Creating an integrated rail freight market in the EU

Assessing the progress so far

The Adam Smith Institute's inaugural conference
« The future of rail freight in Europe »
Amsterdam, 21-22 November 2005

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Summary

1 – The EU policy approach to improving the performance of rail freight: Building an integrated European Railway Area

2 – Developments in rail freight transport – two years after EU market opening

3 – Challenges ahead

4 – Concluding remarks

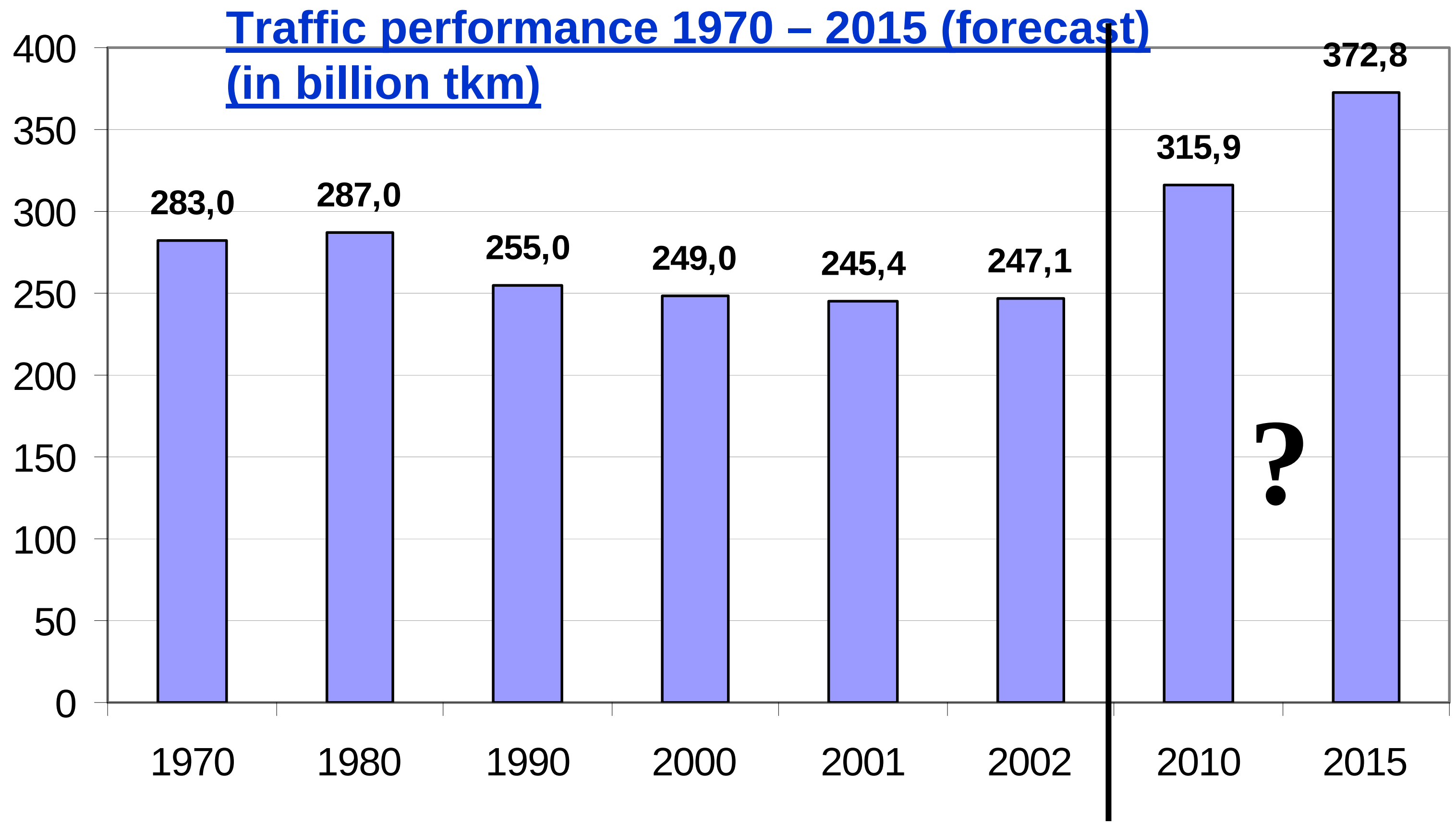
Key figures of the EU rail freight market 2003

