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RAIL FREIGHT TRANSPORT IN A PAN-EUROPEAN CONTEXT

by

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Introduction

ECMT brings together 41 European Countries as full members. The membership has doubled over the last decade as the Countries of Central and Eastern Europe joined the organisation. The process has led to a greatly widened and enriched discussion on transport but the differences and disparities within the organisation have increased greatly, presenting new challenges to understanding and decision making. These disparities are shown by the fact that per capita income varies from 1 to 8 across the continent and car ownership from 1 to 5.

Railways reflect these differences too. The railways in Europe include the enormous Russian system with 2 million staff, tiny networks in countries like Albania, many fully publicly owned systems, the privatised UK system, the war damaged and run down systems of the Balkans and generously financed systems like in Switzerland.

But despite the variety, railways share a number of common problems. These include market problems, financial difficulties and industrial challenges. **Market problems** are seen in a failure of railways to capture new traffic. Changing industrial structures and practices as well as problems of reliability and service quality mean that railways are less able to meet industries' needs than in the past. The result is a declining market share and a relative reduction in its role in meeting trade and transport needs. Despite this, rail volumes in Western Europe are higher than they have ever been.

Financial problems are reflected in frequent and substantial operating deficits and an impossibility to finance investments from income. This leads to continued Government intervention both in operations and investment and to confusion about each other's roles. **Industrial problems** are due to the difficulty of managing an industry where the need to increase productivity means that labour forces are declining. This is combined with the situation where industrial relations issues consume an inordinate amount of management time and result in service reliability problems in many countries.

In dealing with these and indeed other problems there is a great deal of interest in sharing experiences in learning from each other and avoiding mistakes. This is particularly appropriate at present since there are so many reforms and changes underway both at individual country level and internationally in the European Union and ECMT. It is too early to be definitive about these different reforms and an ongoing exchange on the advantages and disadvantages of the different measures is essential. I will concentrate on the changes underway in central and Eastern Europe and focus on the challenges for the railways and the Governments in the region.

From planning to markets

It is important to understand the scale and nature of the transition that the Railways in Central and Eastern Europe are going through. Railways were in some senses one of the successes of the planned economy. They transported huge amounts of traffic over very long distances. They made a profit according to the calculations of that concept. They were well drilled and organised structures providing millions of jobs.

The planned economies were founded mainly on heavy industrial production. For example, Hungary produced more cement than Italy and France combined. The planning system often meant that the raw material source and its processing were separated by enormous distances. In consequence, these economies generated much more freight traffic per unit of GDP than Western Countries. Transport was regarded as an economic output, and the data were often massaged or trains run pointlessly to meet the targets set. There were no feedback on price or customer satisfaction and costs and benefits of measures were not calculated.

It is not surprising that the transition has been particularly harsh for rail. With the decline in the economies and the collapse of their industrial base, the traditional rail traffic evaporated. Tonne-kilometres transported fell by, for example 70% in Bulgaria and on average across the CEE by about 60 %. In Countries ravaged by war like Yugoslavia traffic in 1999 was only 5% of that a decade earlier. In Western Countries in the same period, freight traffic was stable or grew as in Austria or Germany, or in the United States.

The change was very painful in a system that is generally resistant to change, with a focus on tradition and hierarchy and not on customer satisfaction. Moreover, railways in the East were important for transport as the roads did not provide a complete alternative. Labour forces were large, with well-organised unions and, with already high unemployment, massive reductions in the labour force were difficult to achieve. The result was that railway productivity declined during the 1990s.

One problem that resistance to change exacerbated was that the revenue base was eroded and, in order to pay staff, essential maintenance was postponed and replacement of rolling stock delayed.

Another was that freight operations had to cross subsidise passenger services. In Romania 1/3 of the freight revenue went to passengers. Railways have not been able to introduce best technology and as result they are falling further behind.

