Restructuring of Railways in France: A Pending Process

François Batisse

Railways around the world have been undergoing different styles of reform at different speeds for the last few decades. American private railway companies have concentrated on freight transport and customer-oriented management and demonstrated their commercial viability without any financial support from government. In Japan, most railway companies only carry passengers. Fifteen years after the division and privatization of the former Japanese National Railways (JNR), the three JR companies (JR East, JR Central and JR West) on the main island of Honshu are now profitable without any government subsidies for operations. In most of Europe, neither passenger nor freight transport generates sufficient income to operate national railways at a profit and the current solution has been to separate railway operations from infrastructure and use public funds to contribute to infrastructure costs. The British privatization model included infrastructure costs in the track access charges to the Train Operating Companies (TOCs) and freight operators. France adopted a very different solution when railway reform was decided in 1996. It was more of a 'salvage operation' with two main planks: splitting-off of infrastructure management, and transfer of rail transport responsibility to regional authorities (see *JRTR* 8, pp. 31–39). Consequently, after 1997, French National Railways (SNCF) remained in charge of railway operations while a new French Railways Infrastructure Authority (RFF) assumed authority for investment in and management and development of the national rail infrastructure. RFF took over SNCF assets valued at FFr168 billion (now €26 billion) which was essentially tantamount to transferring SNCF's entire debt to RFF. The other main feature of railway reform in France was the January 2002 transfer of organizational powers from state to regional authorities with full responsibility for planning and financing passenger local rail transport. SNCF President Louis Gallois drew up a Corporate Plan known as 'the Industrial Project' including action programmes aiming at a strategy of consolidation instead of the sort of massive investment seen in previous years. The objective was to reduce losses by increasing business volume within existing resources with emphasis on organization based on different custom-oriented activities, such as main-line passenger services, regional passenger services, Ile-de-France passenger services and freight.

However, following worries voiced by railway labour unions that the split of SNCF was a prelude to privatization, in March 1999, the French government created the High Council on Railway Public Service (CSSPF). Its remit is to control the development and balanced evolution of the rail sector and to maintain integration of the public service. As required by the government, after 3 years of separation of rail operations and infrastructure, the CSSPF gave a rather critical assessment of the reform in December 2001, commenting that the debt problem remained unsolved because the cumulative debts of SNCF and RFF had stood at total of nearly €40 billion since 1997. Institutional separation had brought into question the system's strategy. Moreover, issues not addressed within the framework of the reform concerned transport policy itself in France and Europe, including harmonizing modes, internalizing external costs, multimodality, choosing investment, etc. For SNCF itself, in 2000, all the company's accounts had been in the black for the first time in many years due to falling losses. However, less favourable economic and social circumstances in 2001 plunged SNCF €134 million back into the red. An even more serious deterioration of the financial situation is expected in 2002 because losses in the first half had already reached €186 million.

Another problem is the attitude of the

SNCF Group Financial Results for 2000 and 2001 (€ million)

	2000	2001
Group Result		
Sales ex-VAT	19,839	20,129
Income before interest, depreciation and tax	1,605	1,155
Operating income	407	20
Income before exceptional items of consolidated companies	74	-310
Net income, group share	177	-140
Result by Branch		
Passenger transport		
Sales	8,562	8,562
Income before interest, depreciation and tax	1,130	888
Operating income	343	230
Freight		
Sales	6,512	6,622
Income before interest, depreciation and tax	184	37
Operating income	-69	-283
Infrastructure, Assets and Know-how		
Sales	4,765	4,945
Income before interest, depreciation and tax	291	230
Operating income	133	73

railway labour unions and staff towards the objectives for the next stage of the SNCF Corporate Plan covering 2003–05. After initially moving slowly to assign dedicated resources to each 'activity,' at the end of 2000, SNCF decided to take far-reaching measures to allocate staff more closely to each activity sector. The plan was called 'Cap Clients' to emphasize the need for customer-oriented management, but the unions feared that the plan was a step towards privatization and had the scheme shelved in April 2001. As a result, like 'privatization,' the term 'activities' became taboo, although the 2000 and 2001 accounts openly referred to each activity and the annual reports showed organization charts clearly separating activities. Preparation of the third stage of the Corporate Plan for 2003–05 is underway using meetings and questionnaires designed to get employees to express their views on subjects such as Economics and Management that cannot be discussed without reference to the activity-based management project. This is especially important because the results of the various activities are more different than ever before. The passenger high-speed business is still growing as are regional passenger services to a lesser extent. However, other conventional main-line passenger traffic and freight are plunging. Activity-based management seems more necessary than ever to try to recapture lost customers. Therefore, France still needs large rail restructuring to achieve the improvements seen in America, Japan and some European countries (see *JRTR* 26, pp. 4–7).