- Modal share: EU15: 14% (242 bn km); EU10: 39% (122 bn tkm)
- Turnover: EU15: ca. €10 billion; EU10: ca. €3 billion
  - For comparison: road haulage ca. €200 billion (EU25 in 2001)
- Employment: more than 200.000
- Loss: ca. € 800 million (EU15)
- Major markets:
  - Heavy industry transports, e.g. coal (ca. 70%), steel (ca. 35%)
  - Port hinterland traffic, e.g. Hamburg container (ca. 40%)
  - Selected „difficult“ corridors, e.g. Frejus-Brenner arc (ca. 65%)

Source: McKinsey&Company (2005), European Commission

Can the policy objective of the EU Transport White Paper of 2001 be met?

European Commission



EU 15

Quelle: Prognos + European Transport Report 2002

The EU policy approach
Creating an integrated European railway area

➢**The visionary objective for the EU rail system of the future is:**

***« Creation of an* integrated European railway area to allow**

cross border services under a single responsibility ***in order to***

guarantee the quality of services to the customer »

The EU policy approach
Creating an integrated European railway area

European Commission

➢ **The cornerstones of the EU approach to improve the performance of rail transport are:**

- **Open access in rail transport to favour competition and create incentives for product innovation and service quality**
- **Fostering the interoperability of the national networks (and hence international services) through technical harmonisation**
- **Develop a common rail safety approach to facilitate market access while maintaining a reasonably high level of safety**
- **Set up a European Railway Agency to implement the EU interoperability and safety legislation and to act as a network integrator at EU level**

