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Infrastructure, one of the indispensible ingredients of a dynamic rail business…

EESC, European Rail Freight Corridors, 17 September 2009

Jacques Dirand

CER - the Community of European **Railway** and **Infrastructure** Companies

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- 74 Railway Operators and Infrastructure Managers
- From entire European area (including Switzerland, Norway, EU accession states, and aspirant EU members)

MEMBERS PROFILE: Private / State-owned • **Small** / Big • **East** / West • **Separated** / Integrated • **Freight** / Passenger • **Cross-border** / National • **Non-EU** / EU

What did the 2001 White Paper promote?

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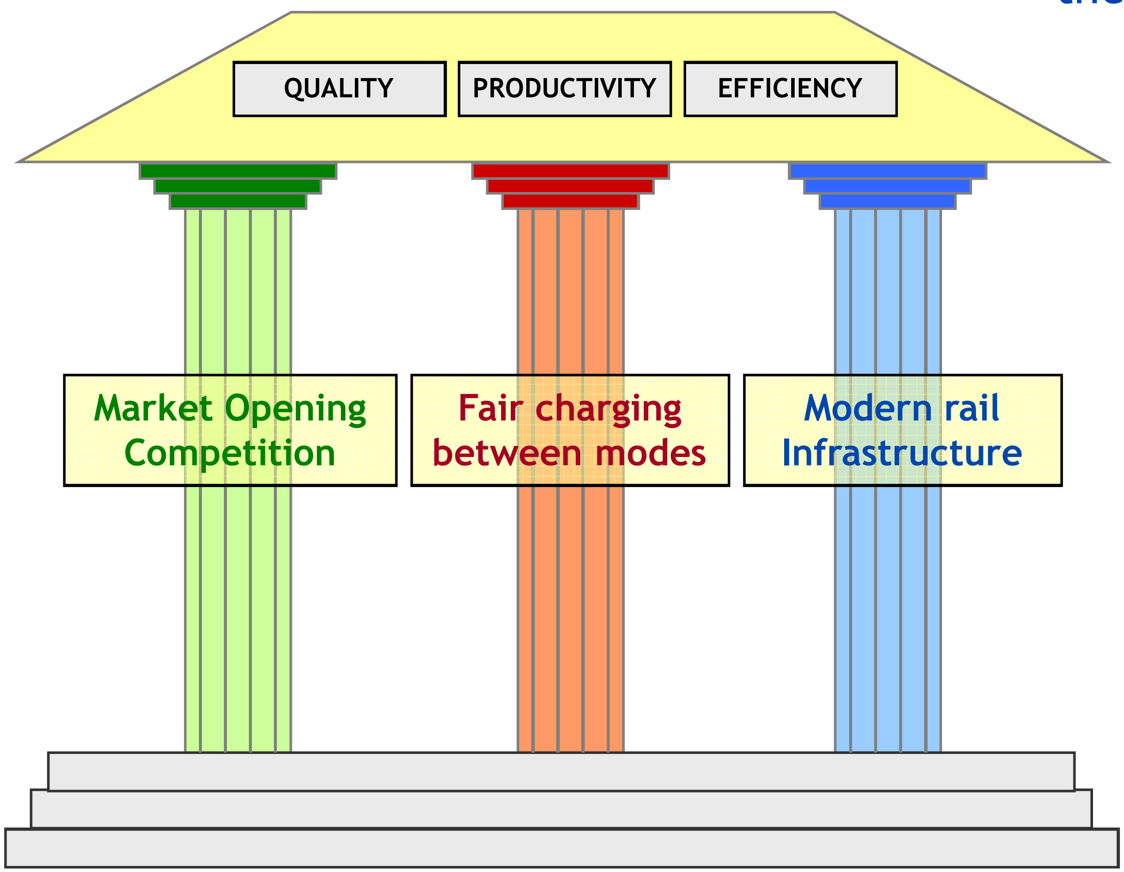
Originally, in the 2001 White Paper, the European transport policy rested on 3 *'pillars'*



What is effectively realised today?