Debt Management Under Fire

As elsewhere, the French rail reforms aimed to improve or at least stabilize the financial situation through reduction or even elimination of accumulated debt. As early as 1990, the government had already transferred a substantial part of SNCF debt to the national debt through a Special Debt Account (SDA) but that soon proved insufficient to solve the problem of growing insolvency when the cost of constructing the high-speed TGV network had to be met. Consequently, in 1996, in accordance with EU Directive 91/440/EEC recommending separation of infrastructure and railway operations and wiping off existing debt, the government decided to strive to allocate the rail debt according to its sources. In addition to the amount already assigned to the SDA, most of the balance was allocated to the new RFF with a remit to stabilize and repay the debt later—a monumental task that is still far from complete. SNCF remained responsible for only 25% of its accumulated historic debt, but soon found the interest burden very detrimental to investment capacity. Therefore, since 1997 until the end of 2001, instead of being stabilized, the total debt has increased to €40 billion. Incidentally, there is no immediate prospect of the debt being wiped-off, which is another good reason for opponents to question the SNCF split-up. Moreover, RFF and SNCF are now suggesting transferring another €15 billion to the SDA in order to halve their burden.

1 January 1991 saw the setting-up of the Service Annexe d'Amortissement de la Dette (SAAD) with a remit to split off the part of the SNCF debt for which the government will foot the interest and capital payments. The transferred debt will be held until it is paid off. A total €10.7 billion has been transferred to the SDA until 1999 as follows:

- €5.8 billion at SDA creation on 1 January 1991
- €4.4 billion on 1 January 1997 when rail reforms implemented
- €0.6 billion on 1 January 1999 together with amended structure providing for loan substitution

Evolution of Rail Industry Debt in France from 1996 to 2001

Net debt (€ billion)	31 Dec 1996	1 Jan 1997	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001
SNCF	31.71	6.89	7.62	7.73	7.30	6.49	7.30
RFF		20.46	21.89	22.46	22.56	23.10	23.30
SNCF + RFF	31.71	27.35	29.51	30.18	29.86	29.59	30.60
SAAD	4.36	8.72	8.54	8.42	8.95	8.93	8.93
Total	36.07	36.07	38.05	38.60	38.81	38.52	39.53

The SDA resources consist of contributions from the state treasury amounting to €677 million in 2001 plus SNCF supplementary contributions of €18 million. On 13 December 2001, the Special Debt Account liabilities amounted to €8.9 billion, excluding interest. So at the moment, the Special Debt Account represents about 25% of the total liabilities, although the amount will grow if SNCF and RFF manage to convince the government that under existing economic conditions there is no hope of substantial reduction of their liabilities without another massive transfer to the national debt comparable to that in countries like Germany where the total rail debt has been transferred.

SNCF Still in debt

Nearly 20% of the total rail debt is still borne by SNCF itself, a stark contrast to the complete write-off of railway debt in some other European countries. SNCF finds it increasingly difficult to pay interest, let alone repay the principal, because resources for debt reduction cannot be allocated when investment is needed to

Management of and investment in infrastructure is the responsibility of RFF. (Author)

cope with traffic growth, and improved service quality as part of a policy aimed at increasing volume. Nevertheless, we must remember that SNCF has not been responsible for financing infrastructure since 1997—its commitments are limited to investment in other sectors, mainly traction and rolling stock, with the latter burden being shouldered more-and-more by regional authorities who have been managing local passenger rail services since January 2002.

Initially, the amount of SNCF liabilities in 1996 was FFr70–81 billion, but this was limited in early 1997 to FFr45.2 billion (€6.89 billion) in order to avoid adversely impacting SNCF's cash flow. Actually, the SNCF investment programme was not really hampered by excessive debt servicing. However, 1997 ended with a total debt of FFr50 billion (€7.62 billion) which increased to FFr50.7 billion (€7.73 billion) in 1998. Then, the surge in traffic volumes in 2000 allowed SNCF to post positive results and reduce the debt to FFr42.6 billion (€6.49 billion) at the year end. However, SNCF could not repeat its 2000 performance in 2001 and reported losses. A €500 million loan package was made available in June 2001 and the year ended with a debt of €7.3 billion, very close to the €7.5 billion limit that SNCF does not want to exceed in order to avoid excessive charges that could eventually lead to a drastic reduction in investment capacity.