Yet another major problem was their inability to acquire the professional and management skills needed in a market context. The accounting and financial management and communication skills that are now applied in some Western railways are at a very early stage in CEECs.

Now, with the exception of areas affected by conflicts (Yugoslavia, the Caucasus), many of the Countries have completed the process of collapse, have managed to stabilise and are beginning even to see some growth.

However, the railways are weakened and lack the tools to become successful in a market economy. They have labour forces and plant that are too large and ill adapted for needs. The challenges of restructuring are massive and there is no standard model for achieving them.

Opportunities

But there are significant opportunities for railways. The opening of the market to the EU and the increasing trade likely from the new WTO round provide significant possibilities for growth. In the case of the opening of EU markets the policy framework is favourable to rail, as indicated in the recent Commission White paper and in the policy statements of the individual Countries. Moreover public opposition to truck transport is increasing and there is the further possibility of restrictions and limits on

road transport. Congestion is a worry and for Europe as a whole there is the belief that it is strategically dangerous to be over-dependent on a single mode.

Railways in CEE do not have the same capacity constraints as in the West. Despite overmanning, low wage rates can allow Eastern rail carriers to be potentially competitive with road haulage on East-West traffic. This is also a reason that they should be given access rights to Western railways.

But these opportunities will not fall from the sky: they will have to be grasped. Thus reform, both East and West is imperative. Freight productivity will have to double or quadruple if rail is to play a more important role

Models for Reform

Because the railways in CEE are so different, from the massive Russian system, through the large Polish and Romanian ones to the small transit networks like Slovenia or Hungary, the reform models need not be the same. Russia has similarities to the United States and solutions like the US might eventually be appropriate there. Most other networks will probably follow the EU model for separation of infrastructure and operations. Whatever model freight competition can play a useful part. The real issue is to create effective rights of access and a regulatory process to prevent unfair denial of access. Therefore, even in separated systems, government or regulatory intervention is likely to be needed.

Reform in Western Europe does not necessarily provide a good example. First, the pace is too slow for the needs of the CEE Countries and, second, the reforms often do not go far enough. As regards the EU Directives, there are differences in the ways the Western Countries are interpreting them. In fact, each country has specifics that require some flexibility. Flexibility will be needed in the accession countries too. Remember, they have not been involved in the discussion of these directives and while they are obliged to accept them, it will be more important to ensure that the objectives to increase transparency and productivity, to open access and to increase commercialisation are being met rather than focussing on the administrative structures that are being adopted.

Competition and public interest regulation are new for these countries. Generally speaking, competition **in** the markets will be appropriate for freight and competition **for** the markets in passenger transport. As one example, Poland is introducing such concessions in its major cities. It is important that accession Countries are brought into the discussions on railway reform in the EU. ECMT is willing to help in this if we can.

Reforms underway

Legal restructuring

Most of the Countries have passed important legislation on railways to modernise and restructure them and meet the requirements of EU Directive 91/440. The enterprises remain generally *wholly state and* separation of accounts has started for infrastructure and for the passenger and freight businesses. Some Countries have set up a regulator to decide on access charges. Estonia has privatised its freight railway without vertical separation.

Divesting non-core activities.

Railways in CEEs were like states within states and had responsibility for not just transport provision but all the equipment and supplies as well as holding substantial land. In Russia the railway had its own schools and hospitals. The process of separating these activities is well under way.

Staff reductions

Railways are generally overstaffed and most are following programmes to reduce their staff. Polish railways for example reduced staff by over 40% between 1980 and 1998 from almost 400 000 people, though some of this is in the separation of non core activities. The objective in Poland is to reduce by a further 25% in the next 5 years. The lower productivity in Eastern Europe is illustrated by the case of the East German railway which, at the time of unification, had the same staff as the DB with half the network. Programmes for staff reductions in Romania and Poland have been structured to take account of local employment circumstances and have been financed by the State. Such state involvement, including retraining programmes where possible, is necessary as the railways cannot manage this on their own.