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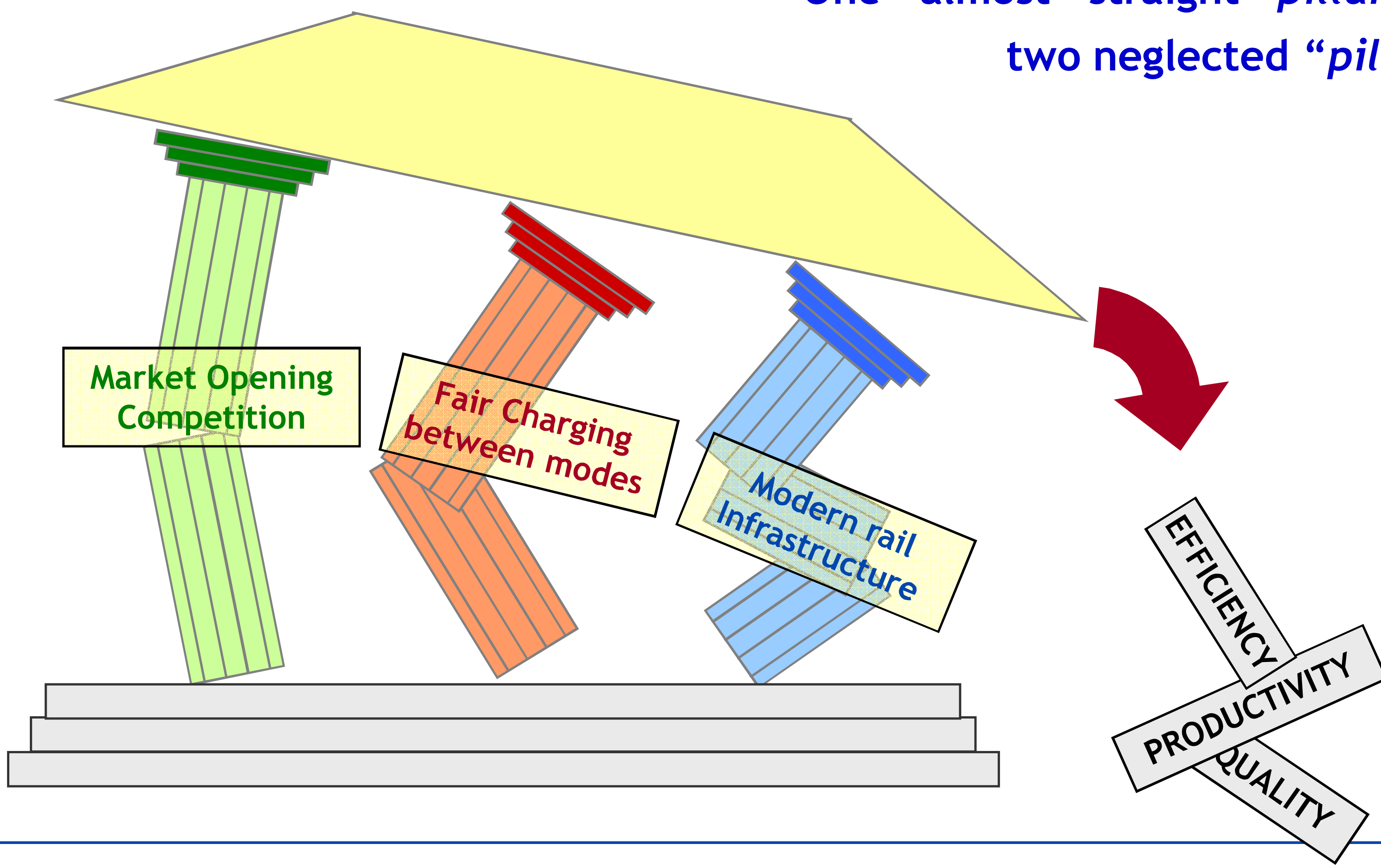
One "almost" straight "*pillar*" and two neglected "*pillars*"!



Fair competition between modes and support to infrastructure are of paramount importance…

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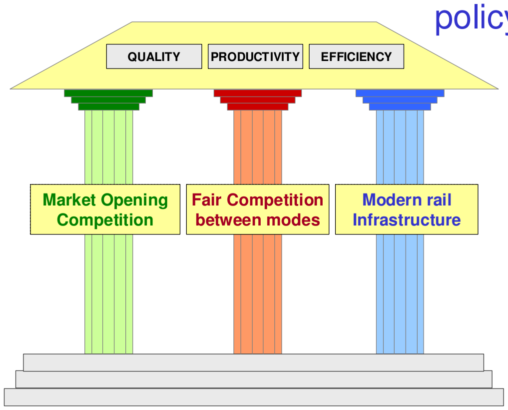
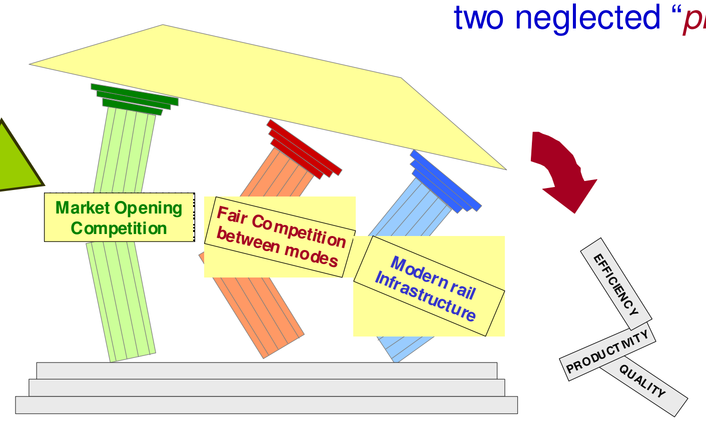
The original architecture of European transport and rail policy (as set out in the "2001 White Paper")…

