

Issues of Rail Freight

Intermodal/Combined Transport on rail, when the cargo shipped is stuffed into an *Intermodal Loading Unit* (ILU) - container, swap body or semi-trailer - has been the only dynamically growing production system of European rail freight over the past decades. This trend has been driven by two forces: (i) the transformation of the EU economy, which saw the demise of heavy industries such as iron smelting or coal-based electricity generation, and (ii) the productivity of transshipment between modes enabled by the use of ILUs, which opened the possibility of rail freight transport to a broad range of commodity groups.

Over 40% of European rail freight performance, when measured in terms of tonne-kilometres, consisted of Combined Transport (CT) trains in 2015. Subsequently, CT Operators - the organisers of CT trains - are very important customers of rail freight (traction) services. UIRR, the industry association of road-rail CT, therefore takes a prime interest in the problems and developments of European rail freight.

A series of important communications were published lately, which drive the attention of not only policymakers, but also the public at large towards the challenges and problems of European rail freight:

- **20 May:** Sector Statement on Rail Freight Corridors / Boosting International Rail Freight¹
- **24 May:** European Court of Auditors' Special Report N°8/2016 on "Rail freight transport in the EU"²
- **27 May:** European Commission Public Consultation on a European rail network for competitive freight³
- **13 June:** Association of American Railroads (AAR) Report on Freight Railroads impacting national and local economies⁴
- **21 June:** Ministerial Declaration on Rail Freight Corridors to boost international rail freight¹

In brief

Operational, regulatory, investment and legislative changes would be needed to enable European rail freight to deliver on the expectations of society: this has been demonstrated in the various communications released recently by important stakeholders of the issue.

- **The sector** should organise itself more efficiently, simplify operational procedures, transparently publish traffic management rules and create transparency toward their implementation, as well as allocate better quality and higher quantity of train paths to freight trains - as permitted and supported by their public sector owners, the Member States.
- **Rail regulators** should simplify and harmonise (national) rules, while enforce existing law within the Member States.
- **Infrastructure investments** should adhere more closely to the needs of rail freight and a framework to enable genuine private capital inflow to the funding of investments into the rail infrastructure should also be created.
- **Legislators** should create a level playing field between the various competing modes of transport with regards to both the accessing of infrastructure and the internalisation of external costs.

¹ <http://www.uirr.com/en/media-centre/press-releases-and-position-papers/2016/mediacentre/792-ministerial-declaration-and-sector-statement-concerning-international-rail-freight.html>

² <http://www.eca.europa.eu/en/Pages/DocItem.aspx?did=36398>

³ http://ec.europa.eu/transport/modes/rail/consultations/2016-european-rail-network-for-competitive-freight_en.htm

⁴ <https://www.aar.org/newsandevents/Press-Releases/Pages/New-Report-Finds-Freight-Railroads-Greatly-Impact-National-Local-Economies.aspx>

Background

The latest OECD / International Transport Forum's statistics⁵ project a grim picture of **seven years of stagnation** in the overland freight transport market of the European Union.

Figure 7. **National and international road freight transported**
(million tonne-km, seasonally adjusted Q3/2008=100)

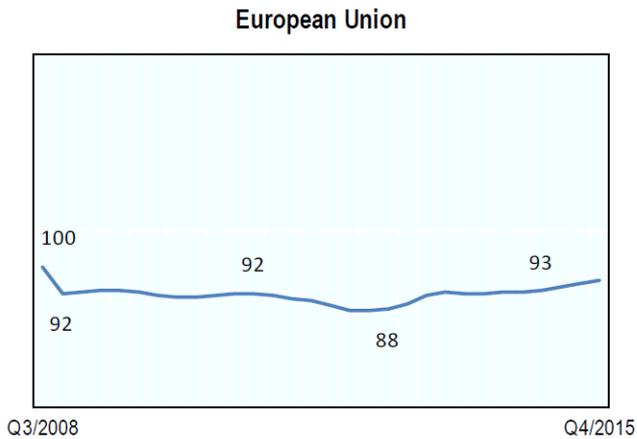
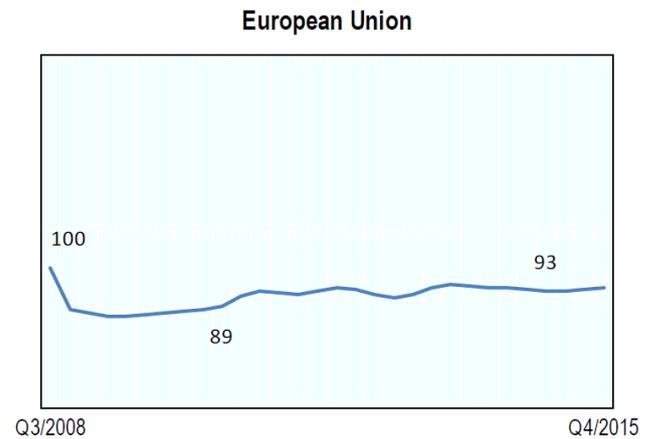
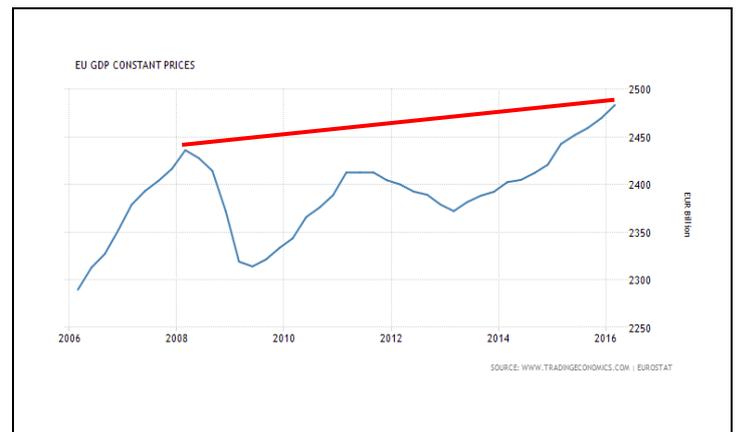


