

8 big challenges for European railfreight

Still reeling from the worst economic crisis in more than half a century, Europe's railfreight operators enter a new decade contemplating a long line of financial, political, and technical hurdles. **Keith Barrow** reports from Marketforce's Future of Railfreight in Europe conference in Berlin, where delegates debated the industry's most pressing issues, and how they might be tackled.

1 The economy

MOST railfreight managers will be relieved to see the back of 2009. According to DVB Bank Land Transport Research, the industry witnessed a 29% collapse in volumes last year as the effects of the financial crisis began to hit hard. DVB predicts that Fret SNCF, France, will lose €600 million, while Trenitalia Cargo will have a deficit of more than €300 million, and Europe's largest railfreight operator, DB Schenker Rail, more than €200 million.

A third of the wagon fleet and 20% of locomotives are out of use, while wagon orders went into freefall in the first half of the year, down 83% year-on-year. The market for locomotives is also reeling from an 80% plunge in orders.

Mr Wouter Radstake, senior vice-

president of land transport research for DVB Bank told delegates that a recovery of the overall European freight market to 2007 levels will not occur until 2013 at the earliest. Furthermore, he predicts that figures for 2009 will show rail has lost market share to road, largely because shippers, unable to consolidate declining volumes into trainloads, have been forced to seek alternative transport.

"Asset planning is essential - you need to ask whether you can do more with less," says ERS Railways managing director Mr Alan Gibson. "Old locomotives may be cheap, but they may also consume more fuel. Preventive maintenance also offers opportunities for savings. If you can adjust your business model quickly to adapt to reduced turnover, you can protect your bottom line. Position

yourself carefully for the upturn, because it will come."

Leasing companies are also facing challenges from the downturn. In the late 1990s and early 2000s, leasing companies responded to rising volumes and a growing number of open-access operators by ordering a glut of new locomotives. Many of these are now due for their first major overhaul at a time when demand is suppressed by the economic climate.

"Reduced industrial production means lower transport demand, which means fewer trains are required and oversupply of railway equipment," explains Mr Emmanuel Mariani, commercial director of Angel Trains Cargo. "Oversupply means lower levels of investment in rolling stock, reduced manufacturing, the loss of key skills, and the high cost of maintaining an under-utilised fleet.

"There's an analogy with Formula 1 motorsport that is very appropriate. When the safety car enters the race, the drivers refuel, change tyres, and review their strategy. The downturn is the safety car for railfreight and we must turn this into an opportunity to review our strategies."

Angel Trains Cargo has taken advantage of the hiatus by overhauling some locomotives and upgrading others in preparation for the recovery. Nonetheless, Mariani warned delegates that the downturn will have a long-term impact on wagon building capacity that could lead to shortages when economic conditions normalise.

2 Intermodality

WHILE the debate over modal shift is as emotive as it is political, the need for railfreight to work effectively as part of a multimodal logistics chain will become more acute as traditional bulk flows decline and the role of intermodal traffic grows.

The chairman of the International Union of Railways' (UIC) Combined Transport Group Mr Eric Peetermans explained that international unaccompanied combined transport (CT) volumes have grown fivefold in the last 20 years and despite the economic downturn, this will be the fastest growth sector in the next decade and the primary driver of railfreight expansion in Europe.

UIC forecasts suggest that international CT will return to their pre-recession growth rates of 7.8% for domestic and 8.4% for international traffic from next year, and Peetermans warns that this could result in a shortage of track and terminal capacity, and suitable rolling stock. Capacity will need to be found for an additional 3.4 million terminal loadings per year by 2015 in addition to investments that are already planned.

Assuming wagon utilisation

increases by 20% above 2007 levels, the fleet will need to almost double to 86,000, requiring a €4.6 billion investment.

To facilitate the projected growth, Peetermans suggests operators will need to work closely with infrastructure managers (IMs) to achieve:

- a Europe-wide backbone network of international shuttle and direct services
- international coordination of infrastructure maintenance
- greater flexibility in the cancellation of train paths
- improved transit times
- minimum train lengths of 750m on international corridors
- an international agreement on the removal of bottlenecks, and
- standardised international coordination of terminal development.