In the 2001 White Paper, the European railway policy rested on 3 *'pillars'*



Eight years on: **the week points of current European transport policy…**

One "almost" straight "*pillar*" and two neglected "*pillars*"!



- Competition on rail is now well on its way.
- **BUT**, without **fair competition between modes** and **sufficient infrastructure**, the railways' efforts in <u>quality</u>, <u>productivity</u> and <u>efficiency</u> are reduced to nil.

The Commission says that « most of the objectives of the White Paper have been achieved »*… WRONG !

* Commission's Communication of June 2009 on "A sustainable future for transport"

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ONLY rail liberalisation objectives met, especially in Romania

- with a market share of 30% for new entrants,
- the highest market share of new entrants in Europe.

BUT, broader policy objectives only met to very limited extent:

- Decoupling of overall freight growth from GDP - not achieved
- Rail's share of freight has fallen:
  - In CEE to 30% by 2007 – target 35% for 2010
  - In EU15 to 17% in 2007 – target 19% for 2010 (the 1998 level)
- Efficient and fair pricing between modes - not achieved
- Channelling revenue from charges to build infrastructure on competing modes, especially rail - not achieved

Can competition, on its own, stimulate growth?
THE ANSWER IS "NO" !

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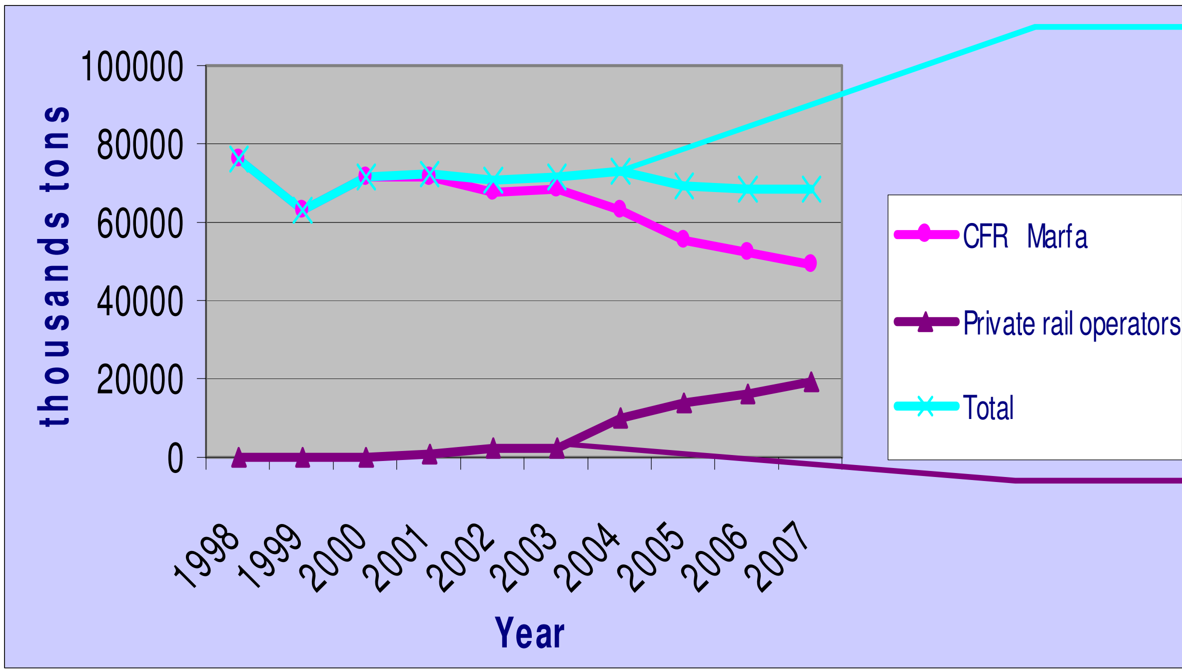
Overall Rail Freight Volumes VERSUS Market Share of New Entrants in Romania…



Between 2004 and 2007, rail freight volumes fell by 5.5%

Betw. 2003 and 2006, market share of new entrants went to 24%.

