Restructuring of Railways in Poland

Krzysztof Celinski

Main Priorities and Development Strategy of Polish Economy

Major economic growth in Poland since 1992 has occurred mainly in industry, trade and services, with smaller growth rates in housing development and construction. The transport sector lagged behind, but after a significant 15% decrease (from 138 to 117 billion tonne-km) in freight traffic volumes from 1990 to 1993, there was a small growth in 1994 to 126 billion tonne-km.

The changes in GDP in the period from 1992 to 1994 and the contribution of different economic sectors to GDP are shown in Table 1. Transport and telecommunications produced 6.0% of GDP and land transport (including pipelines) had 2.9% of GDP. The structure of State expenditure has changed significantly. There was constant decrease in investment (from 6.5% in 1991 to 4.6% in 1994 - Table 2) and in direct subsidies (from 3.9% in 1991 to 0.8% in 1994). Expenditure on transport—mainly for railways and road modernization—declined from 2.3% to 1.4%.

In April 1996, the Polish government introduced a long-term plan for development of the economy. The main goals are: gradual reduction of inflation through demonopolization; reduction of number of loss-making enterprises and promotion of long-term collective bargains; gradual reduction of public debt through reduction of subsidy levels to loss-making enterprises and acceleration of privatization of public sector; maintaining high investment rate (11% annual growth forecast for period 1996-2000); improvement of labor efficiency; and gradual reduction of redistribution function of State budget.

It should be clear to railway managers and employees that macroeconomic factors will not allow continuance of their policy of demanding greater financial contribution from the State budget to railways. Today's level of subsidies to railways will not grow substantially—both subsidies for investment and PSO will not exceed US$350 to 400 million. The only way to improve the railway system in Poland is through reform of the existing monopolistic Polish State Railways (PKP).

Station Manager (T. Suga)

Actual Situation in Transport Sector

The biggest decline in freight traffic was observed in railways. Their share in total tonne-km decreased from 60% in 1990 to 52% in 1994 (Table 3). Road transport increased its share from 29% in 1990 to 36% in 1994, and the traffic volume grew from 40 to 45 billion tonne-km.

Passenger traffic on public transport declined 35% from 1990 to 1994, and 40% on railways. The railways share of the market fell from 50% to 42% (Table 4). Private-car ownership has grown remarkably since 1990 and the traffic volume including private cars increased 13% from 171 billion passenger-km in 1990 to 194 billion passenger-km in 1994. Railways market share including private cars declined from 29% in 1990 to 14% in 1994.

The Polish transport sector has some positive factors, such as a dense railway network (7.5 km/100 km^2 comparable with the EU average of 6.2 km/100 km^2), a dense road network (109.1 km/100 km^2 comparable with the EU average of 128.4 km/100 km^2), a large number of transport companies (road freight is carried by 1,574 businesses with more than 5 employees), growing participation of the private sector in freight road transport. In 1994, there was 23% growth of traffic volume of private transport companies in comparison to 1993; the volume of 20.2 billion tonne-km formed 84% of road freight.

The negative factors are low-quality road and rail infrastructures, worn out transport facilities, and insufficient level of investment both from the public and private sectors. Expenditures for transport are lower than the budgetary revenues generated by the transport sector. Revenues from the fuel tax were estimated in 1994 at 7 billion zloty (US$1 = 2.5 zloty in 1994) but the expenses for railway and road transport did not exceed 1.6 billion zloty composed of:

a. 720 million zloty total subsidies to PKP,
b. 160 million zloty subsidies to passenger bus transport,
c. 600 million zloty for maintenance of national highways,
d. 110 million zloty for maintenance of regional roads.

The surplus of revenues over expenditures is sufficient to cover external costs of road transport which are estimated at 3.5 billion zloty (according to Transport Economy Institute Survey: 57% accidents, 23% pollution, 15% land occupancy, 5% noise).

Public transport, meaning the PKP, and public bus companies (PKS), are less efficient than private road carriers. The revenue per employee is 0.3 billion zloty in the public sector and 1.3 billion zloty in private companies.