EU rail freight market opening well underway

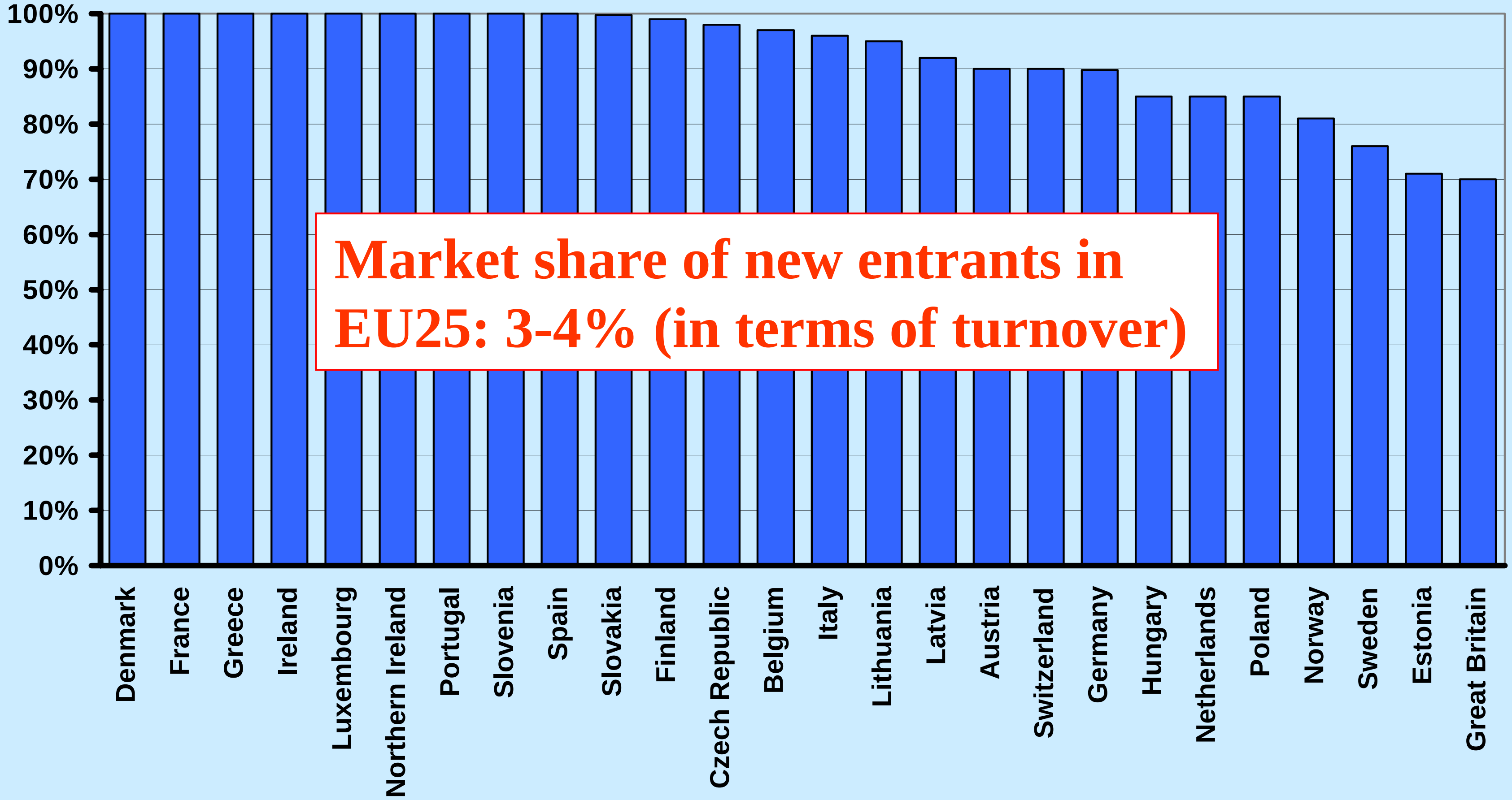
State of play 1st and 2nd rail package

European Commission

- 1st railway package (rail freight opening on Trans-European Rail Freight Network) had to be implemented by Member States by March 2003.
  - Infringement procedures against LU for lacking transposition (1st judgement of ECJ in autumn 2004)
