Adapting PKP Freight Services to Market Economy

Marian Łukasiak

Introduction

In line with the increasing interdependence of national economies as a result of globalization, Poland’s long-term development objective is integration with the EU. A European country may become a member of the EU if it meets the following preconditions established by the European Commission in Copenhagen in June 1993:

- Have stable institutions guaranteeing democracy, rule of law, respect for human rights and rights of minorities
- Have well-functioning market economy prepared to cope with pressure of competition and market forces within EU
- Have ability to accept duties of membership including goals of political and monetary union

For the transport sector of the Polish economy, this means bringing Polish law into line with the EU transport regulations. The second EU prerequisite of having a strong economy that is able to compete in a deregulated transport market is vital from the viewpoint of Polish State Railways (PKP) as a business enterprise operating in the highly competitive market for freight traffic.

A main strategy of European transport policy is free access for operators to railway infrastructure, which should improve rail’s competitiveness with other transport modes and significantly improve services for customers. This goal will be achieved more easily if unequal competition is not imposed on railway undertakings (RUs) by governments and other transport modes. The transport sector in Europe is in general agreement on main transport policy principles as stipulated in EU Directives 91/440 EEC, 95/18 EC and 95/19 ECC. To meet the terms of the directives, PKP is implementing the following policies:

- Ensuring autonomy of RUs
  A PKP board and council have been established in compliance with the State-owned PKP Enterprise Law to manage the business. And an act covering the commercialization, restructuring and privatization of PKP is under debate.
- Opening railway market
  When Poland’s railway infrastructure has been modernized, it will be opened to other operators in accordance with the following principles:
  - Clear distinction between infrastructure and railway operations
  - State responsibility for developing and operating rail system of national importance
  - Infrastructure access fees (A fee system is in preparation.)
  - Non-discriminatory rules governing access to infrastructure

Currently, access by international carriers to PKP’s infrastructure is regulated by the International Railway Transport Law (an international agreement is compulsory).

Characteristics of Polish Freight Market

The recent changes in Poland’s social and economic systems have indicated the necessity for deep structural reforms in all fields including railways. The bases for improving the competitiveness of the Polish economy within the EU were identified in a national development strategy until 2015. In

Figure 1 Changes in Polish GDP and Freight Modes (previous year=100)

Table 1 Main Cargo Groups by PKP (previous year=100)

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<tbody>
<tr>
<td>Hard coal</td>
<td>92.7</td>
<td>87.8</td>
<td>107.9</td>
<td>99.9</td>
<td>101.8</td>
<td>101.1</td>
<td>98.7</td>
<td>88.1</td>
<td>92.3</td>
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<tr>
<td>Ore</td>
<td>73.5</td>
<td>104.8</td>
<td>91.4</td>
<td>100.6</td>
<td>132.5</td>
<td>87.3</td>
<td>100.1</td>
<td>93.4</td>
<td>91.8</td>
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<tr>
<td>Pig iron and steel</td>
<td>76.5</td>
<td>95.2</td>
<td>100.0</td>
<td>112.1</td>
<td>107.2</td>
<td>87.4</td>
<td>115.5</td>
<td>85.3</td>
<td>88.7</td>
</tr>
<tr>
<td>Oil and oil products</td>
<td>85.6</td>
<td>99.7</td>
<td>106.6</td>
<td>101.1</td>
<td>106.6</td>
<td>104.6</td>
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particular, the strategy notes that transport capacity is a limiting factor on economic growth. In fact, the contribution of the transport sector to the Polish GDP has decreased due to structural changes in the economy from 1990 that caused a 5% annual drop in bulk freight. Figure 1 shows the changes in rail and road freight and GDP since 1991. Despite growing GDP and road freight due to restructuring of the Polish economy, rail freight (meaning PKP rail freight) has dropped almost continuously. Table 1 shows the changes in volume of main freight groups over the same period; the rationalized market economy has led to saturation of bulk freight transport in Poland for the following reasons:

- **Intensified competition for market share**
  Companies handling both forwarding and transport have captured the most profitable market segments.

- **Cost cutting pressures**
  Difficulties in increasing sales necessitate cost cutting as a means to maintain profitability. Emphasis on cost cutting forces businesses to purchase modern equipment with low operating costs.

PKP’s competitive position in this respect is weak because it can only allocate far fewer resources to purchase of rolling stock than other transport modes.

The continuing decrease in rail freight’s market share (Figs. 2 to 5) results from the ongoing changes in the Polish economy. Long-distance freight transport by PKP to meet the needs of the national economy comprises 47% of total freight transport by all modes, while road transport has the major share of 53%.

The considerable growth in long-distance road freight transport started in 1990s and has necessitated increased expenditure on road modernization as well as significant external costs related to road accidents and environmental pollution.
In summary, the drop in PKP’s share of the freight market results from:

- Restructuring of Polish economy
- Unequal intermodal competition due to lack of internalization of external costs by each transport mode, especially road transport
- PKP’s limited financial means to modernize and purchase new freight wagons, especially specialized wagons
- Increasing competitiveness of motor transport
  - The average rail freight distance has not changed while distances hauled by road transport have doubled since the 1990s.
  - Commercial motor vehicles showed a particularly dynamic expansion lately, which—as opposed to the railway and so-called private motor transport—is characterized by regular increasing volumes hauled at growing distances up to 117 km on average.
- Limited PKP door-to-door freight services
- Cross-subsidy of loss-making passenger services by profits from freight services

**Countermeasures**

In the face of the increasingly severe situation, PKP underwent the following restructuring with the aim of reducing freight service costs:

- Financial restructuring
  Cross-subsidies for passenger services are being phased out.
- Property restructuring
  Unused railway property is being sold or abandoned.
  Tracks: Suspension of passenger and freight loss-making services on some 2720 km of track
  Facilities: Reduction of number of marshalling yards by 100 and shunting yards by 223
  Freight wagons: Reduced by 32,196 units
  Electric locomotives: Reduced by 581 units
  Diesel locomotives: Reduced by 2126 units
- Employment restructuring
  Downsized staff by 64,267 between 1993 and 1999
- Organizational restructuring
  Restructured former territorial organization into new profit-centre structure and established Cargo Directorate of Railway Freight Service as holding company
Twenty-four Freight Service Establishments (business units) were established with autonomous organizational, financial and personnel systems within a two-tier Cargo structure. Their main tasks are to prepare, promote and sell freight service products in their area. The following market segments act as divisions within the Cargo structure: solid fuels, liquid fuels and chemical products, construction materials, agricultural products and lumber, industrial products, transit, intermodal, and ferry transport.

Clients’ Expectations and Preferences

Clients are less-and-less satisfied with bulk goods—even those of high quality. As J. D. Miller notes, ‘Traditional customers no longer accept marketing based on the principle of one size fits all. They demand products and services tailored to their preferences.’ In rail freight, clients now expect door-to-door carriage in wagons suiting their individual transport needs. Therefore, good intermodal links are of key importance in rail freight. In practice, this means that a rail freight provider must be part of a coherent and reliable transport chain. Against this background, reliability and punctuality are crucial aspects of service quality.

The following freight service products enjoy the highest customer support:
- Intermodal just-in-time logistic trains (to car plants in Poland)
- Intermodal system trains (Poland–western Europe)
- Transit intermodal trains (western Europe–Poland–CIS countries)
- Intermodal trains in domestic traffic (Polish ports–container terminals)
- Coal services (integrated client services)
- Logistic furniture trains (Poland–western Europe)—a full logistic origin-
destination points client service within door-to-door after

PKP’s Strategic Objectives

The actions taken by PKP are derived from it strategic objectives listed below:
- Adjust PKP to integration of Polish transport system with EU railway network.
- Offer prompt and reliable services meeting clients’ requirements.
- Expand PKP business to non-transport sectors.
- Reach and maintain satisfactory profit.
- Achieve good market share in intermodal and intramodal competition with other operators.
- Reform existing structures into holding company.

Figure 6 shows the external and internal conditions of the PKP strategy. The above conditions concern PKP as a whole and PKP Cargo in particular. The marketing strategy of the Cargo sector is a derivative of the Cargo mission to maintain a leading position in Polish rail freight, to satisfy clients with good services, and to bring benefits to the company, staff, and national economy. These objectives will be achieved by offering a wide range of services meeting the expectations and preferences of PKP’s clients. They include: just-in-time and just-in-place services, expanded combined transport, logical service routes (Fig. 7), individualized approach to defined service products (tailored to clients’ preferences), fixed timetable.

Demand Forecasts

Figure 8 shows the freight forecasts. It is believed that 80% to 90% of freight traffic could be served by PKP. A general assumption is that restructuring of the Polish economy will result in reduced freight volumes with less bulk freight (coals, ores and steel products) and more manufactured added-value products. This continuing trend will necessitate a change in the structure of the wagon fleet. From the viewpoint of service quality, there will be more integrated door-to-door freight and development of combined transport
For international transport, implementation of the Trans-European Rail Freight Freeways (TERFF) concept on international corridors is essential to achieve a significant increase in the competitiveness of rail freight in comparison to other transport modes. From the PKP viewpoint, the Cargo Corridor II (Berlin–Warsaw–Minsk–Moscow–Nizhniy Novgorod) is particularly important. To improve services, partners from Germany, Belarus, Russia, and the EU will launch a package of new client-oriented products (including automatic change-of-gauge rolling stock).
Figure 9  Schedule of PKP Change

PKP State-owned Enterprise (PKP p.p.)  PKP Holding Company (PKP SA)

Passenger service financing based on existing principles  Change in financing of domestic passenger services
Contracts for regional and interprovincial services

PKP State-owned enterprise with divisional structure including cargo

Transformation starts before Act  4 months after Act  6 months after registration

PKP Joint Stock Company (PKP SA)
- Passenger service companies
- PKP Cargo SA
- Polish Railway Lines Company (PLK SA)
- Other companies

Act  Registration  Completed establishment of companies

Organizational Changes
PKP’s efforts to transform from a state-owned enterprises into a commercial business are summarized below:
- Change to market oriented business in field of freight.
- Change to Treasury sole shareholder (JSSP) with PKP SA as holding company.
- Establish independent service companies within holding structure.
- Revitalize business through restructuring of finances, property, employment and organization.
- Issue public shares to obtain financing for further expansion.
- Improve company control systems.

Figure 9 shows the framework of the planned transformation for PKP Cargo as a PKP company within the structure of the parent holding company.

These efforts will help create a strong and diverse business group that will be able to hold its own in Europe when Poland finally joins the EU.

Marian Łukasiak
Mr Łukasiak is Director in the Strategy Office of PKP SA Headquarters. He also conducts courses as a visiting lecturer in strategic planning at his alma mater, the Technical University of Warsaw from which he holds an MSc in Civil Engineering.