Progress on these and other reforms were studied in a PHARE report on competitiveness of the railways in CEECS

The Policy Context for Railways

Railway reform is the crucial element of a policy that will allow and encourage the mode to play a full part in Pan European transport in the future. But it will not be enough. Other components of this policy will include a number of elements.

Important is **rail investment** because the market will not generate enough revenues to provide the investment needed. There is not a need for new rail infrastructure but rather for upgrading and rehabilitation as well as new technology and rolling stock. The problem will be to find public money, as almost certainly there will not be enough private funds. Given the severely tight budgets and the pressures on public spending it are likely that the sums available will be much smaller than wished. It is here that the policy objectives of the Western Countries and the Commission can be given most concrete expression. It will be unrealistic to expect huge investments from the Countries partly because the returns elsewhere will probably be higher.

Another factor that is important is **land use** policy. CEE countries have relatively dense land use patterns and the siting of homes and businesses is rather favourable to rail transport. Obviously land use patterns will change but there should be a very clear guidelines and rules on access when cities spread and jobs and homes decentralise. A serious problem is caused by the developers and major international retailers who are setting up in the outskirts of the cities and are dragging development with them. Underused urban rail capacity should be preserved and not sold off.

Apart from investment and land use measures, **policy towards road freight** is a crucial component. Efforts to create a level playing field do not need to result in road transport taking on all the inefficient characteristics of rail. But the existing rules and regulations on working hours, on loads and speeding must be enforced. This has not been a success in the West either. Moreover, pricing or taxation concessions made to road transport will have consequences for rail. In the end, the objective is not to punish road transport but to make it a quality industry.

Efforts to **switch traffic** cost effectively off the roads onto railways must be made. In Alpine or other mountainous areas there are very clear opportunities to do this. In other areas it needs a more careful examination of the congestion or environmental benefits to be obtained. It is well known that Switzerland is paying heavily for this (400 million Euro per annum) but Countries like UK also have provided incentives worth up to 500 million Euro. The options here include more investment and integrated land use planning as described above, but also specific incentives to rail or combined freight traffic.

A rail modal share target of 35% is suggested in the White paper as an indication of the policy wish to ensure that railways play a greater role in integration. While such an indicative objective could be helpful, there are problems with modal share targets. One that is relevant to CEE is that they are rather close to production oriented practices from the planning past of these countries and may send the wrong signals because they do not integrate the concepts of costs and benefits which have to become predominant. Moreover, achieving a target of 35 % when the corresponding figure is only about 10% in the West is not an argument that people in the region find very convincing. Lastly it is important to remember that market share may change for reasons beyond the control of railways or indeed governments.

Railways future in freight is at the international level. It is important to bring the instruments that can help together in a consistent way, so that pro rail measures are not cancelled out by lax enforcement or undercharging of road transport.

Conclusions

Railways, in general but especially in Central and Eastern Europe suffer from a number of serious structural problems. There is the decline in heavy industry, the growing competition from the road sector, low productivity, and a spiral of financial decline where lost markets and revenues lead to underinvestment and lack of maintenance. But they have some strengths too, including favourable land use patterns, high use, low wages, as well as the fact that a culture of reform is now established

The transition from a planned to a market economy is lasting much longer than expected. While extraordinary progress and changes have been made we probably have to think in terms of a generation rather than a decade. The future of railways depends very much on successful reform by the railways and on the policy framework that the Governments put in place.

Railways are introducing many reforms, including accounting systems based on cost transparency, more commercial practices and staff reduction programmes. They now need to look for market opportunities, for example in logistics services and greater technological efficiencies.

Governments have brought in new legislation to restructure railways and put them on a sounder financial footing. They need to continue and make access rights for freight operators a basic rule and they need to encourage new entrants to the market. They need to create a competitive framework for the transport sector based on a level playing field. Crucially they need to set clear objectives so that railways become commercial enterprises, responsible for their own actions.

ECMT References

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