CTL Logistics president Mr Krzysztof Sedzikowski pointed out that container tariffs on rail are generally based on weight not content, when the opposite is true of shipping. A market based increasingly on lightweight (but time-critical) intermodal loadings instead of heavyweight bulk services might therefore provide operators with challenges on the balance sheet unless a different pricing structure is adopted.

3 Modal shift

AN increasingly-fashionable term in the political lexicon, modal shift is widely considered a core policy for governments that are serious about tackling carbon emissions from transport. 27% of Europe's carbon emissions are generated by transport and it is the only sector where emissions are still rising, at 1.5% per year.

According to the EC Directorate General for Transport and Energy (DG Tren), moving a quarter of road and air traffic to rail by 2020 would cut European Union (EU) transport emissions by 21% or 1.9 billion tonnes of CO₂. While this is unquestionably ambitious, some countries are already proposing drastic action to promote modal shift. In August 2009, the French government passed a bill that commits to increasing non-road freight market share from 14% to 25% by 2020. The Swiss government has adopted a policy that aims to raise intermodal transport volumes by 50%. Since 2000, the number of lorries crossing the Alps through Switzerland has fallen by 16% despite increasing freight volumes.

The extent of modal shift will depend on a complex web of political and technical factors, although radical thinking and compromise will be essential on all sides. Policy-makers' response to some non-rail transport issues, notably the introduction of gigaliner trucks and the application of the Eurovignette tax on heavy goods vehicles will also be crucial.