- The 2nd railway package (opening for domestic and cabotage rail freight services by 1.1.2007) must be transposed by December 2005
  - Transposition in Member States ongoing

➔Essentially, the market for international rail freight services is open but…

Rail freight market share of largest operators remains high (in terms of tkm)



Source: SDG (2005), ERFA

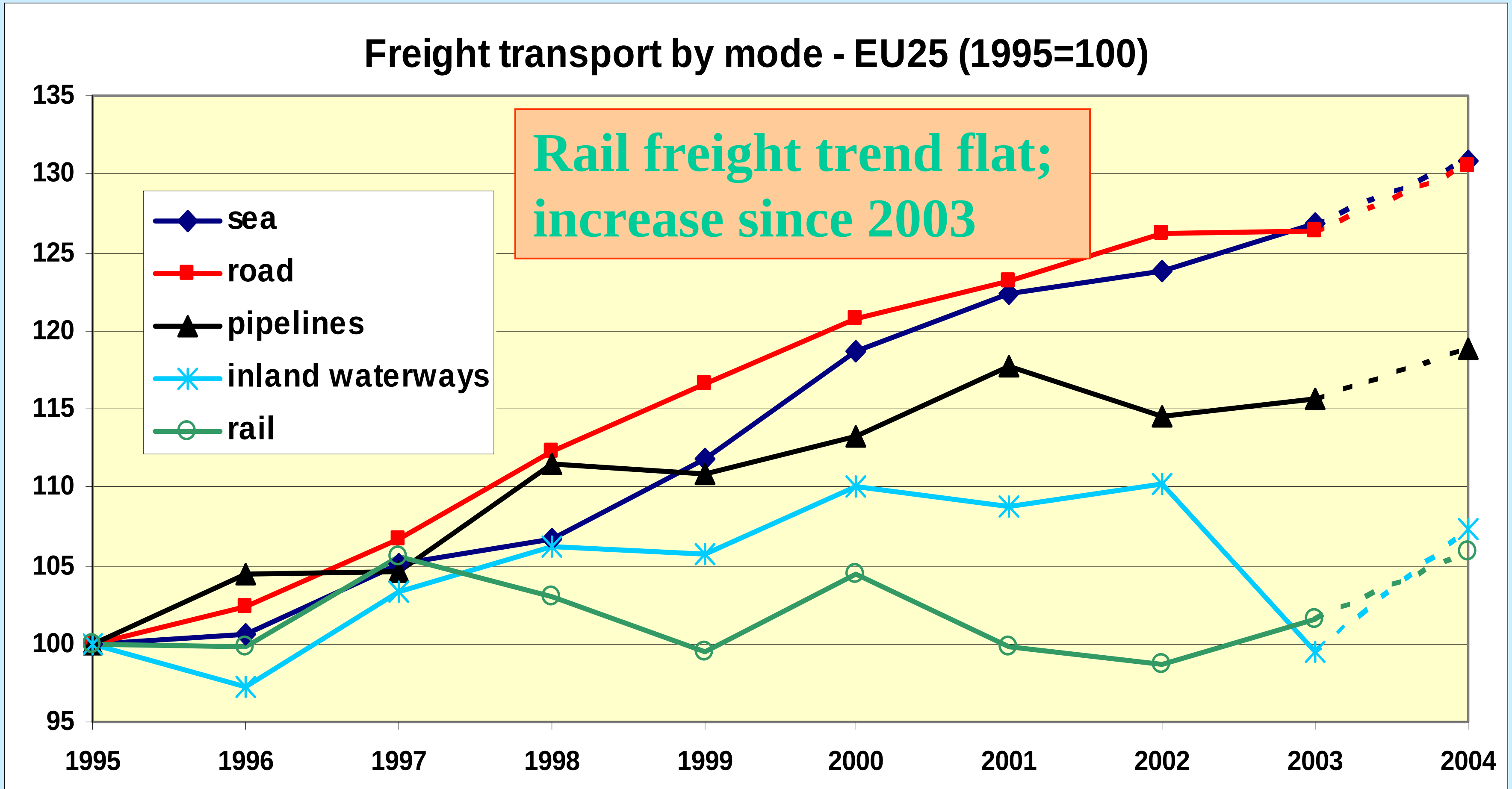
Market entry and competition pick up from low level