Source: Chart made from the European Commission's RMMS report 2008

In Romania, competition, alone, failed to stimulate the rail freight market!

WHY?

The Commission says that rail freight volumes grew where liberalisation was implemented… YES and NO.

- The Commission quotes the **Netherlands** and **Sweden** as examples of liberalised countries where rail freight volumes grew. THIS IS TRUE.

- BUT, the fact that "**level of competition**" and "**rail freight growth**" are correlated does not mean that the one is the cause of the other…

- In fact, in Sweden and the Netherlands, both the "**increase in competition level**" and the "**growth of rail freight volumes**" have <u>**common causes**</u>, among which…
  - High level of investments in the rail infrastructure
  - Adequate financing of Public Service Obligations (for passenger services)
  - Low rail infrastructure charges (almost equal to those applied to road)

- In other "liberalised" countries, **lack of support to the infrastructure** and **high charges for the use of rail infrastructure** have impeded rail freight growth, in spite of market opening.

In Sweden and the Netherlands, LOW Infrastructure charges did help stimulate growth and competition !

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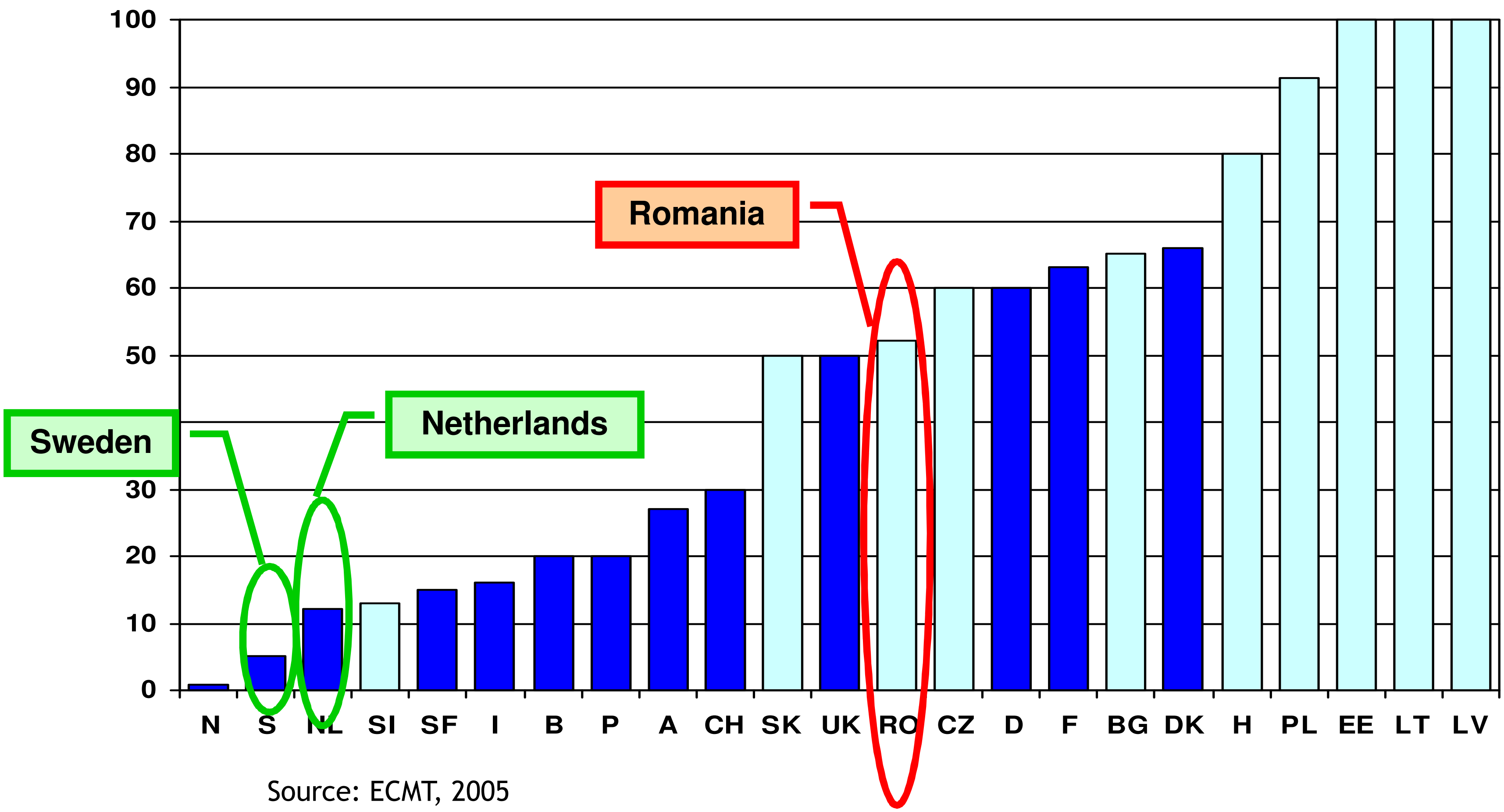
Percentage of infrastructure costs covered by track access charges



