

The privatization Process of the Islamic Republic of Iran Railways

Shanam Shakerov

Management faculty, Academy of Sciences, Tajikistan

Abstract: Rail transport in general and specifically with regard to its relative advantages such as reduced fuel consumption, more safety, more compatibility with environment, is considered one of the strongest levers of economic growth and development and any plans for economic and social development require attention to necessary planning in rail transport industry. Introducing rail transport as the priority of the country development program, setting goals, increasing rail's share up to 30 percent in load conveyance and 18 percent in passenger conveyance, enlighten the importance of the issue which is just realized in the light of increased productivity and new investment in railway. Given the high capital investment in rail transportation and insufficient budget of the country to address the issue and also the problems of enhancing efficiency in state sector, private sector involvement in this industry has become necessary to transmit the management knowledge and financial resources of this sector and to enhance the performance of the affairs as well.

[Shabnam Shaker. **The privatization Process of the Islamic Republic of Iran Railways.** *Life Sci J* 2013; 10(5s):138-141] (ISSN: 1097-8135). <http://www.lifesciencesite.com>. 25

Keywords: Privatization, railroad, Iran, privatization process

1. Introduction

Privatization is a process which has been noted by most countries around the world since 1980s and more than 100 countries have utilized it in some way and or are utilizing and completing it. Most countries, who own railway industry, especially developed countries, have privatized their rail transport industry and in developing countries independent operational structures are taken into account. In Iran long steps have been taken in the form of developed and communicated polices in the first plan of country's economic-social development to leave state economic activities to private sectors. Today, many countries throughout the world utilize privatization as a solution to reform their economic and management system. Privatization is a process through which governments leave the sectors which people are able to deal with to them in different ways, to develop markets by utilizing the existing resources and mechanisms of supply and demand and to enhance the goods quality and services by providing competition and eliminating monopoly. Privatization in a society can be followed by certain goals, such as increased efficiency in activities, getting rid of the governmental agencies losses and related costs (subsidies, grants, etc.), efficient use of the country's expertise and resources, economic growth and development, public participation, getting income through transfer, attracting foreign investments and reducing administrative bureaucracy. It's necessary to mention that the context for this important affair was provided by passing the law to have free access to the nation's rail network and later soared by notifying regulations determining the optimal share of public and private sectors (Article

44 of general polices of the constitution). Of course, it should not be forgotten that the expectation and the possibility of investing and entering all areas of rail industry by the new non-government sector with limited ability are illogical and the state support for privatization should not be faded because it is impossible without the government support.

1.1 Comparing Privatization in Iran and Several Industrialized Countries

1.1.1. Germany:

Modification and privatization in Germany started in Germany by integrating by two state-owned railway companies DB and DR in 1993. Then, in 1994 all activities related to passenger and freight transport were taken from this newly established company and then were divided to several sub-sectors by horizontal separation and their ownership was assigned to private sectors (except the infrastructures management). In fact, the measures taken in modifying and privatizing railway structure in Germany can be expressed as vertical separation, tender, free access, and horizontal separation (zoning).

1.1.2. The Netherlands:

In 1995 by using vertical separation technique in rail transport industry of this country, infrastructure sector was assigned to three state-owned companies which were directly in touch with the Netherlands National Railway (NS). In 2002 infrastructures were entirely separated from operations and in 2003 the independent infrastructure company (Pro Rail) was established. The certain company was opened to monitor and regulate traffic.

Among the positive points of privatization in this country, the serious attention of the government to innovation and productive competition of the sectors and long process of restoring and improvement of railway industry could be referred to. During the restoration, the project faced some problems which were mainly caused by unknown policies in restoring the complex, government's lack of monitoring over the organization activities, too much concentration on infrastructures rather than the maintenance of the infrastructures.

1.1.3. Argentina:

Restructuring and privatizing in Argentina Railway was fulfilled to reduce workforce and to concentrate on freight sector and in the first step the freight transport network was divided to six sub-networks by horizontal separation and then each one was assigned to private sector for a period of 30 years. In early 1991, the passenger sector was given to private sector in seven states. Privatization in Argentina caused the railing system of that country to be organized and managed in a certain way and also financial affairs be controlled more carefully. Also the assignment of integrated rail system and not separating the sectors from each other raised their management and maintained the coordination among various sectors. The most important problem of Argentina railway when it was state-owned was that it was an unknown transport system which was removed after privatization and its positive effects on rail system. Due to many accidents in the early years of privatization, this sector was not trusted much anymore which was of course removed in the following years. Poor performance of local passenger transport in Buenos Aires (capital of Argentina) was greatly improved by the support of the states. Under a contract whereby the private company was committed to hire former staff of Argentina railway, the workers who had been unemployed for some time entered the labor market again

