COMMENT: RAIL FREIGHT VISION MUST NOT FAIL

The European Commission unveiled its vision for rail freight in 2001 with a set of directives that formed part of its 'open borders' policy. But, says Derrick Potter**, progress has been delayed by opponents of greater liberalisation**

Dominated by state monopolies, mainland European rail freight market share declined from 20 per cent of all goods moved in 1970 to just over eight per cent in 2000 in the then 15 EU member states. Despite a big increase in total freight traffic, lack of market focus and competition prevented rail freight from adequately replacing the loss of traditional items such as coal and steel.

Opting for a liberalised single market, the EU produced three directives to be implemented from 2001 to 2008. They were intended to tackle the problems that had hindered the rail freight industry, to encourage the industry to improve its performance and increase its share of the freight market.

The European Rail Freight Customers' Platform (ERFCP) – a body representing around 90 per cent of European rail freight customers – summarised succinctly the qualities an efficient and productive pan-European rail freight system should have:

- Sufficient capacity to handle significant growth in demand;
- A reliable system with on-time performance to rival road freight;
- An inter-operable network, with harmonisation to reduce costs and minimal technical or commercial barriers to entry;
- A level playing field in timetabling or operations, and border crossings should not involve any undue delays;
- Transparent, non-discriminatory and low track access charges; and
- Competitive pricing with customer focused services.

The first package of directives in 2001 created a structure within each state to foster competition, ensuring that the infrastructure, passenger and freight operations should be separated, operationally and financially. It recognised the barrier to competition created by former nationalised monopolies. The directive also stipulated that each member state should set up an independent regulator, and that track access charges should be based on direct costs and without discrimination.

The second set of directives adopted by the EU in 2002 for implementation by the end of 2005 was designed to establish an open, international infrastructure for any European rail company able to prove it could provide a reliable service.

The third package – which has not yet been adopted – has three main objectives: firstly, open access for international rail passenger services, and secondly the introduction of an international rail drivers' licence.

Finally and most controversially it will also provide incentives for the improvement of rail service quality, by introducing compensation where services fail to meet standards.

The benefits aren't strictly commercial. A study by the International Union of combined road-rail transport companies (UIRR) showed that a shift from road to rail freight could reduce CO_2 emissions by 60 per cent.

Success in the UK: There are four main competing rail freight operators in the UK – English Welsh and Scottish Railway (EWS), Freightliner, Direct Rail Services and GB Railfreight, with a number of successful independent rail freight businesses.

Rail freight grew by 9.5 per cent in 2004-2005 and now handles 11.5 per cent of all freight, with a 60 per cent increase in volumes carried since 1995. It has also saved more than 7.2 million road vehicle journeys, helping to reduce congestion and pollution.

Since privatisation UK rail freight operators have invested £1.5bn in rolling stock and other equipment. As a result businesses such as Argos, ASDA, Rosebys and Ford Motor Company, who before may not have considered it relevant, are now using rail freight.

Progress to date: Although from January 2006 rail freight should be open and unhindered across the EU, progress in getting directives implemented has been generally slow and uneven. Rail freight's market share stayed flat at around 13 per cent from 1999 to 2002, but showed a small rise of 2 per cent in metric tonne-kilometres carried in 2004.

Sadly rail is still far from providing a reliable service, with 24 per cent of trains more than three hours late in 2003. Road freight, on the other hand, showed a 92 per cent record for arrival within 15 minutes of the estimated arrival time. And according to the UK's Strategic Rail Authority (superseded by the Department for Transport), 95 per cent of domestic traffic does run on time.

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Large, publicly-owned operators still dominate the European rail freight market and are often vertically integrated, so the company which owns the infrastructure also has a rail freight operating arm, effectively stifling competition.

Pivotal role for France: The continuing reluctance of both the French government and unions to embrace the EU vision is seriously hampering rail freight growth, affecting freight to and from the UK and Iberia.