Source: ECMT, 2005

In the Netherlands and Sweden, HIGH investments in infrastructure helped stimulate growth & competition!

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2006 data	**State spending per transport units**	**State Spending per track.km**	**Growth of traffic units (2006 vs 2005)**	**State Spending**	**Traffic Units**	**Track length**	**Market Share of New Entrants**
Units	*in €*	*(in €)*	*(in %) based on p.km+t.km*	*(in million €)*	*(in billion p.km+ t.km)*	*(in km)*	*(in %)*
Luxemburg	0,53 €	636.511 €	11%	394	0,7	619	0%
Ireland	0,29 €	258.355 €	0%	603	2,1	2334	0%
Belgium	0,18 €	531.729 €	5%	3226	18,2	6067	3%
Netherlands	0,13 €	412.306 €	1%	2687	20,0	6517	18%
Denmark	0,12 €	285.149 €	1%	937	8,0	3286	No data
Greece	0,11 €	91.758 €	1%	275	2,5	2997	0%
United Kingdom	0,09 €	208.227 €	5%	6601	70,2	31701	5%
France	0,08 €	191.215 €	2%	10100	119,7	52820	No data
Italy	0,07 €	221.016 €	2%	5126	70,6	23192,9	12%
Sweden	0,04 €	104.846 €	3%	1415	31,6	13496	33%
Slovenia	0,04 €	84.815 €	4%	186	4,2	2193	0%
Germany	0,04 €	124.589 €	8%	8001	186,0	64219,1	17%
Finland	0,03 €	52.888 €	11%	[illegible]	[illegible]	[illegible]	0%
Hungary	0,03 €	70.511 €	5%	[illegible]	[illegible]	[illegible]	9%
Austria	0,02 €	64.513 €	8%	[illegible]	[illegible]	[illegible]	10%
Slovakia	0,02 €	32.474 €	5%	[illegible]	[illegible]	[illegible]	No data
Spain	0,02 €	29.961 €	1%	[illegible]	[illegible]	[illegible]	5%
Czech Republic	0,01 €	16.823 €	5%	[illegible]	[illegible]	[illegible]	5%
Portugal	0,01 €	20.482 €	1%	[illegible]	[illegible]	[illegible]	0%
Bulgaria	0,01 €	8.453 €	4%	61	7,8	7216	3%
Poland	0,00 €	8.266 €	6%	310	71,7	37504	17%
Latvia	0,00 €	9.022 €	-14%	31	17,8	3436	11%
Estonia	0,00 €	7.581 €	-2%	12	10,7	1583	31%
Lithuania	0,00 €	853 €	3%	3	13,3	[illegible]	0%
Romania	0,00 €	147 €	-3%	3	23,9	20384	27%

In Sweden, most of rail infrastructure investments took place in the 90's and started before market opening.

Yeast makes bread taste better. But yeast, without flour and water, makes no bread at all !

