

Railway Transport Policy in Europe

— Changes Today and Future Prospects

Erik Vandenbroele

The railways of Europe are experiencing a fundamental overhaul the like of which has not been seen before. They are being transformed from monolithic state-run organisations into commercially-led enterprises. Why? What has prompted this change? And what does the future hold?

This article is designed to answer some of these questions and to examine the elements that led to this change, the implications for the transport sector as a whole, the prospects for the future and the role that the European Community or European Union (EU) as it is now called, played in the development of this process.

To set the scene and to provide a backdrop for the reason why there is a European policy on transport, it is beneficial to first look briefly at the EU, its structures and the legal competence that it has over European Transport Policy. The first most noteworthy point is, probably, that EU law supersedes national law in the Member States. Second, the EU is made up of three main institutions: the Commission, which initiates legislation, the Parliament and the Council which is made up of the Member States and makes the eventual decisions on legislation.

European transport policy finds its legal basis in the founding treaty of the European Community (Treaty of Rome) in the late 1950s. Since that time, however, transport policy in Europe has been carried out on a sector-by-sector basis. As a result, depending on the time period and the state of evolution in the transport market, one sector tended to be given more attention than the others. Over the past number of years, this concentration has been on the road and, more recently, on air.

However, the early 1990s has seen a change in policy direction and the approach at European level is, for the first time, global. In other words, the guiding principle from now on will be based on what is the best approach for the sector as a whole. There are a number of reasons

for this change in approach. The most important is the explosive increase in traffic in Europe and the resultant deterioration in mobility.

Since 1970, the annual economic growth in the EU has averaged 2.6% in real terms. In general, transport demand for both passengers and freight has run in parallel with the growth in GDP, with the result that the growth rate in transport services averaged 2.3% for goods and 3.1% for passengers over the same period. It is expected that the current liberalisation of the transport market and the enhancement of EU membership will further increase the rate of growth in GDP and transport demand.

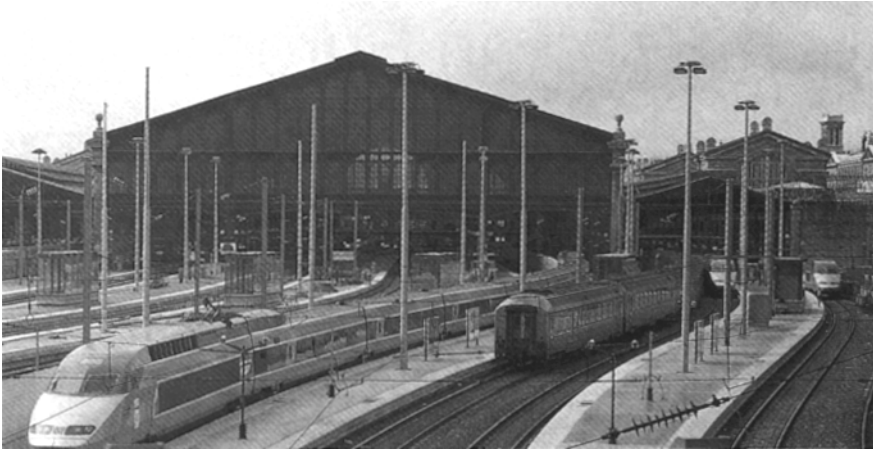
This phenomenal increase in traffic has been accompanied by a parallel decrease in mobility. It has also led to the deterioration of the environment through pollution, congestion, land-take for infrastructure, noise, etc. In reaction to this, there has been a perceptible change in public attitude, not only in Europe but worldwide, where no longer is industrial development synonymous with environmental degradation. In Europe as elsewhere a new impetus has been found to tackle these problems. The Maastricht gives a central position to the environment. In fact, from now on, every area of EU legislation must take the environment into consideration. Specifically, for the transport sector, the European Commission's White Paper on *The Future of the Common Transport Policy* (December 1992) is explicitly committed to the development of sustainable mobility and the promotion of the more environmentally-friendly modes of transport.

Central to the development of Sustainable Mobility in Europe is the "internalisation of external costs." This phrase has become a buzzword in European transport circles. Unfortunately, there is no consensus among the bureaucrats, the politicians or even the academics as to what it actually means. However, there are a number of points on which ev-

eryone is agreed, these include: first, transport has negative effects on the environment – pollution, noise, accidents etc.; second, in order to maintain a transport policy that meets the mobility demands of society and respects the environment, there must be a radical shift in present transport practices. One way of achieving this is that each mode is obliged to pay for its negative effects on the surrounding environment thus the external effects are internalised through payment. This is basically the "user pays principle". You pay for what you pollute. Alternatively, the more environmentally-benign modes can be encouraged through financial incentives.

