine. Rail transport is the most popular among others in Ukraine, and this trend continues from year to year because of economic reasons. Ukrainians still don't earn enough to use cars as people in EU (for compare – only 1,5% of people uses railway in Poland) [1].

State administration of railway transport of Ukraine (Ukrzaliznytsia) provides centralized management of local and international traffics and regulates activity of railways. It includes Donetsk, Lviv, Odessa, South, South-Western and Pridneprovsk railways and also technologic and production enterprises. Despite the significant role of the railway in the economy, effective functioning of railway administration is very important.

But there are some factors of railway functioning, which have to be considered to improve it's economic efficiency and provide further infrastructure development. One of them is pricing policy, which is quite complicated especially for unprofitable passengers traffic. Railway transport for passengers has not only economic, but social meaning, as provides people's trips inside country and abroad. Ukrzaliznytsia keeps prices on low level as taking into account existing demand. So passenger's traffic is unprofitable and Ukrzaliznytsia covers losses from it by profit from cargo traffic. Such policy seems to be social-

oriented and appreciated by customers, but there are still some tensions in pricing question.

II. Prices analysis

To analyse pricing policy of Ukrzaliznytsia for passenger's traffic, let's compare prices of different trains for 3 destinations: Dnipropetrovsk-Kyiv, Dnipropetrovsk-Simferopol and Dnipropetrovsk-Lviv. Prices are given according to information at Ukrzaliznytsia web-site [2].

TABLE 1
PRICES ANALYSIS FOR DESTINATION
DNIPROPETROVSK-KYIV

Train	Travel time, hour	Price for coupe, UAH	Price for platzkart, UAH
№028П Sebastopol- Kyiv	8,19	145,31	87,77
№079П Dnipropetrovsk- Kyiv	8,22	238,93	130,65
№072П Zaporizzha– Kyiv	8,27	128,94	106
№038Д Donetsk-Kiev	7,48	185,11	106,2
№012П Simferopol-Kyiv	7,1	222	-

As Table 1 shows, price deviation are quite significant. Difference between highest and lowest price for coupe is 109,99 UAH (which is equal to 1 platzkart ticket). Difference between highest and lowest price for platzkart is 42,88 UAH. Price for coupe at train №38 is lower, than price for platzkart in train №079, and time of travelling in train №79 is half of hour longer.

Ukrzalianytsia awardet some trains brand status with additional comfort, for example brand train №079 “Dnipro”, brand train №012 “Slavutich”, brand train №038 “Donbas” and brand train №072 “Zaporizzha”. But no matter of same status, prices in them are very different.

TABLE 2
PRICES ANALYSIS FOR DESTINATION
DNIPROPETROVSK-SEBASTOPOL

Train	Travel time, hour	Price for coupe, UAH	Price for platzkart, UAH
028K Kyiv-Sebastopol	9,03	129,52	91,64
040K Kyiv-Sebastopol	8,59	200,47	114,82
090Д Dnipropetrovsk- Sebastopol	8,52	169,11	99,7

As Table 2 shows, prices on destination Dnipropetrovsk-Sebastopol are also quite different. Difference between highest and lowest price for coupe is 70,95 UAH, and for platzkart - 23,18 UAH. And coupe ticket in train №028 is just 14,7 UAH higher than platzkart ticket in train №040.

TABLE 3

PRICES ANALYSIS FOR DESTINATION DNIPROPETROVSK-LVIV

Train	Travel time, hour	Price for coupe, UAH	Price for platzkart, UAH
041П Dnipropetrovsk-Lviv	18,45	202,1	117,1
070Д Mariupol-Lviv	19,05	201,7	117,8
086Д Simferopol-Lviv	17,32	202,2	117,2

As Table 3 shows, prices on all 3 trains which serve destination Dnipropetrovsk-Lviv are equal.

Results of Tables 1-3 indicate an unbalanced pricing policy of Ukrzaliznytsia and significant differences in the prices of different railways.

After announcement by Ukrzaliznytsia the planned price increasing, Antimonopoly Committee (AMC) of Ukraine investigates the situation and preparing recommendations on tariff adjustment. AMC has proposed to conduct calculations in accordance with the actual costs, which take into account the real investment component instead of planned [3].

So how did Ukrzaliznytsia calculated it's passenger tariffs, and which components are included? And why prices of different railways are so significantly different? In December 2012 Ministry of Infrastructure of Ukraine offered to public discussion 2 documents, called "Methodology of tariffs calculation for passengers transportation by railway" and "Methodology of tariffs calculation for passengers transportation by daily high-speed trains Intercity". But as prices analysis showed, railway tariffs haven't been changed at least to correspond the relevance of travel conditions.

III. Pricing policy of natural monopolies

Pricing decisions are influenced by 2 main factors – cost of goods/services sold and market demand. Prices are also affected by market competitive structure. Even in such state monopoly as Ukrzaliznytsia there is competition between some railways for cargo and passengers traffic. But this is a market of imperfect competition.

The existence of imperfect competition markets (monopolies and oligopolies) causes underproduction and overpricing, inefficient production, etc. It was estimated that the losses associated with the activities of monopolies and oligopolies in USA were approximately of 0,5-2% of all manufacturing output in the society [4].

Feature the industries that belong to the spheres of natural monopolies, is production of the most important resources, which are needed to produce goods and services in all sectors of the economy and are important for livelihood of the population. Such products of natural monopolies are gas, water, electricity, heating, and providing transportation services. The share of production

of natural monopolies in the cost of production can be up to 30-70% (particularly the "transport " and "energy " components). Thus, the significance of natural monopolies, their impact on society and on the rates and proportions of economic development, require the improvement of their pricing principles and state control and regulation.

To support the effective development of economy, state have provide some regulatory functions, related to natural monopolies, such as: definition the boundaries of natural monopolies, their markets and customers; development of legal acts, regulationg the relations between market participants, and methodology, which determines cost-based tariff differentiation, identification of key economic indicators, tariffs calculation, mechanism of regular audit the natural monopolies activity etc.

Conclusion

Thus, regulation of tariffs of natural monopolies is an important lever of influence on the balanced development of all sectors of the economy. From the level of tariffs of natural monopolies depend tariffs and profitability in other industries that require a comprehensive approach to the issue of tariffs.

Prices analyses showed, that prices don't depend from destination and confort of trip and sometimes their deviations are absolutely unreasonable. So state have to realize complex of measures, including control and audit of Ukrzaliznytsia and it's railways activity, development the effective methodology of tariffs classification and calculation, based on objective economic parameters, control the economic efficiency of investments in railway stocks etc.

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