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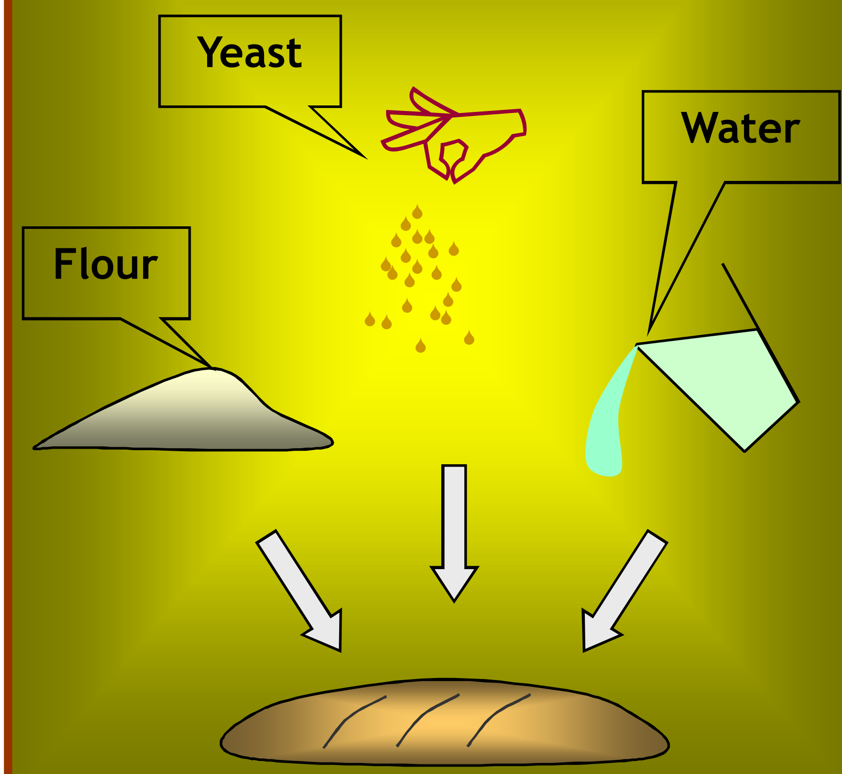
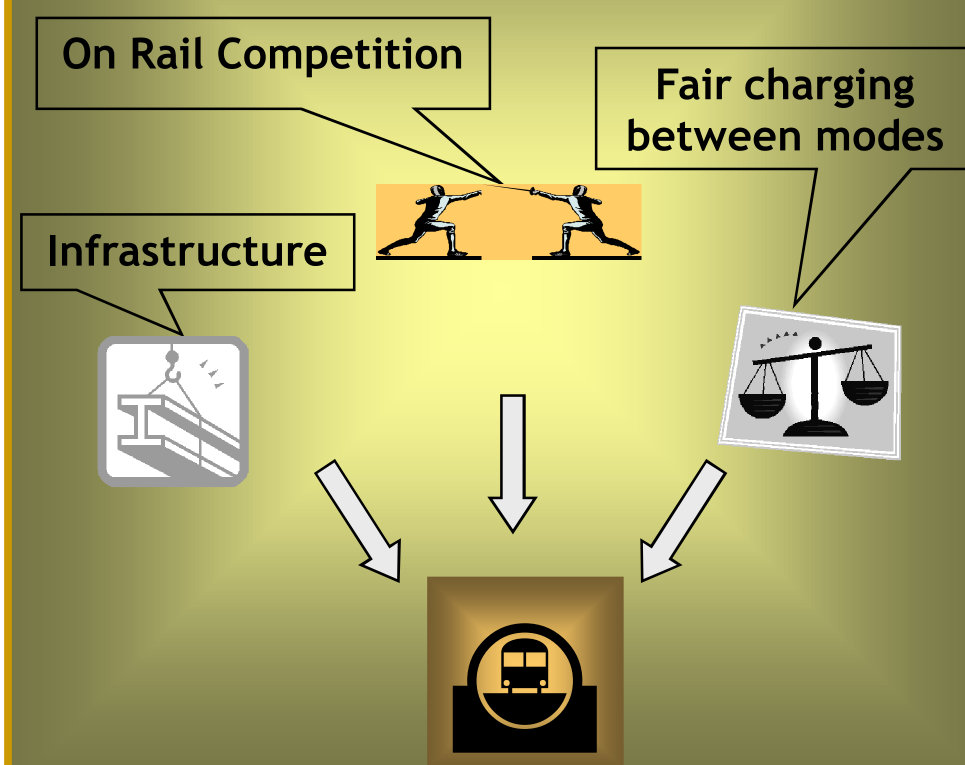
Yeast may make bread taste better, but yeast does not make bread.



Competition may make rail taste better…



… BUT competition, on its own, is not enough to make good rail…

CONCLUSION: before liberalising domestic passenger services, let's draw the lessons of freight liberalisation!

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THANK YOU FOR YOUR ATTENTION.