1.1.4. Japan:

Unlike European countries railway separation in Japan was functional and regional (horizontal) so that the whole country was divided to six regions and each region was assigned to a passenger railway company and then the total freight sector was assigned to a freight railway company. Contrary to some critic's thoughts, the government was able to achieve successes by taking appropriate measures. Successful railway privatization in this country was due to different factors such as horizontal and functional separation, public integration (assigning operation and infrastructure sectors to just one company in each region), subsidizing three low-

populated areas, establishing companies, paying back delayed debts and providing non-rail services (such as bus system, developing lands, tourism). Some effects of privatization in Japan included improved financial status of regional companies, reduced fares in three main areas (eastern, western, and central), fixed fares in three low-populated areas (due to paying subsidies by the government), enhancing services quality (enhancing the number of passenger trains and reducing the number of cars in the road network of the country), increasing rate of load demand in comparison to the time before privatization, lack of decrease of offered services in rural areas contrary to the expectation of opponents of this plan, increasing the income of the staff, and finally decreasing operational expenses and rate of accidents and injuries and damages.

1.1.5. Iran:

Turning the railway from a state agency into a state company in 1932 was the first step in modifying the infrastructure and privatizing the rail way. The purpose of this change was to convert the railway industrial accounting systems to an independent system so that the government could monitor the railway activities more carefully and precisely. Therefore this important issue was noticed by the parliament and the government and it was briefly referred to in the first and second five-year-development programs, but its main changes and planning seriously began since the beginning of the third development program and the government took some measures based on articles 63 and 111 of the third development program in order to encourage the investors. And then in articles 11 and 12 of the first chapter (infrastructure for rapid economic growth) of the fourth development plan and finally in article 113 of the fifth development plan this matter was considerably noticed by the government. The beginning of privatization plans in Iran goes back to the implementation of the sample and policies of economic adjustment of the international monetary fund and the World Bank, in the restoring time. After the Islamic revolution which led to governmental ownership of a large section of Iran economy, the government gradually grew more and more. During the restoration and by implementing economic adjustment policies and privatization imposed by international organization to get rid of crises and to achieve appropriate economic growth, the first steps were taken to reduce the role of government in market and economy. For a successful privatization, the capability and efficiency of private sector should not be less than that of the government; otherwise the main goal of privatization which is increasing efficiency will not be achieved.

1.2. Privatization from the Viewpoint of Laws

Regarding the first and the third development programs, privatization and assigning economic activities specially railway transport were planned in policies of the first economic, social, cultural development program of the Islamic republic of Iran and its implementation was provided by approving of the letter dated 1992 by the cabinet and declaring the list of 400 state-owned companies to improve efficiency and to reduce the government authority in unnecessary economic affairs and also to generate economic balance and to make efficient use of the country's resources and facilities. According to note H of the annual budget of the country posed in 2001, it is a law which has provided the plan of assigning stocks before implementing the third development program based on any legal condition and with various orientations and in 2003 we witnessed the critical letter of economic affairs and finance minister to 10 other ministers because of the delay in assigning state-owned companies to private sector. Article 44 of the constitution declared the railway as a state-owned organization. However, in order to develop non-government participation in railway in articles 30 and 128 of the constitution, the ministry of roads and transportation is allowed to assign some parts of passenger and freight transport and the repair and maintenance and restoration of the network and railway transport to natural and legal persons in non-government sections while keeping the state ownership of the railways and enforcing the comprehensive and coordinated policy of national railway transport and preventing monopoly in non-government sector and guaranteeing services. In order to implement such a law, the administrative regulation of abovementioned articles were approved of by the cabinet and the instructions of articles 5,6,8,9 of the regulation were issued after the approval of the volume of the Islam republic of Iran railway company.

1.3. Mechanism of Railway Privatization

Privatization means changing the atmosphere governing state institutions so that while keeping the main tissue of the activities, this atmosphere will just change and the market conditions will affect the institutions activities in such a way that the motives of private sector mechanisms will be the criterion for making decision in these institutions. In fact, the main goal of all those countries who are interested in privatization is to improve economic conditions; moreover, there might be some other goals such as:

1. Developing productivity and national output
2. Savings in administration costs

3. Encouraging competition, increasing financial prosperity, increasing the efficiency of economic activities
4. Developing capital market and participation culture in country
5. Providing job security, promoting quality

1.4. Reasons for railway privatization

1. Consecutive losses
2. Increasing state subsidies to keep on railway activities
3. Lacking the right of tariffs and pricing because of governmental regulations
4. Poor transport services and ignoring the clients' logical demands and needs
5. Ignoring public managers in repairing and maintaining vehicles and products and thus increasing depreciation of fixed assets
6. Low productivity of capita and labor

2. Results

2.1. Analysis of the Current State of Islamic Republic of Iran Railway

The performance of the Islamic republic of Iran railway in transporting passengers and freights has been positive so that it has been privatized 100% in passenger transport and 90% in freight transport. With regard to existing challenges and shortcomings after Spelry treaty and privatizing the maintenance of railways in Iran and factors such as safety expenses the quality, trend and ease of movement have not inclined and have also improved in 2012. The completion of unfinished projects such as railway and roads are prioritized in 2012 and the quality of passenger halls have improved about 60 to 70 percent and 34% of wagons have been built inside the country and privatization has been made within the framework of the Islamic republic of Iran regulations like principle 44 of the constitution. The economic principle towards development an appropriate and trained management was prepared by 158 members of the parliament and was issued by the leader of the Islamic republic of Iran to avoid a bigger government and to increase productivity and to reduce expenses.