Table 1 Changes in GDP from 1992 to 1994

	1993	1994	Percentage of GDP
	Constant prices 1992 = 100		
Total GDP	103.8	109.2	100.0
Agriculture and Forestry	107.0	90.8	6.2
Industry	108.6	119.8	32.6
Construction	101.1	103.8	5.7
Trade	105.8	104.2	13.5
Transport and Telecommunications	94.7	95.2	6.0
Services	101.5	108.5	6.0

Table 2 Major Expenditures of State Budget

	Percentage of state budget expenditures	
	1991	**1994**
Subsidies	40.5	40.2
Subsidies to PSOs	3.9	0.8
Expenditure of public sector	41.7	34.7
Public debt repayment	4.1	13.4
Domestic	1.1	10.7
Foreign	3.0	2.7
Investment	6.5	4.6

Actual Situation in Railway Transport

During the 1970s and 1980s, railway transport played a crucial role in the centrally-planned economy. However, after the disintegration of COMECON, substantial changes in geographical and material structure of Polish foreign trade have occurred. They have had a very big impact on railroads. The 44% slump in freight and 48% slump in passenger traffic over the last 5 years has not been followed by a proportional reduction in the network, property and employment. The network was reduced by only about 6%, the number of passenger coaches decreased by 20%, and locomotives by 38% (Table 5). The remarkable reduction of 100,000 employees in 5 years was also insufficient compared to the depth of the slump. Labour productivity decreased from 478.8 thousands of traffic units per employee in 1989 to 375.2 in 1994.

This tendency resulted in deterioration of the financial situation of PKP. Funds for investment and new rolling stock were drastically reduced. Compared to the 2,820 freight wagons, 362 passenger coaches, and 52 EMUs acquired in 1989, PKP limited new deliveries of rolling stock to 40 freight wagons in 1992, 34 passenger coaches in 1993 and 10 EMUs in 1993. These were the lowest numbers in PKP's recent history, but the growth observed since 1993 is still unsatisfactory and will have negative future consequences.

Warsaw Central Station (T. Suga)

Prospects for Railway Transport in Poland

According to forecasts of the Polish Ministry of Transport, freight traffic from 1996 to 2010 will not change and will probably not exceed 230 million tonnes annually. Passenger traffic will continue to decrease slowly to a minimum of 450 million passengers in 2000, and will then start to grow again.

It would be very risky to assume more optimistic scenarios. The market share of freight will decline from today's 52% to 38% in 2010. In the passenger market (including private cars), there will be a further diminishing of the railway share from today's 14% to 9% in 2010. However, the role of railways in 2010 will still be greater than today in the EU (18% for freight and 7% for passengers in 1992).

Many factors will have a negative impact on railway market share, including decreasing importance of heavy industries, bigger accessibility and elasticity of road transport, strong competition and market orientation of mostly private road carriers, greater concern of customers for security, rapid growth of car ownership. (The average annual growth rate was 6% in 1992-1995.)

To maintain their position in the transport market, railways in Poland should concentrate on several specialized products, such as intercity passenger services (today, 57% of passenger-km and 13% of total number of passengers), urban and suburban traffic in big conurbations (today, 25% of passenger-km and 56% of total number of passengers), trainload freight services, wagonload freight services only for long distances over 500 km, especially in international markets, and international combined transport for distances over 500 km.

These new products accompanied by policies for environmental protection and better use of public rail transport as a result of growing congestion on the roads will have a positive impact on the railway market share.

Table 3 Freight Traffic Volume in Different Transport Modes

Transport mode	1990		1994	
	million of tonne-km	Percentage	million of tonne-km	Percentage
Railways	83,530	60	65,759	52
Roads	40,293	29	45,365	36
Pipelines	13,887	10	14,298	11
Inland waterways	1,034	1	793	1
Total	138,744	100	126,215	100

Table 4 Passenger Traffic Volume in Different Public Transport Modes

Transport mode	1990		1994	
	million of passenger-km	Percentage	million of passenger-km	Percentage
Railways	50,373	50	27,610	42
Roads*	46,599	46	34,262	52
Sea and inland waterways	221	0	204	0
Civil aviation	4,430	4	4,005	6
Total	101,623	100	66,081	100

*Without urban transport

Table 5 Comparison of Railway Statistics of 1989 and 1994

	Units	1989	1994	Ratio 1994/1989
Freight traffic	million tonnes	382.8	213.5	0.56
	billion tonne-km	110.9	65.7	0.59
	million train-km	159.0	104.0	0.65
Passenger traffic	million passengers	948.5	493.6	0.52
	billion passenger-km	55.8	27.6	0.51
	million train-km	229.0	184.0	0.80
Network of railway lines	km	24,287	22,895	0.94
Number of locomotives		4,685	2,914	0.62
Number of freight cars in operation		136,128	62,443	0.46
Number of passenger coaches in operation		5,530	4,467	0.80
Employment		348,846	248,917	0.71

Major Steps for Railway Reform

Commercialization of PKP

PKP is one of the biggest companies in Poland and is controlled by its own Act. In 1995, parliament enacted an entirely new law which came into force last November. It defines PKP as a commercial company aimed at transporting passengers and freight, construction, modernization and maintenance of the railway infrastructure, carrying out forwarding services, delivering telecommunication services and taking on any other activities not competing with core railway business.

In January 1996, the Minister of Transport appointed a Supervisory Board consisting of 9 members: three trade union nominees, and six nominees selected by the Minister (representatives of the banking sector, Ministry of Finance, and Ministry of Labour). The first Supervisory Board has a 2-year term and its main duties are:

a. Appointment of the President of the PKP Board,
b. Approval of the Board orders,
c. Approval of the annual budget of PKP,
d. Offering opinions on long-term PKP plans.

Since February 1996, the PKP Board has consisted of six members: President, Vice President (Infrastructure), and Board Members for Finance, Human Resources, Freight and Passenger Services, Traction and Depots.

All the important decisions concerning the PKP need Board approval. The PKP Act promotes a new kind of relationship between the government and PKP. It defines the contract between these two parties concerning the financial contribution of the State to railway transport as well as the obligation of PKP to provide local and suburban passenger services. In 1996, PKP will receive 350 million zloty for modernization of trunk lines, as part of the Crete Corridors, and AGC and AGTC agreements. In 1996, PKP will also receive 570 million zloty to subsidize operation of 170 million train-km of agreed passenger-train networks. According to the new Act, the Minister of Transport has the right to split off any part of PKP in order to establish a separate entity or any joint-venture. This regulation will be enforced until the end of 1998.

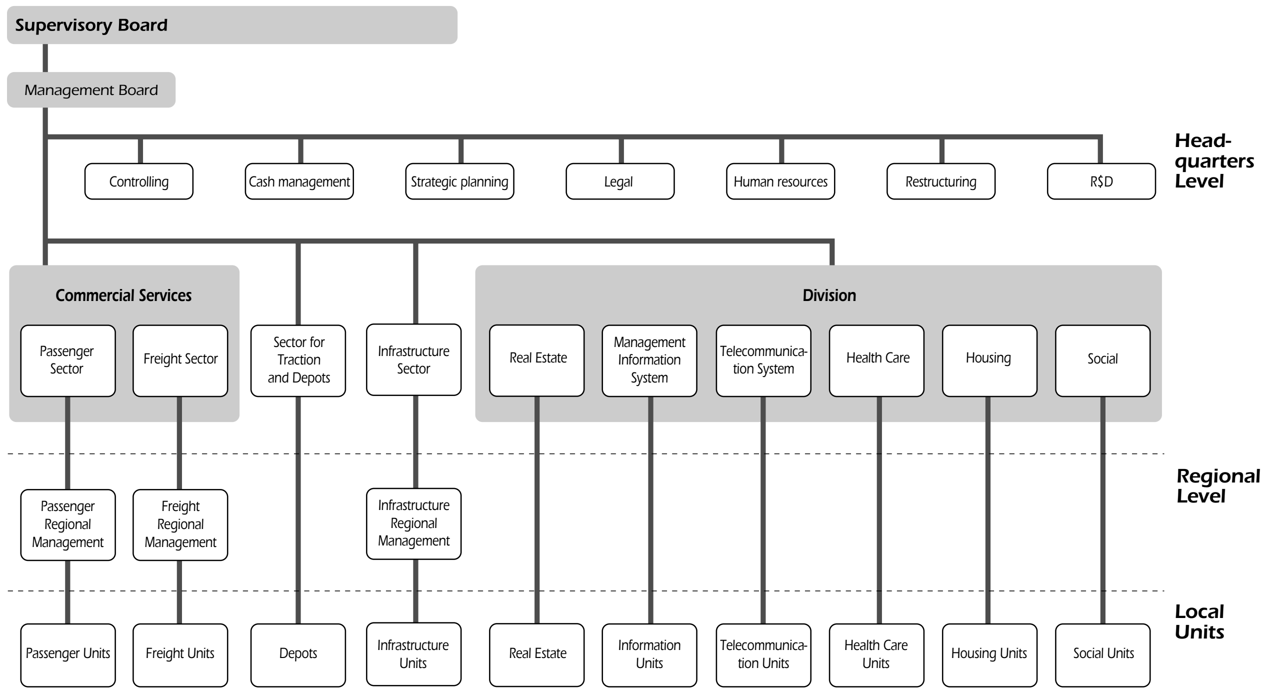
On the other hand, PKP has the freedom to make any partnership or joint-venture using its property or capital as a share. It can also pass ownership of useless assets free-of-charge to local communities with their consent.

Free Access to Infrastructure for New Entrants

A special parliamentary commission is working on new railway transport legislation. The commission plans to complete its work before the end of 1996. The draft law (approved in April by the Council of Ministers) was prepared in compliance with EU Directives 91/440, 95/18, and 95/19. The law opens the railway transport market to new entrants—companies with a licence to provide infrastructure services (infrastructure manager) and/or provide railway operations (railway carrier). The law sets the major requirements for obtaining a license as financial fitness, professional experience, proper organization, safety certification, and a good penalty record. Infrastructure managers have an obligation to provide access to the railway infrastructure. The rules for setting infrastructure fees will be determined by the Minister of Transport, taking the following factors into consideration: costs incurred by infrastructure manager in proportion to traffic units operated by carrier, investment cost, quality requirements (axle load, speed, punctuality, time of day), and some additional costs for specific measures (hazardous materials safety, etc.). The law stipulates establishment of the Railway Safety Inspectorate — a new central administration — to enforce safety in railway transport. At present, this function is carried out by PKP for all non-public enterprises (mainly industrial railroads and so called 'short lines').

Suburban EMUs in Posnan (T. Suga)

Figure 1 Reorganized PKP Business Units



PKP Board Reforms

On 7 May 1996, the Management Board resolved to reorganize the enterprise into business units (Fig. 1). In the first stage, the pilot project of the new organization will be implemented on 1 January 1997 in the Eastern Region of PKP. During 1996, some divisions dealing with non-core activities will be separated from core business units (sectors) with the requirement to break-even. There will be no further cross-subsidy to Health Care, Housing and Social Divisions. The Real Estate Division will be responsible for managing all the non-core and non-social assets of PKP. This division will also dispose of useless assets transferred to it by core business units.

The sector for Traction and Depots assumes reduction of the existing 109 depots to about 33 within a few years in its plans for reorganization of the rolling stock operations and maintenance .

Government Plan for Further Railway Reform

The draft railway transport law stipulates separation of the PKP infrastructure from operations by 31 December 1998 at the latest. This will be an essential step towards privatization of Polish railways by adopting the EU model.

The Ministry of Transport and PKP are working together on the project for restructuring PKP (Phase II). The project aims to dispose of surplus railway assets, perform settlement of redundant employees, and evaluate the financial impact of the proposed reforms.

Broad international experience has been analyzed before implementing this project. One of the most successful examples was the JNR reform. Establishment of a separate agency (or company) is planned with responsibilities similar to the JNR Settlement Corporation. The most difficult task now is calculating redundant employment and evaluating surplus assets in both the core and non-core activities.

Krzysztof Celinski

Mr Krzysztof Celinski has an MSc from Warsaw University of Technology. He worked at the R&D Centre of PKP in Warsaw from 1974 to 1990 and then in the Strategy Planning Dept. at PKP Headquarters until 1992. Since 1992, he has held the post of Director of Railway Department at the Ministry of Transport and Maritime Economy.