European Commission

- There have been new entries on rail freight markets, in particular in Sweden, the UK, the Netherlands, Germany, Italy, Poland and the Czech Republic.
  - France: entry by CFTA (Connex group), interest by other railway undertakings, EWS received safety certificate
  - Spain: Entry prepared by some RU (e.g. Transfesa, Comsa Transport)
- Railway undertakings enter into new types of co-operations/ alliances for providing international rail freight services.
  - "European Bulls" alliance in January 2005
- For the first time historical railway undertakings enter into direct competition with each other (on North-South corridor) and elsewhere expected soon

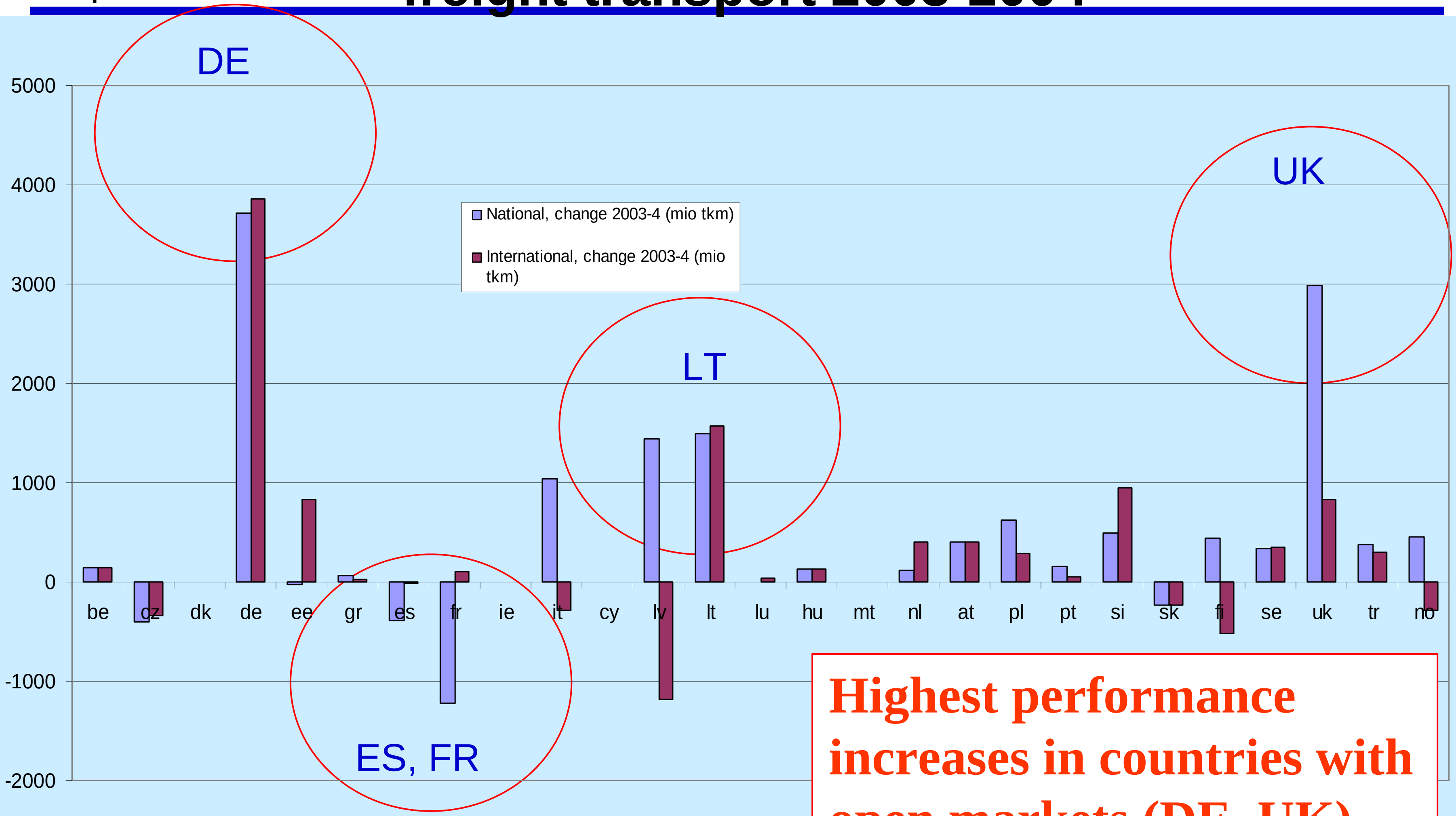
European Commission

Development of EU rail freight transport stays behind other modes



Source: European Commission, UIC

Changes in national and international rail freight transport 2003-2004



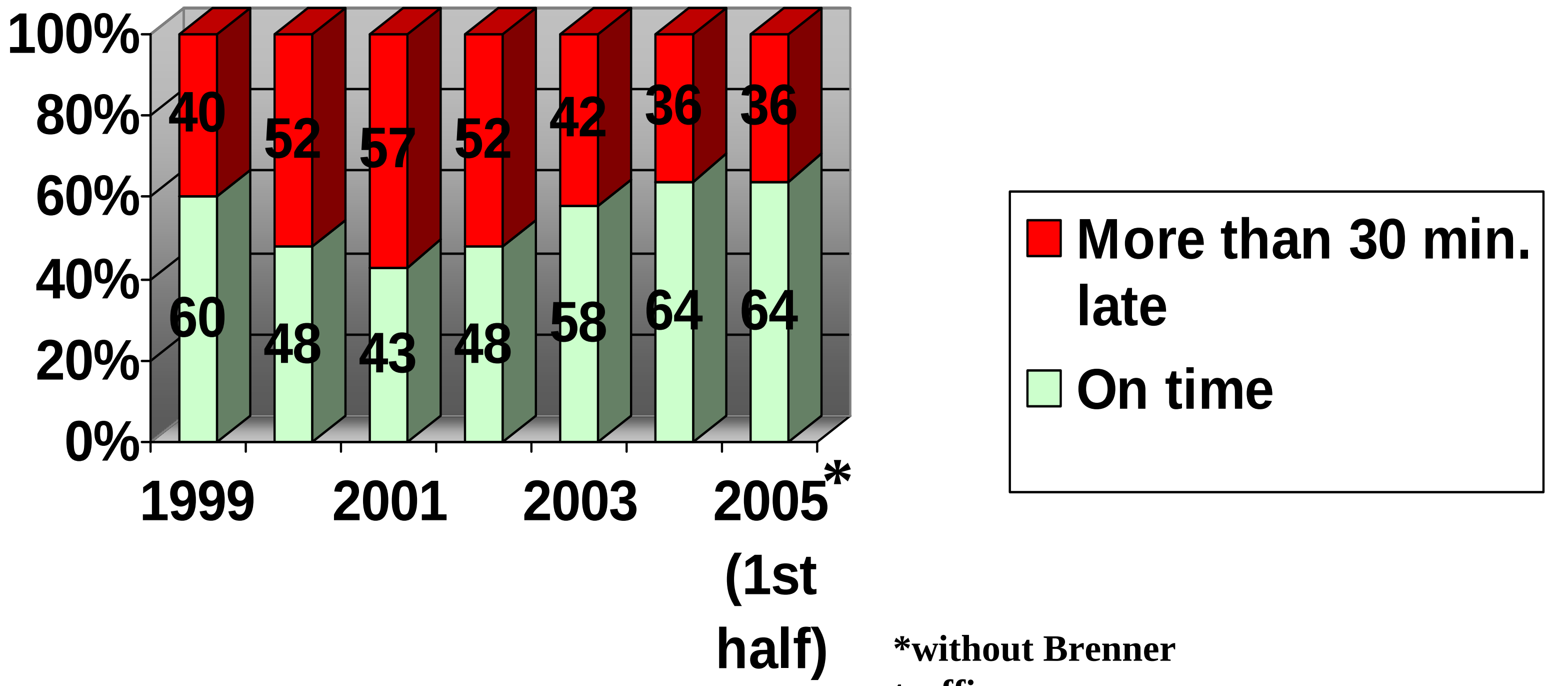
Highest performance increases in countries with open markets (DE, UK)