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Market opening must be based on a sound 'financial architecture'

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financing infrastructure

<u>Art. 6 (1) Dir 2001/14</u>

MS shall ensure the accounts of an IM shall at least balance income from infrastructure charges, surpluses from other commercial activities **and State funding** on the one hand, and infrastructure expenditure on the other

adequate compensation of PSO (and rolling stock)

<u>Art. 1 (1) Reg. 1370/2007</u>
competent authorities to compensate public service operators for costs incurred in return for the discharge of public service obligations
<u>Parag.6 third indent of Annex</u>
the **costs of the public service** must be **balanced** by operating revenues **and payments from public authorities**

treatment of historical debt

<u>Art. 9 Dir. 91/440</u>
MS shall set up appropriate mechanisms to help **reduce the indebtedness** of such undertakings to a level which does not **impede sound financial management and improve their financial situation**

Analysis done from the Commission review of the 1st Railway Package (2005)

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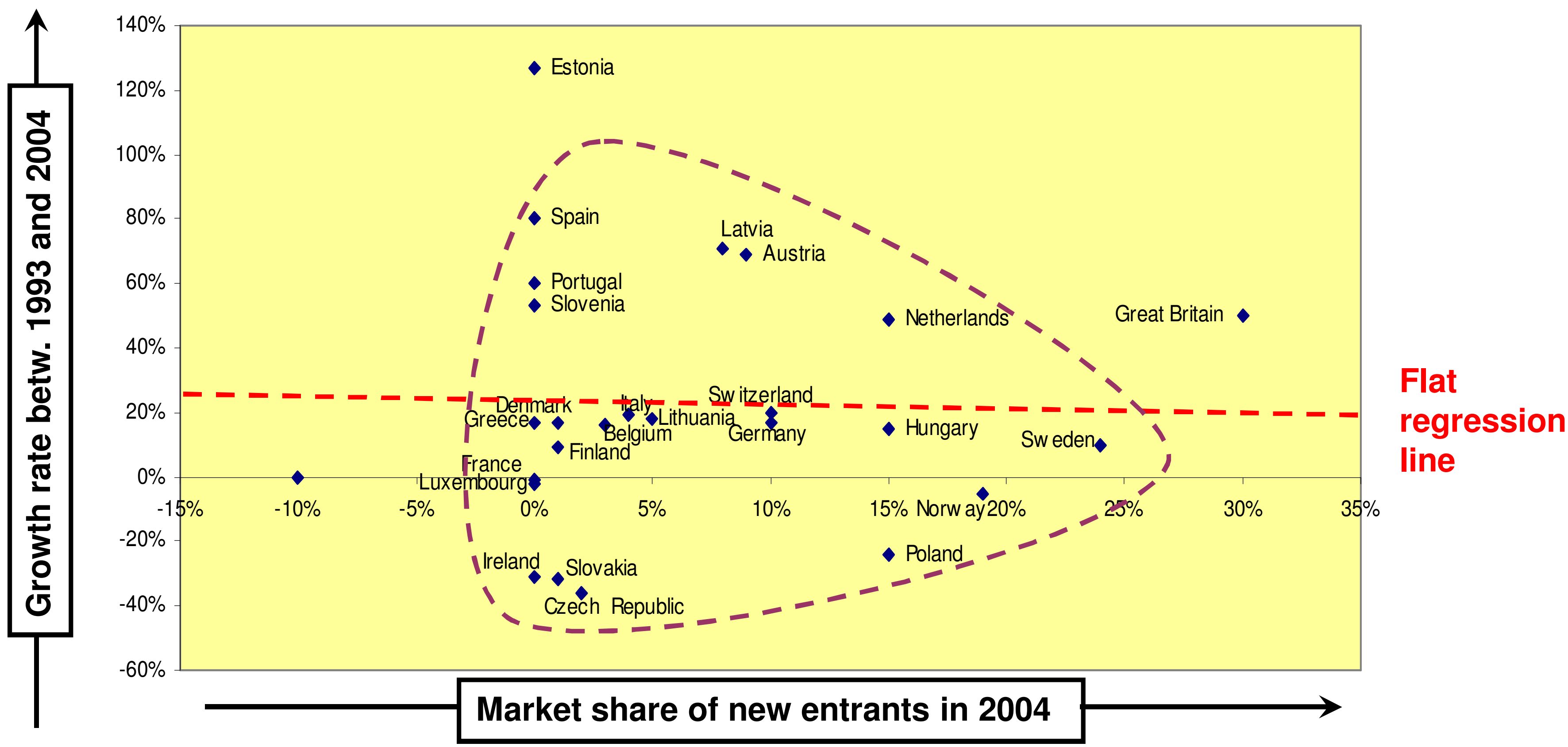
A regression analysis of the Commission's data shows that there is no correlation between rail freight growth and market shares of new entrants (the regression line is indeed almost flat).
This demonstrates that other criteria have to be taken into account to explain market growth or decline.