Obviously the railways, as an environmentally-friendly mode are strongly advocating the introduction of this method. However, although there is much agreement that this is the most logical way forward, there is sizable opposition, particularly from the road lobby, on how exactly it should be implemented. Furthermore, at the Council level, where the political decisions are taken, there are many opponents to the unsavory political reality that transport in general will undoubtedly have to become more expensive. But some progress has been made and we have succeeded in bringing the issue to the top of the transport agenda. However, knowing that this process will be slow and laborious, the railways are calling for interim solutions that will help in the creation of a more balanced competitive situation. For example, we are seeking the implementation of a consistent fiscal policy regime and the development of an infrastructure investment system that provides more funding for modes of transport that are less harmful to the environment. Our discussions on these points are continuing with the European decision-makers.

At this point, it should be clear that the past number of years have been ones of great change and transformation in terms of transport priorities at the European level. Against this general background, it



■ A "TGV Nord-Europe" train leaving the Gare du Nord (North Station) of Paris for Lille. Courtesy: T.Suga
The line will soon be connected to Britain via Channel Tunnel, and, in the near future, to the high speed networks in Belgium, The Netherlands and Germany.

is interesting to look more closely at what has been happening in the railway sector over the same period.

The fate of the railways at this time has not been the same as for other modes in the sector. Although the overall traffic demand continued to increase, the percentage market share for the railways, particularly in the freight sector, has declined. The railways have continued to lose money. There are a number of reasons for this including the nature of the railway's dependent relationship with the State including the public transport obligations that have in the past been placed on the mode. Given this situation, some radical solution was needed if railways were to survive as a viable mode of transport.

In July 1991 the EU took the initiative by introducing legislation on *The Development of the Community's Railways* (Directive 91/440). The primary objective of this document is to make the railways independent, commercially-viable, market-led enterprises. The EU left it to the discretion of the Member States to decide exactly how to achieve this but the Directive does lay out certain guidelines that the States must follow.

For example, the railways are obliged to split the management and accounting practices of the infrastructure and the operations. The State will still have general responsibility for the infrastructure but the operating side will have to be run on a commercial basis. The upshot of this Directive is that there will be some form of access rights on the infrastructure and there will be new operators in the profes-

sion. Our discussions with the European decision-makers at the moment revolve around how, in practice, one can provide access to the infrastructure and how one can create a regime for operators that is fair to both existing and potential new operators. There are two of the most difficult issues that we have to deal with today.

The Directive emerged in 1991, at which time the Community promised the railways a 2-year breathing space in order to implement the Directive as they saw fit. The 2 years are now up and the Community has just published two new supplementary directives: one on *The Licensing of Railway Undertakings*, and the second on *The Allocation of Railway Infrastructure Capacity And The Charging of Infrastructure Fees*.

One of the key issues in the Directive on the licensing of railway operators is the maintenance of safety standards. As the directive itself points out "the Community railways have an excellent safety record, much better in fact than their competitors in the road sector". Thus it is most important that potential new operators on applying for a license can prove that they can fulfill and maintain all of the safety requirements.

With regard to infrastructure allocation and the charging of infrastructure fees, the European railways are concerned about the way in which inter-modal competition will be introduced. It needs to be organised and proper account needs to be taken of the specificity of the mode. Similarly, it is important that the system is considered as a whole and that atten-

tion is paid to the dynamic reality in which the mode operates. This is particularly important in the context of the possibility of slot allocation on the infrastructure and in the promotion of international (freight) transport. In other words, the railways accept the concept of intra-modal competition but we strongly urge that it is introduced on a fair non-discriminatory basis.

In the context of inter-modal competition, there are a number of issues which we are discussing at present with the Commission all of which revolve around the creation of a fair competitive regime where each mode is obliged to pay its full costs. This issue is multi-faceted and is probably the most important transport issue at the European level. First, from a railway point of view, we are calling for each mode to pay its full infrastructure charges. In comparison with other modes, the railways have always been in the unique position of being responsible for their own infrastructure. At present for the European railways this amounts to an average of 35% – 45% of total operating costs. This is in stark contrast to the other modes and a situation that has traditionally placed the railways in a highly uncompetitive position vis-à-vis other modes of transport. It has also been partly responsible for the massive debts that some of the railways have incurred. On this issue the European railways strongly support the user-pays policy. This principle has an extremely important role to play in promotion of the most efficient use of resources and in ensuring a more balanced utilization of modes within the transport market.

In the area of research, the railways together with the EU are working very hard on the development of interoperability between the different systems. Technological progress in this field is particularly important in the alpine regions and at the borders between France and Spain where the track gauge is different. Technical as well as operational interoperability will go a long way toward facilitating a trans-European networks and will contribute to the broader goal of European integration. The best known practical example must surely be the Eurostar train commencing at Waterloo Station in London and going all the way through the Channel Tunnel to Paris or Brussels. This is truly a great accomplishment considering the chal-

lence of different electrical systems, loading gauges and track gauges. Thus, we can say that in practice, we see a trend developing that encourages cooperation on technical issues, like interoperability, and competition in the commercial areas.