Figure 8. **National and international rail freight transported, percentage change from 2008Q3**
(tonne-km, quarterly trend, seasonally adjusted Q3/2008=100)



When comparing the stagnation reflected in the above two graphs with the red trendline of GDP growth (to the right) it is clear that the multiple decade-long **direct correlation between GDP growth and demand for freight transport has been broken**.

Participants of the (overland) freight transport market are vying for market share in a stagnating marketplace, where even small differences within the (regulatory) framework conditions may tip the balance. Subsequently, sensitivities have grown and competition is based on an even narrower band of price for quality.



This is the setting in which **the European Union and its Member States must find the right transport policy mix with which to address the simultaneous challenge of maintaining the competitiveness of the European economy and countering the adverse effects of climate change**. The economy can only be successful if higher value-added jobs are created that satisfy the needs of the marketplace at the same time. At the same time, decarbonisation remains an exemplary challenge of the European transport sector as it is the only segment of the EU economy that has not decreased, but rather saw a growth in its carbon footprint (in spite of the stagnation depicted above).

A heavy government involvement prevails to this day in both the operation and development of transport infrastructure, which is in public ownership and under operation by state owned rail infrastructure managers, and in the operation of a high proportion of rail freight services as well. Therefore any change to this status quo - especially in the railway sector - will require the right policy mix and then a consistent implementation of it.

The 2011 Transport White Paper of the European Union clearly defines success as the shifting of a significant portion of the longer distance portion of road freight transport performance to sustainable modes⁶ - prominently featuring (electric powered) rail freight. The five instances of communication mentioned in the beginning of this paper must be viewed and interpreted while keeping this challenge, and the lacklustre progress made towards it, in mind.

⁵ <http://www.itf-oecd.org/air-freight-volumes-show-decrease-first-quarter-2016>

⁶ 30% of tonne-kilometres realised on longer distance road haulage by 2030, and 50% by 2050

The European Court of Auditors saw it clearly

The promotion of more efficient and sustainable modes of transport, and in particular rail freight, has been a key part of EU policy for the last 25 years. As long ago as 1992, the European Commission set the shifting of balance between the different modes of transport as a main objective. The EU's policy objectives for shifting goods from road to rail have been translated into a series of EU legislative measures mainly aiming at opening the market, ensuring non-discriminatory access and promoting interoperability and safety.

The European Court of Auditors (ECA) in its recent special report has found that "*the performance of rail freight transport in the EU remains unsatisfactory ... in terms of (both) volume transported and modal share*". While some Member States have managed to achieve better results (Austria, Germany, Sweden), shippers on average have not changed their preferences for the mode of transport to ship their goods.

The following eight recommendations were formulated by ECA to alter this situation:

1. **Rail freight market liberalisation:** Member States must ensure that anti-competitive practices by (national) infrastructure members and incumbent railway undertakings are prevented by effective action of regulatory bodies.
2. **Traffic management procedures:** the European Commission and Member States should, within their respective remits, initiate the adoption of traffic management rules aligned with the specific needs of the rail freight sector. This should also entail the number and quality of train paths on offer, as well as the harmonisation of the path allocation process itself.
3. **Administrative and technical constraints:** the European Commission and Member States should implement the provisions of the Fourth Railway Package, whereby national procedures are simplified and harmonised (through actions of the EU Agency for Railways). Language requirements imposed on locomotive drivers should progressively be solved too.
4. **Monitoring and transparency of the performance of the rail freight sector:** there should be regular monitoring of progress, including the satisfaction level of rail freight operators.
5. **Fair competition between different modes of transport:** the European Commission and Member States should promote a level playing field between the different methods of transport by introducing additional regulatory and/or other measures to support rail freight traffic when necessary. This should reflect both in the costs of accessing the infrastructure and the internalisation of external costs.
6. **Consistent approach between policy objectives and fund allocation:** the European Commission and Member States should allocate available EU (and other budget) funding for transport infrastructure in line with (the collectively adopted) EU transport policy objectives. In particular rail freight-related issues ought to be made a priority, such as bottleneck removal or the renovation of last-mile infrastructure.
7. **Selection, planning and management of projects:** the European Commission and Member States should improve the coordination of rail investments in order to maximise their effectiveness. Every project's capacity to increase rail freight performance and sustainability should be assessed, and quantitative objectives for freight systematically defined.
8. **Rail network maintenance:** the Member States should, within the framework of the business plans of their rail infrastructure managers, ensure that the proper maintenance of the rail network is ensured, in particular to the needs of rail freight. The Commission should verify that Member States implement those strategies.