According to a report in 2005 from the Rail Freight Group in the UK, while France has implemented open access legislation into its domestic laws, progress is still limited. There are a few short-distance cross-border services operated by Belgian and German state operators. However the French government has recently allowed EWS to operate on the French rail network, making it the third rail freight operator in the country.

Unfortunately, customers are reporting serious delays and price increases of 25 per cent or more. Track utilisation charges are at present strongly favouring state operator SNCF although this should change at the end of 2006 with a simpler and fairer system.

Rolling stock too must be approved to operate in France and so far only French-manufactured stock has been approved. There are also continuing concerns that French rail unions may take industrial action over fears that the new legislation will lead to job losses.

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High access charges are deterring some rail freight operators from using the Channel Tunnel.

A House of Lords report, *Past trends and the current position of rail freight in the European Union,* published in 2005, summarised the main stumbling blocks.

In addition to slow progress in France, German infrastructure and operations are still managed by separate divisions of DB Netz AG. Elsewhere, RFI in Italy and ADIF in Spain claim to have established separate entities but there is still some way to go before all the leading states have fully implemented the first directive.

Poor performance: Improvements in punctuality are urgently needed if mainland European rail freight is to come close to the standard set by road transport. The Lords also heard evidence from Ford Motor Company, quoting delays of up to 48 hours in shipments from Dagenham to Valencia.

Barriers to access: New rail freight operators are subject to repeated licensing and approval processes when entering the market, requiring evidence which is not mutually recognised between member states.

In addition, safety requirements may appear to apply disproportionately to potential new entrants to the market, reinforcing the dominance of the incumbent operator. A directive to provide for a transparent, harmonised and non-discriminatory process of issuing the safety certification is due to be implemented by member states this year.

Physical barriers to interoperability: Crossing international borders remains a significant problem for rail freight operators, as often this is the point where drivers and locomotives have to be changed, resulting in minor delays. One solution would be to permit train drivers to work longer distances but this may be resisted by French trade unions.

Access charges: Access charges are not transparent across all member states and some charging regimes favour incumbent operators with fixed charges or significant volume rebates. The EU directive on rail access charges does not explicitly disallow two-part tariffs but requires that equivalent traffic within the same market segment should face comparable charges.

Multiple charging structures can create problems for new, privately financed companies competing with major, publicly-owned railway service providers. The issue of charging structures was one of the central problems which the First Railway Package sought to address.

The Channel Tunnel: The UK has only one rail link into mainland Europe, the Channel Tunnel and the report highlighted the low level of freight transport passing through it, currently some five to six trains each day. The Lords heard from Network Rail that of the 35 paths in each direction available for freight trains between the Channel Tunnel and London, only 12 were in use at the time. There is therefore capacity available for a large increase in international rail freight through the Tunnel.

EWS in partnership with SNCF in France is the only company which provides international rail freight services through the Channel Tunnel. Freightliner reported that access charges for the Channel Tunnel were, for any operator other than EWS, 'way outside anything you would regard as being reasonable.'

Would compensation work? The Third Railway Package includes proposals for compulsory compensation to be paid to rail freight customers when specific quality standards are not met. However it was agreed that for companies to be ready to use rail freight, the solution was to provide a competitive, punctual, reliable service and that compensation was not the answer. Market forces should be the driver to improved performance.

In spite of slow progress, almost every European state has taken steps towards satisfying the requirements of the directives already in force. Some – such as Estonia, which in 2001 sold its entire railway network to the private sector – have embraced the new vision. Meanwhile others – notably France – are proving to be particularly cautious, fearing industrial disruption and the loss of control over an entrenched state-managed system.

But compared with the time scales required to make major changes across the whole of the continent, the period since the first Directive is relatively short. And while the way in which the EU operates requires agreed procedures, disciplines and rules to ensure common standards and protocols, we must also avoid the fledgling rail freight system being strangled by its own bureaucracy.

Despite some criticism, the UK model has worked well and if rail freight can increase its share by even half the 60 per cent achieved in the past decade, everyone concerned will have cause to celebrate.

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