Each of these issues is further complicated by the fact that the Member States' governments themselves differ in their approach and philosophy toward the future of their railways. This, of course, is not surprising considering the different traditions of the railways involved and the differing strategies for the future of the respective futures. The following is a sample of some of the different approaches to profitability.

Some Member States are opting for full privatisation, for example, Britain where the government there has decided on the gradual privatisation of British Rail (BR). BR will be divided into two units: one called Railtrack, will be responsible for the infrastructure and may eventually be privatised, while the other will operate passenger services which will gradually be franchised to private operators. All the freight and parcel service will be sold.

In the Netherlands, the organisation will be split into four business units: passengers, freight, construction and maintenance of the infrastructure and capacity management. Germany introduced a long-term strategic plan on the future of the newly-amalgamated German Railways (DBAG) on 1 January 1994. There are three distinct areas of activity: passengers, freight and infrastructure. After 3 years DBAG will become the holding company for the three units, 5 years later, the holding company will disappear leaving the three organisations commercially independent. By contrast, another example is Denmark where the government has decided to keep the railways under the management of the Ministry of Transport.

Not only in Western Europe has the situation been one of immense change. Similar transformations are taking place in Central and Eastern Europe. The railways of Poland, Hungary and the Czech and Slovak republics are altering their systems in favour of the split between the operators and the infrastructure in the evolution toward commercially-viable transport organisations.

As the railways throughout Europe grapple with the best solution for their

particular situation, the Swedish example has become a test case. In 1988, Swedish State Railways were split into a track authority (Banverket), which is run by the State and an operating company (SJ), which runs the rail traffic and maintains the stations. SJ continues to be State owned but is not State run and is completely autonomous. The purpose of the split was to transform the railways into a profit-making venture. The specific mandate was to turn a SKr 500 million loss into a SKr 500 million profit in 4 years. Given the profit motive, SJ is very efficient and has been lauded for its high market share.

SJ pays for the use of the infrastructure in the form of a fixed annual tax per locomotive, carriage or wagon plus a variable toll for each kilometre travelled. BV infrastructure fees are largely based on socio-economic costs, pollution and track wear. These charges are based on road taxes in an attempt to create a level playing field between the two modes.

In light of these diverse and complicated issues, what role does the Community of European Railways (CER) play? CER is an association of the railway companies of the Member States of the EU together with those of Austria and Switzerland and the Nordic countries. The primary objectives of the CER are to represent the railways at the European level, to contribute to the development of common transport and other related Community policies in association with the institutions of the EU and, finally, to promote a genuine synergy between the railways.

CER is headed by the Directors General of all the constituent companies. Each company has an "Assistant", who is an expert in EU affairs. The group of the Assistants is the powerhouse of the organisation in terms of European policy positions. To assist and support the railways at the European level, there is also a permanent secretariat based in Brussels which closely monitors the workings of

the European institutions and specialises in areas such as legal affairs, the environment, research and technology, combined transport and the common transport policy in general.

The immense changes in the railways throughout Europe has obvious implications for CER but we will continue to work for the promotion of the rail sector and the railways as a key mode in the development of a viable and sustainable European transport policy.

Our challenges for the future include actually overseeing the implementation of the internalisation of external costs which will be of great commercial benefit to the railways in the promotion of a voluntary modal shift to more environmentally-friendly modes. The task on the railway side is to be ready when the shift comes. We are at presently improving the quality and service of our products, particularly high speed and are concentrating on the improvement of cross-border traffic. In this regard, we are in constant discussion with the Commission on the development of technical interoperability at particular pinch-point areas like the Alpine crossings and the gauge difference between France and the Iberian peninsula. Similarly, the railways consider the development and implementation of new technologies to be of vital importance to the improvement of the overall railway product.

The European railways are at a crucial turning point; the next 5 years will see an evolution toward independent, competitive companies ready to take a central position in European transport policy. Now we are seeking our niche markets and developing high-quality products that meet customer demand so that railways form a pivotal transport mode for the twenty-first century. ■



Erik Vandenbroele

Mr Erik Vandenbroele was born in Belgium in 1938. After post-graduate studies at the University of Brussels, he joined SNCB as a manager. He was Head of International Cooperation in the General Managers Department of the Belgian Railways from 1978 to 1988. Since 1988, he has been Secretary General of the Community of European Railways (CER). His responsibilities include representing railway interests at the international level within the EC, contributing to development of transport and related policies, and promoting closer partnerships between member railways. He has travelled widely on fact-finding missions to Vietnam, Africa, China and the USA.