Photo: Philip Wormald

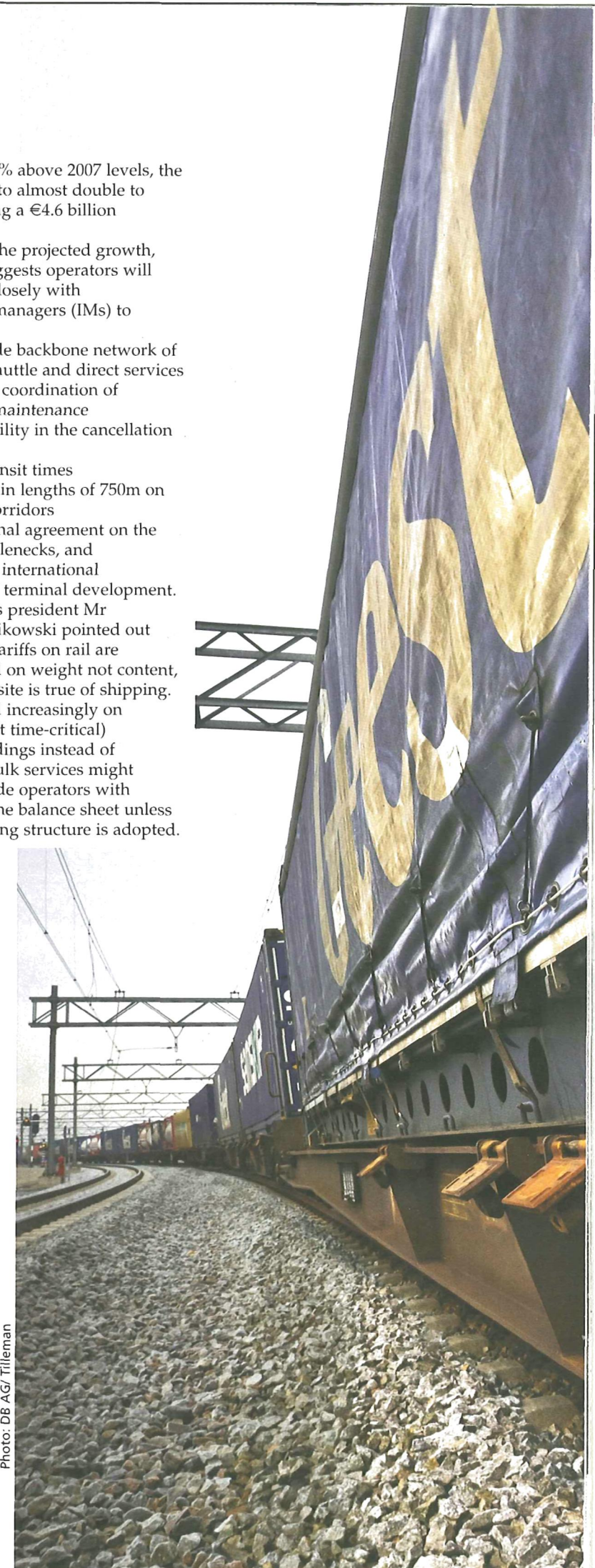


Photo: DB AG/Tillemann

4 Consolidation

IN more open markets such as the Netherlands, Britain and Germany, the formative years of liberalisation were characterised by a proliferation of open-access operators. More recently however, there has been an accelerating trend towards consolidation, and hardly a month passes without news of another private railfreight company being acquired by one of the incumbents.

In November, French National Railways (SNCF) completed its acquisition of Veolia Cargo's non-French operations. Last year it increased its stake in wagon leasing company Ermewa to 100% and it also owns German open-access operator Import Transport Logistik (ITL). This steady accumulation of smaller operators outside its core French market is a clear response to the relentless expansion of German Rail subsidiary DB Schenker, which continues to draw smaller operators from across the continent into its mighty worldwide logistics business.

After swallowing the railfreight subsidiaries of Netherlands Railways (NS) and Danish State Railways (DSB), DB bought Britain's largest railfreight company EWS in 2007, which also gave it an operating presence in France through Euro Cargo Rail (ECR). The acquisition of Transfesa, Spain, and PCC Logistics and PTK in Poland have also helped DB to quickly develop a truly pan-European railfreight business. The commercial advantages of this were amply demonstrated in November 2009 when DB Schenker Rail launched a new temperature-controlled service from Valencia, Spain, to Dagenham, Britain, which is claimed to be the longest single-operator flow in Europe.

Further east, Austrian Federal Railways (ÖBB) subsidiary Rail Cargo Austria (RCA) has also expanded with the acquisition of MÁV Cargo, Hungary. The EC required ÖBB to sell its stake in Győr-Ebenfurth-Sopron Railway (GySEV) as part of the deal in the hope of achieving competitive

conditions in a market still dominated by incumbents. RCA reportedly paid double the highest bid submitted by the private sector.

Radstake observed that there is now only one private operator in each region of Europe with a turnover of more than €100 million, while wholly privately-owned operators are clinging to a feeble 7% share of the European railfreight market. Radstake argues that in a truly competitive market, recession would have been a fatal blow for some incumbents' freight subsidiaries. "The impact of the recession has been immense," he says "It is difficult to see how incumbent freight operators would have survived as stand-alone commercial businesses."

"In a normally-functioning market, no one actor should have more than a 30% share," says Lord Tony Berkeley, president of the European Rail Freight Association (Erfa). "We won't get growth without competition, and the remonopolisation of the industry that is now occurring will ultimately kill it. Where are the incumbents getting the money to buy private operators, when they are asking their governments to bail them out? There needs to be an investigation into whether the market is working properly."

Erfa made 10 complaints to the European Commission (EC) last year concerning state aid to railways, and Berkeley argues privatising incumbent railfreight operators would remove grounds for such suspicion.

"It's time to be radical - the incumbent railfreight operators must be sold off," he concludes. "As private companies, they would be required to publish their accounts and then we would see what is really happening. Most of the problems we face today come from lack of transparency, and this is a widespread issue that should be properly considered in the recast of the First Railway Package (FRP)."

5 The last mile

IT is in 'the last mile' where the debate over competition is at its most heated. Private operators routinely accuse incumbents of restricting access to terminals and sidings.

