

Railway dream

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Speech by Vice-President Siim Kallas

Europe faces challenges of global competition. To compete successfully, all sectors of economy must contribute.

Railways are an essential part in responding to global competition.

First – they contribute to the competitiveness of the whole European economy providing high quality services with competitive and reasonable prices.

Second – they provide a home market for the European equipment producing industry which is in a fierce battle with competitors worldwide.

Third – railways should play an essential role in reducing the dependency of Europe on fossil fuels and the reduction of our emission of greenhouse gases.

Developments in railway sector in recent decades in Europe have not fully satisfied the economic world and society.

What to do? Where do we want to go? What do we want to achieve?

My railway dream can be called the Single European Railway Area in 2050.

In this vision, railways will be dominating freight transport over distances of more than 300 km – compared to today, where, measured in ton/km, 50% of road freight is on journeys longer than 350km.

The railways will achieve this by offering good prices, high quality services, punctuality: thus they will dominate longer distance freight without needing taxpayers support.

Passenger railways will carry a majority of passengers (compared in particular to air) over medium distances of less than 3 hours journey time. (400 – 1000 km). For passengers there must be high quality services, comfort and attractive and competitive prices.

And we will have a well functioning network of commuter and regional passenger services, which provide high quality punctuality and safety, making them an attractive choice encouraging people not to use private cars.

So – what is fundamentally different from today's system?

What to do to realize our dream?

- We need developed policies.
- We need different structures for railway undertakings.
- We need investment.

Policies – we are developing them.

The recast of the first railway package, with better access to rail related services, improved regulation and more certainty for infrastructure investment is a step in this direction. As is our legislation extending passenger rights to rail.

By 2012, the Commission will have completed the legislation for the opening of domestic passenger services, and to improve approval systems for new rolling stock.

And the Commission will insist that Member States comply with their obligations under the existing legislation to relieve railways of historic debt, and properly fund public service obligations.

But we need to go further:

In the railway sector we have very strong politico-national structures of railway undertakings with strong

and obscure links to political decision makers and different lobbies.

Nowhere in other European transport sectors do we have such a structure.

My strong conviction is that the structure of railway undertakings has become obsolete and is a real obstacle for increasing competitiveness of transport and the European economy.

In freight transport we need European infrastructure managers instead of national managers (perhaps corridor based). We need European railway carriers instead of and in addition to national ones. We need more high-quality pan-European service providers.

All these pan-European undertakings must be independent from political interference and must follow the pure aims of effectiveness, sustainable economic performance and high quality of services. Such a network of railways undertakings can operate only under strong supervision of independent European and national regulators.

Regional railways have always played an important role in people's lives and regional development. They often cannot operate without public subsidies. They will remain relevant in 2050, too. But public demand for regional transport must be satisfied by selecting the most efficient and high quality service providers. This can

happen only by ensuring fair competition and transparent selection procedures. In my view, the best option for using taxpayers' money for supporting regional railway services is direct and transparent subsidies from the local, regional, state budget, awarded through a competitive process. I intend to revise the PSO rules to ensure this in the next couple of years.

Before 2050 Europe must make substantial investments in railway infrastructure. We must invest in tracks, intelligent traffic control and management systems and to un-block bottlenecks.

In this regard we must abandon any expectation of unlimited public resources. Budget money for infrastructure needs will be limited. The ageing population and other constraints will make the life of budgetary authorities difficult.

We need bigger involvement of private capital. We need solutions to make infrastructure investments attractive to private money.

I have discussed with three of the biggest private investment banks in the world how we could bring more private capital into European transport projects, into railways in particular.

Their advice can be summarized as follows:

First, there is a lot of money available in the world which is looking for good infrastructure projects.

Second, Europe is still a very attractive place for investors. More attractive than other big economic areas, due to our good legal environment, supportive infrastructure, transparency and limited corruption. So that is good.

Third, money is available under clear conditions.

Their main recommendations to us Europeans are the following:

First: Cut politics from business. It can be done through ensuring the independence of economic operators, in our case railway undertakings. The best way to ensure independence is to have private enterprises. Private investors think that there are a lot of interesting entities which can be privatized and revenues from the privatization can be used for public investments also in those parts of infrastructure where private money cannot be involved. An essential element in separating business from political interference is the existence of strong independent regulators which must also execute efficient supervision on undertakings, enterprises.

Second: Cut bureaucracy. EU bureaucracy is not the problem, but rather the excessive planning requirements for launching infrastructure projects. We have a situation where almost any interested party can stop investment projects for an unlimited time. The private sector cannot wait forever for such permissions. Of course, procedures need time but this must be reasonable and predictable.

Third: Conditions for infrastructure investments must be stable for long periods - perhaps 30 years. New governments should not reverse decisions made for long term.

Fourth: Projects must have a reasonable size. Not too small, but not too big.

The best and cheapest involvement of private capital sometimes also needs public guarantees to overcome difficulties in the early years of making operation of a project profitable.

Our railway dream 2050 depends, of course, on external factors as well. I would underline some opinions of experts which are relevant in this context.

Trade will not diminish. Transport of passengers and transport of goods continue to grow.

The price of oil will continue to increase – and alternative fuels and energy will be no cheaper. Rail transport has a competitive advantage.

But the biggest question today and for the future, is to ensure a fair financial environment for all modes of transport. The most important element is charges for the use of infrastructure. Rail operators pay for the use of tracks (in some countries this is used as budget resource), airlines pay for air traffic management and airport slots, ships pay port fees (some think these fees are too high). The biggest transport mode – road transport - pays for

infrastructure in different ways. Maut in Germany, charges for entering central London and central Stockholm, toll roads in France and in some other countries – but in most countries road and city infrastructure users pay nothing directly, only fuel tax, but the use of fuel tax for infrastructure improvement is different and unclear, and fuel tax exist in other transport modes as well.

In European road transport we are moving in the direction of the user-pays principle. Modern electronic systems make collecting fees from users comfortable and reliable. The development of the Eurovignette directive currently under discussion in the Council of Ministers is a step in the same direction.

Today it is very clear that in one way or another, countries are moving in the direction where investments in road infrastructure and the costs for maintenance will more and more be paid by users, not by taxpayers.

Equally, we remain committed to ensuring that all external costs – pollution, accident costs etc – are “internalised” – so economic price signals truly reflect the real costs of each mode.

But can a situation where road users pay fees for using road and city infrastructure bring a radical modal shift in favour of railways?

To a certain extent, certainly.

Society can definitely accept a rational level of fees based on the need to invest in infrastructure and maintenance, create a better environment and fight congestion – it cannot accept unlimited fees to discourage road transport and it asks for better services for this and maybe a reduction of fuel tax. Road users are an influential part of the population and electorate too.

My conclusion is, in this regard, that road transport will remain very competitive in freight and passenger transport in the intermediate future.

So, the main observation I would like to make today is: let us do everything to make railways themselves very competitive using all the initiatives mentioned above.

We should not simply wait for changes in the outside world to make European railways sustainable and our lives better without our own efforts.

Thank you!