Note: source data taken from the European Commission's review of the 1st Railway Package (Annex 11 – figures 11.3 and 11.4). Market share of New Entrants in Estonia corrected to correspond to reference period of market growth data

Analysis done from the Commission review of the 1st Railway Package (2005)

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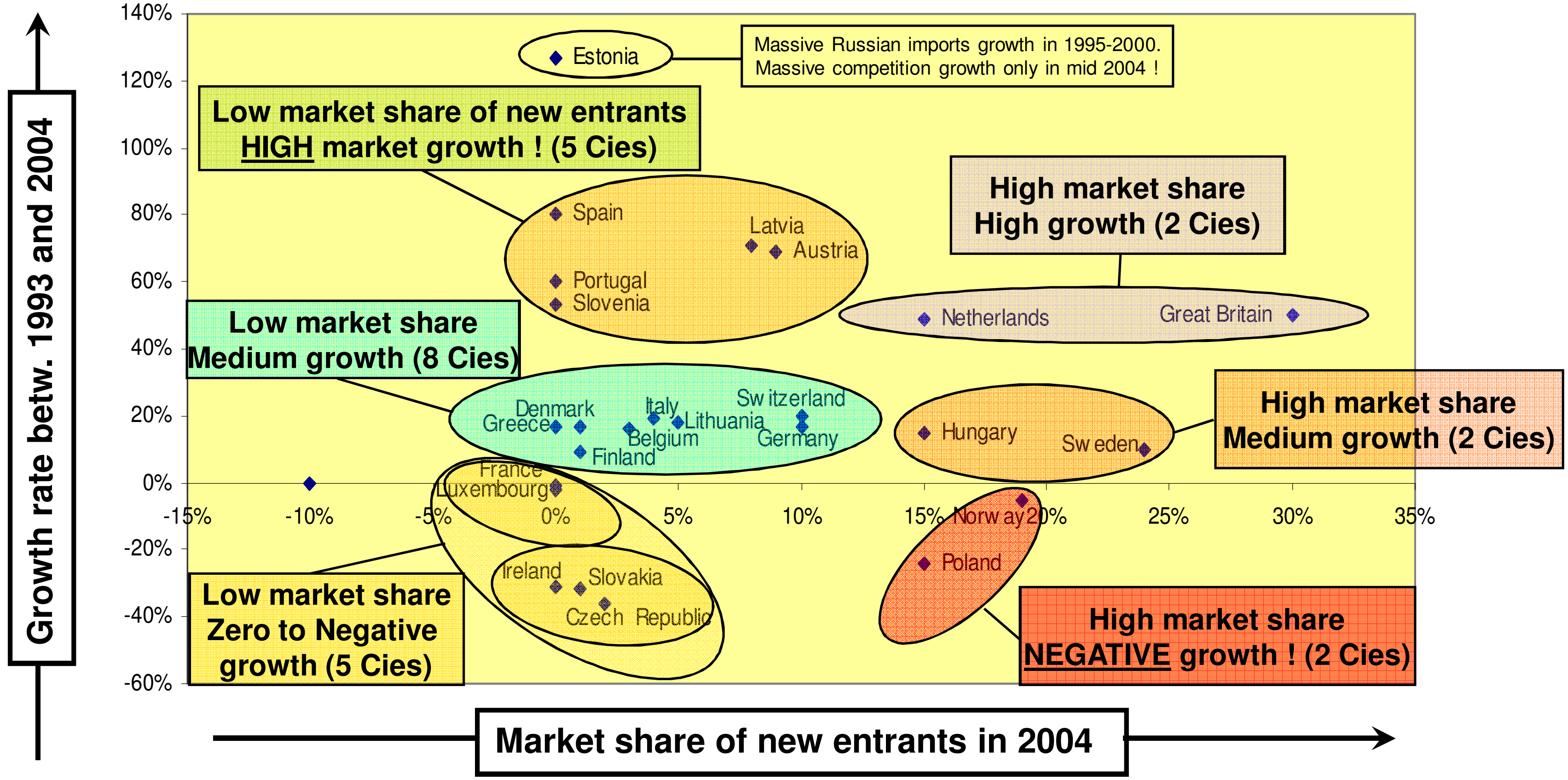
A cluster analysis of the Commission's data confirms that overall market growth or decline is not linked at all to the level of market share of new entrants



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