European Commission

Punctuality of UIRR trains 1999 - 2005

On main European corridors

- ➢Quality improves, but remains still insufficient.
- ➢Will negotiations between UIC and rail freight customers be successful leading to widespread use of quality clauses?



*without Brenner traffic

Quelle: UIRR (2005)

After market opening: The economics of rail freight remain fragile

- Rail freight operators restructure and improve productivity
  - Best practice: 30% productivity increase over last 5 years
- Cost (per tkm) reduction: annually -2% over last three years
  - Further cost reduction potential: -20% in medium term
- However prices (per tkm) drop more quickly: annually -3% over last three years
  - For many market segments prices are largely determined by road haulage (rail is price taker)

➔ Cost reduction potential must be dwelled upon further

➔ Increase performance through network integration

Source: McKinsey&Company (2005)

Challenges ahead

Promoting non-discriminatory access to enhance competition

- **Enforce independence of essential functions for non-discriminatory access carried out by infrastructure managers**
  - Holding structures to fulfil minimum requirements such as independent board members, statutory independence from the entity executing essential functions, staff in separate buildings, etc.
- **Non-discriminatory access to and pricing of rail service facilities (e.g. energy, terminals, workshops, stations)**
  - Commission to launch study in 2006
- **Powerful and independent rail regulatory bodies**
  - Proactively promoting market entry and competition
  - To be functionally independent of ministry (3rd railway package)

Challenges ahead

Making rail business simpler, less costly

- **Speed up/simplify safety certification of rolling stock**
  - **Authorities could apply (non-binding) Guidelines for cross-acceptance of rolling stock in transitory phase until rail safety Directive fully implemented**
  - **Assess merits and feasibility of coherent, EU wide certification, for instance by European Railway Agency**
- **Railway undertakings to streamline operational procedures in international traffic**

Challenges ahead

Ensuring the right incentive structure for rail freight

- Set up Performance Regimes in all Member States according to Directive 2001/14 to provide incentives for efficient use of network
  - Exist so far only in UK, DK, (IT, SE)
  - RNE to develop coherent approach
- Issue contracts between state and infrastructure manager on infrastructure financing and infrastructure provision
  - stable financial framework vs. “(infrastructure) value for money”
- Fair and efficient road pricing (Eurovignette Directive), enforcement of social legislation in road haulage

Challenges ahead
Develop integrated, performing infrastructure

- **Co-ordinated deployment of ERTMS/ETCS on the EU rail network to enhance interoperability**
  - **Commission Communication of July 2005: strategy, financing**
- **Setting up a European platform for electronic data exchange (telematic applications for freight – „TAF“)**
  - **EU wide tracking & tracking, fleet management, etc.**
  - **Strategic European Deployment Plan to be developed and implemented by sector**
- **Developing a European priority rail freight network/corridors**
  - **Research projects TREND, REORIENT, NEW OPERA**
  - **Call for proposals for ‚Integrated Project‘ (6th FP) currently open**

Concluding remarks

- The “turnaround” of rail traffic performance in the EU has not yet been achieved. On the contrary, rail risks to loose out in new Member States
- Market entry in rail freight gradually rising but often still modest. Bigger changes expected after 1 January 2007 (domestic market opening)
- The European Railway Agency will have to play a vital role in ensuring progress with interoperability and a common safety approach to rail transport
- Business opportunities exist due to congestion, etc. in other modes
- Important entrepreneurial efforts needed to make rail freight take advantage of its business opportunities

Thank you for your attention!

For further information:

Site:

http://europa.eu.int/comm/transport/rail/index_en.html