2.2. Companies being assigned under the Islamic Republic of Iran Railway

Assigning the Islamic republic of Iran railway stock according to the regulations of the fourth development program and performing general policies of principle 44 of the constitution

3. Discussions

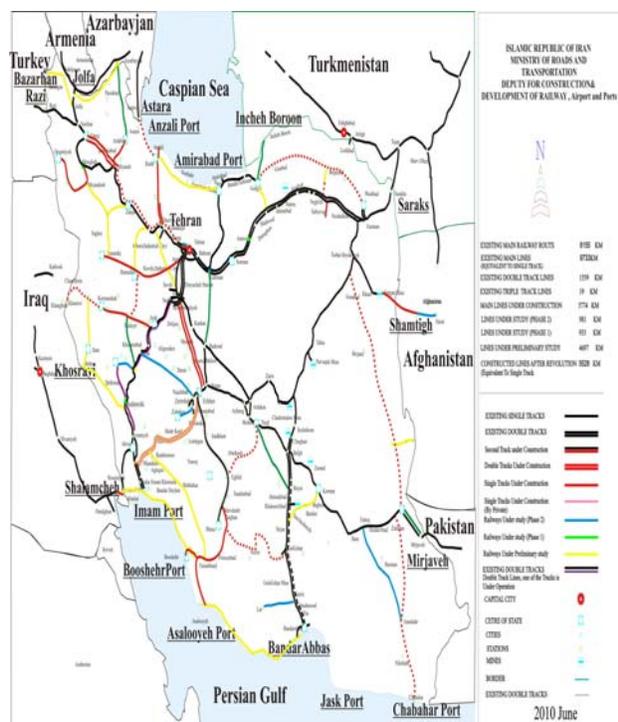
Islamic republic of Iran railway as the leading member of railway industry, has been formed in the shape of a company (1424 – 8220), but its general

activities are performed within the framework of state regulations. The main goal of this company is to exploit a network which is executed in the framework of developing the rail way by the ministry of roads and transportation. In fact railway transport privatization like other strategies can affect

Different dimensions of the society by its modifying, economic, managerial, social, political,

and cultural plans provided that it is operated logically. Finally, it could be said that if privatization is directed within a definite framework, and if the existing tools and facilities are used correctly, the privatization process can bring about useful achievements for the country and in this regard, it is necessary to make use of the experiences of other countries as well.

Row	Name of Company	Railway Stock	Companies' Activities
1	Line and building engineering services (Travers)	assigned	Expansion and production of Traverse and other related products and making surface lines and reconstruction and maintenance of the lines
2	Raja passenger railway company	assigned	Passenger transport and services
3	Iran railway	assigned	To provide consultancy services in the field of transportation
4	Pars silk railway company	50%	Railway transport , oil and transit products
5	Saipa rail company	40%	Container transport , car transport
6	Engineering company	100%	Producing blast and making bridge
7	South steel rail company	49%	Railway transport (mineral products)
8	Miro railway transport company	49%	Railway transport (fuel products)
9	Combined transport and shipping company	49%	Container transport
10	Tuka rail company	assigned	Railway transport , mineral products
11	Samand Rail company	40%	Container transport ,car transport
12	Pars wagon company	assigned	Manufacturing locomotive and passenger and freight wagons



EXISTING, UNDERCONSTRUCTION AND UNDERSTUDY RAILWAY PROJECTS

Author is grateful to the Management faculty, Academy of Sciences, Tajikistan for financial support to carry out this work.

Corresponding Author:
SHABNAM SHAKER
Management faculty, Academy of Sciences,
Tajikistan

References

- Antonio Estache, marianela Gonzalez, 2002, *what does privatization does for efficiency? Evidence from Argentina's AND Brazil's railway, world development*, Vol30, No11, 2002, PP 1885-1897.
- European Conference of minister of transport, 2001, *Railway reform (regulation of freight transport markets)*.
- Gunnar Alexanderson, 2006, *rail privatization and competitive tendering in Europe*, Built environment, Vol35, No1, 2006, PP 43-58.
- Jahangir Amuzegar, "The Iranian Economy Before and After the Revolution," *The Middle East Journal*, Vol. 46, No. 3 (Summer 1992), pp. 413-25.
- Pinkepank, Jerry A. *The Second Diesel Spotter's Guide* 1973 Kalmbach Books p.233.
- Staff (17 July 2012). "Iran's First Locomotive Production Plant Inaugurated". *Tehran Times*. Retrieved 6 February 2013.

3/2/2013

Acknowledgements: