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Speech

New Commission initiatives for fair competition and stronger ties with South East Europe

Introduction

Ladies and Gentlemen, thank you for the opportunity to speak at this UIRR conference. I am particularly happy to do so in Slovenia, in recognition for the excellent relationship that the Directorate-General for Transport and Energy has had with the Slovenian Presidency over the past 5 months. Let me also thank Adria Kombi for their hospitality.

The priority given today to the revitalisation and development of railways in Europe is a response not only to a demand for increased transport performance, but also to the need to move towards cleaner, safer and more sustainable modes of transport. Boosting rail freight performance in particular is one of the most significant ways in which both these objectives can be met.

This morning, I propose to share with you a number of upcoming initiatives at EU level which seek to achieve rail freight regeneration.

First, some brief remarks on the impact of EU rail policy to date.

EU Rail policy to date

EU rail policy to date has had an **impact** on rail market development. In its rail market report of October 2007 the Commission identifies a slightly positive trend in the performance of rail freight transport and rail passenger transport in recent years. It also shows that, between 2000 and 2005 Member States at the forefront of market opening achieved significantly better results in terms of rail freight traffic performance than Member States in which the market was still rather closed and dominated by the incumbent rail operator.

However, the report also concludes that significant market **deficiencies** remain – notably related to: service quality, the financial situation of railway undertakings and infrastructure managers, and technical and operational interoperability.

These market deficiencies are linked to some of the specific **challenges** facing rail freight today. New economic models mean that industrial production is shifting from the manufacture of basic products (often carried by rail) to the assembly of finished products. Just-in-time production requires high standards of reliability with tight deadlines. Single wagon-loads make up 50% of all rail freight, but they are not door-to-door like road – and this means it is a challenge to run them economically.

The **quality** of rail freight is notoriously poor. I always quote UIRR statistics in my speeches, and when railway friends object and say that these statistics only represent 15% of all rail freight transport I reply that I have no other statistics! You know, of course, that only 53% of rail-road combined transport trains¹

¹ Intermodal transport represents in volume about 15% of rail freight traffic.

arrived on time in 2006.² Rail transport needs to be able to offer an efficient solution with greater flexibility in order to be a realistic alternative to road, or a realistic partner of road transport along the logistic chain.

European rail freight is confronted, in addition, with **capacity constraints**. This poor capacity is due in part to under-investment in new infrastructure. But let's be realistic and frank. What is needed is not hundreds of new kilometres of track, but rather a joint effort by all Member States to optimise existing infrastructure and rolling stock. Poor infrastructure maintenance, an uncoordinated approach towards removing bottlenecks and addressing operational delays... all play a role in contributing to underutilised capacity.

Further political initiatives are needed

Further political initiatives are therefore needed to address weaknesses in the market and this will most certainly require targeted action at Member State level and at Community level. Expectations to move towards greener transport only reinforce the urgency for action. Member States need to complete the implementation of European rail legislation. Progress towards interoperability must be accelerated and difficulties at borders should be eliminated. The quality of rail freight paths and performance must also be enhanced.

For its part, the Commission continues to monitor the implementation of our successive rail packages (where various initiatives are in preparation) and has just published guidelines on state-aids for railway undertakings, which confirm the positive approach we have always taken in respect of combined transport, and

² The UIRR (International Union of Combined Road-Rail Transport companies) allows a maximum tolerance of 30 minutes delay.

introduce what I think are fair and objective rules on debt cancellation and restructuring.

Shortly, the Commission will also publish a **report on the quality and performance** of rail freight services. Personally, taking account of the preparatory analysis made for this report, I consider that we should continue and intensify the policy approach chosen in the past: opening markets and fostering competition, pursuing our interoperability and common rail safety approach and promoting the introduction of modern, European technologies such as ERTMS and Telematics Applications for Freight (TAF TSI).

However, I see also the need for taking **specific actions** to improve the **long-term quality of rail infrastructure**, and make further steps to integrate the transport system of the EU with that of its closest neighbours – and of course I am thinking here of the Western Balkans in the first place. To this end, we need:

1. to reinforce management of the performance of the rail system;
2. to create long-term incentives for efficient maintenance and renewal of rail infrastructure and
3. to develop a freight oriented railway network in Europe.
4. to work towards establishing a South East European Transport Community which would help revitalise rail transport in the region and prepare these countries for accession to the EU.
5. to revise the Eurovignette directive

1) Reinforce management of the performance of the rail system

A better performance of the rail system requires that all actors are given incentives to minimise disruption to rail traffic caused, for instance, by an overrun

of maintenance work or a locomotive breakdown. It is for this reason that the 1st railway package contains the obligation to put in place a **performance regime** as part of the rail infrastructure charging scheme. Its purpose is to ensure through a system of financial penalties and incentives that railway undertakings and infrastructure managers contribute to an efficient use of the network.

However, the Commission's analysis of the implementation of the 1st railway package has shown that only a minority of Member States have implemented performance regimes. Of course, the Commission will employ its legal means to ensure Member States' compliance with EU law. However, additional action may be necessary to facilitate the introduction of performance regimes in a coherent manner in all countries. Some weeks ago the Commission organised a workshop to discuss some options. As a follow up, the Commission intends assessing the need for more concrete guidance in Community legislation on key principles for setting up performance regimes.

2) Create long-term incentives for efficient maintenance and renewal of infrastructure

Investments in infrastructure require long-term planning. Until now, Member States authorities have usually allocated resources on the basis of their annual budgets, so infrastructure managers have been often faced with the need to adapt investment plans in line with budget modifications and constraints. Such a procedure has a negative impact on the continuity of the planning process and on legal certainty for all those involved in railway infrastructure investments.

On 8 February 2008, the Commission adopted a **Communication on multi-annual contracts**. Multi-annual contracts are arrangements governing the relationship between the state and the railway infrastructure manager which are

designed to replace the 'traditional' system of loss compensation by the state to the infrastructure manager. Such contracts impose an obligation on the infrastructure manager to achieve concrete output objectives in exchange for funding from the State over a period of at least 3 years. In this way, multi-annual contracts are expected to (1) help deliver against user-oriented infrastructure performance targets and (2) bring more predictability in terms of infrastructure charges and service quality. The Council has welcomed this communication and is expected to endorse it at its next meeting on 13 June, when it will adopt its own conclusions of the subject.

3) Develop a freight oriented railway network in Europe

The European Community recognises the need to promote and support the creation of a strong and competitive European rail freight network. What has to happen to make this a reality?

- We need to increase **commercial speeds** so that rail freight becomes a realistic alternative to road or an efficient complement to it in end-to-end transport over long corridors
- We need **better reliability** so that rail freight' current poor levels of punctuality are improved.
- And we need to **increase capacity**.

We already have a number of initiatives in this respect. For example:

- we have RailNetEurope which coordinates international train paths and offers a platform for the cooperation between infrastructure managers;
- we have Europtirails, a project which has been financed with Commission support and which aims at informing users in real time on train positions and possible delays;

- let us not forget the contribution made by TEN-T priority projects for the construction of infrastructure on the TEN-T network such as the Betuwe Line
- and finally, let me recall the contribution of interoperable telematic applications such as the TAF TSI (telematics applications for freight)

These initiatives already contribute to improving the performance of rail freight by creating good conditions for the movement of trains, developing coordination among infrastructure managers in investment planning, and by improving traffic management.

However, **new measures** are needed to move towards a truly freight-oriented network. This is why the Commission launched its Communication in October 2007 entitled « *Towards a rail network giving priority to freight* » in which it highlighted options for providing more efficient and reliable international rail freight services than at present.

In the Communication, the Commission proposes a **corridor approach**. Developing a rail network giving priority to freight can only be a gradual process, measures should first target a number of strategic international corridors. These corridors should be best practice examples and would ideally pave the way for the evolution towards a strong European **rail freight-oriented network**.

The Commission is currently developing concrete proposals and we have been consulting a **Strategic Group** of experts from Member States, rail infrastructure managers and users who are contributing to the definition of the approach. The Commission intends to propose a set of specific measures in October of this year (2008). The proposal may include strengthening of existing legislation as well as possible new legislative measures.

I can already give you an idea of the direction we are heading as we develop the initiative.

To improve the quality and develop the capacity of rail freight transport, we need to ensure fair competition at European level, and freight operators need access to good, reliable and adequate international and national paths. Broadly speaking,

- we want to foster **increased cooperation** between managers of the network, both at the stage of organising timetables and at the stage of actually managing the traffic;
- we want everybody to agree on the same rules on the priority that has to be given to railfreight over corridors;
- we want to enforce **non-discriminatory access** to ancillary services such as marshalling yards and terminals.

Nobody should think that the Commission wants to establish a Euro Infrastructure manager or a Euroregulator, but it must be clear that a freight oriented network will not simply be built by putting together individual national initiatives. Some form of coordination and European governance will be needed and it is our task to make that possible in an efficient and pragmatic way.

The work carried out in the context of the six **ERTMS Freight Corridors** under the aegis of Mr Karel Vinck, ERTMS Coordinator, has provided motivation and impetus for the freight-oriented approach the Commission is proposing. The ERTMS corridors, which have strong backing from Member States, have set up ambitious business-plans with long-term performance targets³ and, in addition to

³ For example - objectives along the Rotterdam-Genoa corridor (Corridor A) are to double the volume transported between now and 2020, increase punctuality by 26% and reduce transport time by 20%. In absolute terms, these measures will allow 28 billion freight tonnes-km each year to be transported by rail rather than by road: this is equivalent, at each point along 1 300km corridor, to one lorry with 26 tonnes of freight passing by every 37 seconds, 24 hours a day, all year round. Similarly, on the Antwerp-Lyon/Basle corridor (Corridor C), objectives are to increase volume transported by 55% between now and 2020 and reduce transport time by 15%. On these

coordinating ERTMS deployment, they are collaborating on the removal of bottlenecks and on harmonising operational rules. They have demonstrated that cooperation and coordination yields positive results.

Of course, work on the deployment of ERTMS along freight rail routes will continue with the encouragement of the European coordinator alongside new initiatives proposed by the Commission.

4) The Commission's proposal for a South East European Transport Community

It has been the objective of the EU for several years to develop ever closer ties with our closest neighbours with a view to integrating transport markets on the basis of the EU transport acquis. The recent signing of the Stabilisation and Association Agreement with Serbia marks another important step forward.

The West Balkan region on account of its strategic location is a central platform, but also unfortunately a bottleneck for the flow of goods and people between different parts of the EU, but also as regards exchanges between the EU and the region. Political fragmentation hampers trade and transport, and the circulation of trains in particular.

Recent history has resulted in railways inheriting a huge maintenance backlog, in terms of tracks, stations, roads, but also rolling stock. Despite these problems, the major railway operators in the region have seen a steep increase in demand, sometime of over 20% per year. While their output levels are still under those of the late 80's, the region witnesses a revival of rail freight. This however, could lead to congestion on corridor X in just a few years. Investing in infrastructure

very dense routes where rail can have a competitive edge, this would mean that approximately 7 billion freight tonne-km use rail rather than road, thus sparing 140 million euros every year in terms of gas emission, accidents,

will not be enough, and not enough investment will be attracted as long as unreliable and time consuming border delays of several hours persist every 200 or 300 kilometres (or even less sometimes).

As to road transport, the region suffers from Europe's highest accidents rates. A steep increase in demand and low profit margins produce cut-throat competition between operators, and that in turn results in social standards for drivers and emission standards of vehicles which are far below those required in EU Member States.

Our aim is to integrate the transport markets of the West Balkan countries among themselves in the first place, then with that of the EU. This will have the effect of revitalising transport in the region, and prepare its integration with the EU market. If, as we have done it within the EU, we want to achieve this objective by introducing competition and removing borders, we have to be aware that market opening takes time in road and rail, and needs a gradual approach which will take years. And both processes, in road and rail, have to be carried out in parallel – opening just one market for competition would be to the detriment of the other. These are the main two elements of the Commission's proposal for negotiating a South East European Transport Treaty with the West Balkans. We have precedents with the South East European Energy Community, and with the South East European Aviation Area. In a nutshell, we aim at creating first a Transport Community among the states of the region, and as a second step to integrate that Community with the EU transport market.

The region has made a first step already, when transport ministers of the Western Balkan countries and the EU Commissioner for transport signed a Protocol on a Common South East European Railway Area in December 2007. This

and road congestion.

commitment to restructure national railways systems following the model of the European Railway Area that we have established in the EU is an important political signal to politicians (because it indicates that the future of the area lies squarely with Europe), to IFIs (because it gives them the assurance that their investment will pay off one day) and to operators like you, who see Europe as a whole as a single market and need the same rules to govern it regardless of borders.

The Slovenian presidency has made a huge effort to get a negotiating mandate adopted still during its term. I trust that agreement can be reached at the next Transport Council meeting on 13 June and that the Commission will be authorised to negotiate this ambitious treaty.

5) Revision of the Eurovignette directive

Fair competition between transport modes, presupposes that pricing signals for the use of infrastructure correspond to the costs incurred, including (external) social costs. Despite various past attempts by the Commission to translate this principle into legislation, it has not been possible to get agreement by the legislators. On the contrary, the amended directive on tolling (the Eurovignette directive) even forbids Member States to calculate road tolls in order to include such external costs.

The European Parliament invited the Commission in 2006 to propose, no later than 2008, a model to calculate the external costs of transport together with a strategy to internalise and charge them to the users of the transport system. Therefore a revision of the Eurovignette directive will be necessary. Its purpose is to encourage green and intelligent pricing for the use of transport infrastructure, focussing on road haulage, but also addressing competing modes. The main thrust of the new proposal will be:

- To give Member States who choose to do so the possibility to levy a charge calculated on the basis of local pollution and congestion,
- To set levels and ceilings for this charge that will not discriminate against users and which will remain proportionate. Values for the ceilings are based on an assessment model of external costs but calculations have been simplified if you compare them to the calculations described in the Handbook published in January 2008.
- To levy the charge without creating restrictions to the free flow of traffic (i.e. by means of electronic tolling) and to earmark revenues towards financing projects to promote sustainable mobility.

Charges should vary according to environmental performance, type of roads, time of day in a way which increases their impact on reducing congestion and local pollution. These charges are not a new tax, but a policy instrument to allocate costs for the use of infrastructure in a transparent and fair way, making polluters pay and ensuring fairer conditions of competition between modes.

The simulations we carried out in the impact assessment have shown that the new framework leads to average charges of a few Eurocents per kilometre, on top of the present average of 12 cent per kilometre. Our impact assessment has also shown that these costs are largely bearable by the European economy and even beneficial for its sustainable growth.

In July 2008, the Commission will therefore propose a package on "greening transport" which will include

- A communication setting out Commission policy in this respect, and the methodology for calculating external costs
- The amendment of the Eurovignette directive

- An inventory including all past and ongoing measures to improve the environmental performance of transport, showing that we are not just singling out one mode but that what we do for road transport responds to a global vision
- A communication on rail noise, with some ideas on how to encourage the development of new "silent" brake blocks on the existing fleet of freight wagon.

Conclusion

In conclusion, I would like to emphasise that the initiatives I have mentioned fit into the greater context of the Commission's land transport work programme, and I hope that they will significantly contribute to the emergence of a stronger, sustainable and more competitive rail sector in Europe, playing its full role in synergy with all other modes of transport.

Thank you very much for your attention.