"If you can't get into a terminal, you can't run railfreight," says Berkeley. "It's extraordinary that train operators should own sidings and prevent the competition from entering. Terminals should be built with state funds and open to everyone."

In Poland disputes over access to sidings and terminals have been rife since the early days of liberalisation. "We cannot enter the wagonload market, which is dominated by the incumbent [PKP Cargo], because of last-mile infrastructure access," says CTL Logistics president Mr Krzysztof Sedzikowski. "PKP Cargo tells its customers that it will increase prices unless they can consolidate consignments into trainloads. This is monopolistic behaviour."

The EC says it is now investigating access arrangements for private sidings in Poland.

6 Liberalisation

LAST June, the EC said that liberalisation had been a success and that where markets are effectively open to competition, the decline in rail's modal share has been halted, operators have become more efficient and competitive, financing is more transparent, and taxpayers' money has been used more efficiently.

But while liberalisation has been broadly successful, the conditions for market entry still vary enormously between member states, some of which have been painfully slow to transpose the FRP into national law despite its adoption nearly nine years ago. Last October the EC sent reasoned opinions to 21 member states that have failed to fully implement the FRP (IRJ November p20), a process that was due to be completed in all EU countries by May 2004.

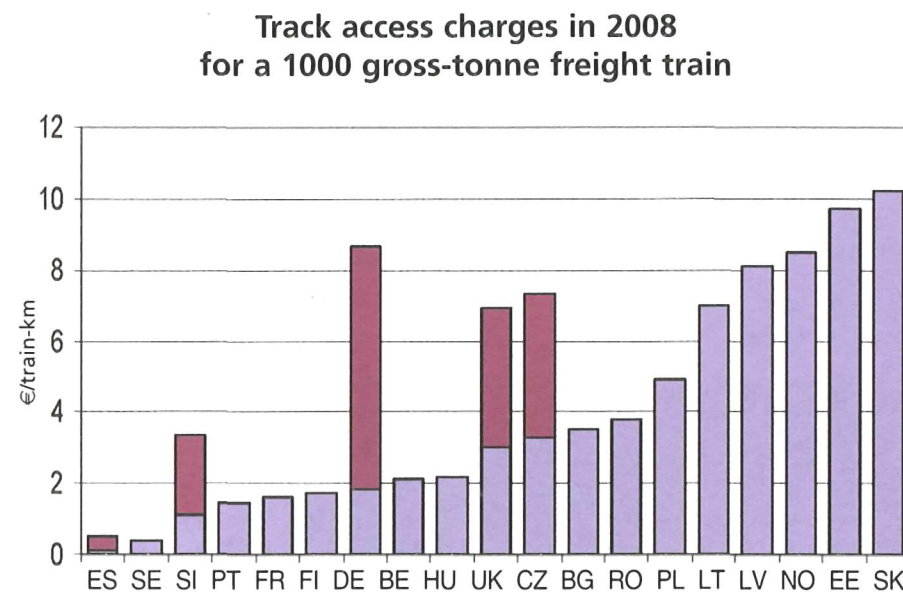
The establishment of an independent regulatory body, widely considered a cornerstone of an open railfreight market, has yet to take place in several member states, and elsewhere these authorities lack sufficient powers.

7 Access charges

IN the January 2008 issue of IRJ we examined the huge variation in infrastructure charging across Europe (p20). Two years on, freight operators remain frustrated by the significant disparities in both cost and pricing structure that exist between member states.

The graph shows the enormous range in access charges across Europe and demonstrates that these tariffs are not being universally applied at marginal cost as required by the FRP.

CTL notes that between 2006 and 2009, track access charges for freight trains in Poland rose by 31% and accuses the Infrastructure Ministry of changing the structure of the access regime to favour trains carrying lower tonnages. "Under this system our fees will fall by 5% in 2010, but PKP Cargo's will decline by 18%."