The Sector and the Member State Ministers understand the problems

The statement of the European railway sector, issued by 11 associations⁷, and the declaration of Transport Ministers of Member States, developed on the Dutch EU Council Presidency's initiative, proves that there is a perfect understanding of the problems needing to be addressed: (i) the heterogeneity and over-regulation within (Member State) level regulatory frameworks, (ii) the lack of harmonisation of works and investment projects, (iii) the inadequacy of infrastructure capacity made available to rail freight, (iv) a deficiency of market orientation by rail infrastructure managers, and (v) the still unavailable identification, listing and methodical alleviation of productivity undermining bottlenecks.

⁷ CER, CLECAT, EIM, ERFA, ERTMS Users Group, ESC, RFCs, RNE, UIP, UIRR AND UNIFE

The sector declared its intention to be proactive through concrete actions in all these areas and, building on the changes committed to by the Ministers, and to offer an enhanced service both in quality (punctuality and reliability) and quantity terms, so as to deliver the performance expected by the market.

The European Commission launches evaluation of Regulation 913/2010

A review of Regulation 913/2010, which created the Rail Freight Corridors (RFC), has to be prepared five years after the adoption of the legislation. Accordingly, the European Commission launched a public consultation to support this process. The Review Report, which is expected by the end of 2016, may conclude that there is a need to overhaul the Regulation. UIRR concluded in a position paper issued on 28 April 2016⁸ that a lot could be done under the existing legislative framework - assuming that the Member States are committed to implement, or support the implementation of the measures necessary to deliver on their Ministers' declaration.

UIRR, whose CT Operator members realised over 84% of their performance in 2015 along cross-border relations, is especially interested in and committed to contribute to the success of Rail Freight Corridors. The association acts as the Coordinator of RFC Terminal Advisory Group (TAG) speakers, and is an active contributor at the various forums dealing with RFC issues. RFCs are continued to be viewed as the most effective tool to enhance the productivity and reliability of cross-border rail freight within the European Union.

The lesson from the other side of the Atlantic

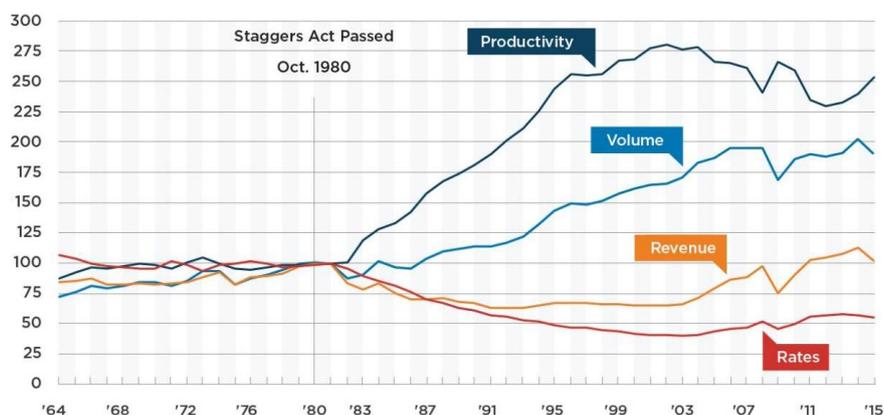
The Staggers Act of 1980⁹ placed the American rail freight sector on a path of regulatory simplification and liberalisation enabling it to purely focus on the satisfaction of market needs. Infrastructure development was handed to the private sector through establishing the necessary legal/regulatory framework that unlocked \$600 billion worth of private capital investment (realised since 1980). The recent Towson University Study - prepared for the Association of American Railroads, found that

"The way railroads thought about their operations before regulatory reform was not 'How can I be more efficient and innovative and be more effective than my competitors?'. Rather it was 'How do I satisfy regulators?', which is a markedly different mindset."

US railroads not only delivered 137% of productivity growth since 1980, but created and sustained 1,5 million highly productive, high paying jobs. Thanks to their competitiveness, American freight railroads have also managed to shift considerable volumes of traffic from road to rail, thus fulfilling a goal also set forth by the European Union - but on the wrong shore of the Atlantic.

U.S. FREIGHT RAILROAD PERFORMANCE SINCE THE STAGGERS ACT

Today's Balanced Regulatory System Has Benefited Shippers and Allowed Railroads to Flourish



⁸ <http://www.uirr.com/en/media-centre/press-releases-and-position-papers/2016/mediacentre/772-rail-freight-corridors-how-to-get-more-out-of-them.html>

⁹ <https://www.fra.dot.gov/eLib/Details/L03012>