Source: track access charges RMMS meeting June 19 2009

Maximum price

8 Capacity

ENSURING the smooth passage of international freight services through a number of different countries, all with their own set of regulations and operating practices, is inevitably a challenge. The scarcity of funding for enhancements that primarily benefit freight also limits the scope of what can be achieved in most European countries, forcing IMs to be creative with their existing resources.

International cooperation has been a relatively low-cost means of optimising the existing infrastructure for freight operators. RailNetEurope (RNE), an organisation with 34 industry members including most IMs, has

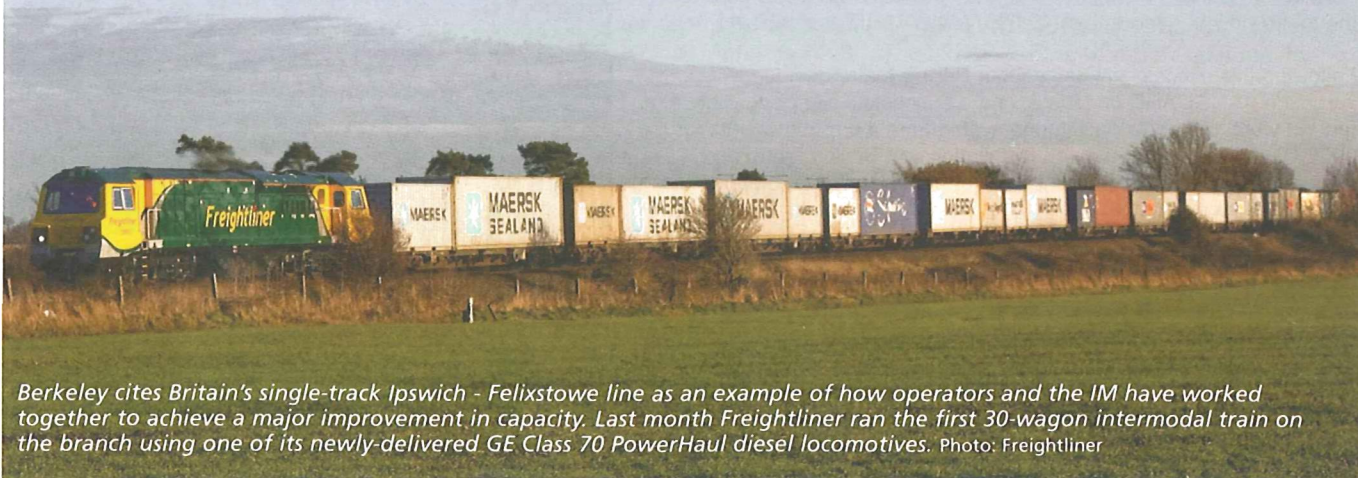
successfully fostered cross-border cooperation on international corridors. Under European law, however, train paths can only be allocated nationally, and while freight and passenger operators have equal status in some countries, such as Britain, passenger services are prioritised by some IMs.

"Do two grandmothers on a train travelling with free passes provide the railway with more value than a freight train full of electrical goods or supermarket produce?" asks Berkeley.

European Infrastructure Managers Association (EIM) secretary general Mr Michael Robson believes member states need to adopt a market-orientation approach to the development of freight corridors. "IMs need to know what customers

want the network to deliver," he says. "All countries on a corridor must agree common standards. Rotterdam - Genoa is an example of how member states and IMs have worked together to achieve this."

Mr Jean-Michel Dancoisne of SNCF noted that like high-speed, railfreight is characterised by long-distance movements, and multiple conflicts with regional networks are therefore inevitable. He argues that this makes the issue of prioritising freight more political than technical, because infrastructure has to meet the demands of different groups with different interests. Balancing these interests will clearly become a challenge as rising traffic puts increasing pressure on the network. **IRJ**



Berkeley cites Britain's single-track Ipswich - Felixstowe line as an example of how operators and the IM have worked together to achieve a major improvement in capacity. Last month Freightliner ran the first 30-wagon intermodal train on the branch using one of its newly-delivered GE Class 70 PowerHaul diesel locomotives. Photo: Freightliner