RFF Bearing brunt

RFF was set up to manage, develop, and invest in the national rail infrastructure with assets valued at FFr168 billion in 1997, which was the size of the SNCF debt transferred to RFF for repayment. This is why each successive RFF Annual Report since 1997 stresses the need to stabilize rail debt, although no real start has been made in 5 years. Initially, the government wanted to make RFF responsible for SNCF debts of FFr134 billion (€20.46 billion), but the burden increased to FFr143.6 billion (€21.89 billion) at the end of 1997—nearly three times the amount assigned to SNCF itself. The debt rose to €23.3 billion at the end of 2001 and the present target is to try to stabilize it at about €24.5 billion in 2002. A portfolio of assets worth €3 billion has been made available to smooth out repayment peaks until 2006.

RFF has adopted a far more pragmatic approach to infrastructure investment than SNCF and emphasized getting more from the existing network to develop all types of traffic, not just high speed, which has been accused of contributing to accumulated debts equivalent to 4 years of turnover. Concerning costs, RFF has held infrastructure management payments to subcontractor SNCF down at €2.6 billion, while financial costs are still slightly increasing. RFF's capital endowment from the state is approaching €2 billion a year. Income from track access fees amounted to €1 billion in 2000 and have nearly doubled in 2002. Nevertheless, RFF still advocates transfer of up to €10 billion of its liabilities to the national debt.

Unfair criticism for failing to resolve rail debt and investment problems

After 5 years of operation since the 1997 reforms, RFF believes that stabilization of rail infrastructure debt is possible but repayment of the principal remains a distant target. In turn, the railway labour unions point out that splitting up the former SNCF debt has not prevented the total rail debt from rising higher than it was 5 years ago and that the resultant poor cash flow is hampering investment development. Initially, in 1997, the total investment of RFF and SNCF increased very slightly but it has barely approached €3 billion since 1999 because the split has neither increased investment volume nor improved investment management owing to lack of self-financing capacity. At the moment, investment is almost equally split between RFF and SNCF and is about 40% financed by RFF's and SNCF's own resources. However, the two companies' self-financing capacity is expected to grow only if the debt burden is reduced somehow, which means that the declared ambitions of doubling investment by 2004 or 2005 are completely dependent on increasing state and regional subsidies.

Consequently, wiping-off of the SNCF and RFF debt was one of the first policy statements from the CSSPF. The Council said, 'The Council recommends that the SNCF and RFF debt problem be wiped-off within a short time-frame in order to give the two companies a sound financial basis through reducing their debt servicing and allowing them to have the cash flow they need. Indeed, the debt currently shared by SNCF and RFF eats into the growth potential of the railway system by making it dependent upon the will of government as expressed by their annual budget decisions.'

Actually, this CSSPF recommendation came from a Council that is largely composed of railway union leaders who staunchly opposed rail reform, describing it as useless because it has failed to solve the debt problem it was suppose to deal with and because it has introduced a split between SNCF and RFF that is causing problems. Nevertheless, after 5 years, there is now little chance that the government will backtrack on rail restructuring. Separation of railway infrastructure and operations and debt restructuring are now fundamental to reviving the rail industry in France and in most European countries (*JRTR* 29, pp. 19–23).

Controversial Evaluation of Rail Reform

Right from the start of the French rail reforms, the railway labour unions have never ceased demanding a return to SNCF unity, pointing to the splitting-off of infrastructure as the main cause of the lack of improvement in the industry's financial position. Currently, the unions are up in arms, denouncing the separation as useless and harmful to the industry and calling on the government to backtrack on the separation. When the right-wing government introduced the separation of infrastructure in 1997, the left-wing opposition immediately promised to 'reform the reform' when they were returned to office. Ironically, although a new left-wing government was elected a few months after the Rail Reform Law came into force, it did not go back on the reform but pushed ahead with the split-up despite pressure from railway unions. The only thing the new government did at the request of Transport Minister Jean-Louis Gayssot and to placate railway unions was to create the CSSPF as a consultative body designed to preserve the unity of rail services through coordinating SNCF and RFF policies. The CSSPF was given responsibility for the whole rail industry and is permitted to express an opinion on major changes in rail policy. Its main mission for 2000 was to assess the reform from the perspectives of finances, service unity and industrial relations. However, publication of its report was delayed until November 2000 due to internal dissent between members from railway unions who wanted a critical assessment of the reform and those in favour of the status quo. A few days later, Mr Jean-Jacques Filleul, the CSSPF President, presented his own list of 13 recommendations in order to open debate on the implementation of the reform.

Immediately after the report was published, RFF President Claude Martinand openly regretted that CSSPF, '…had not produced a proper evaluation.' and soon delivered his own assessment of the reform that was quite different from that of CSSPF and quite favourable. These contradictory views about the rail reform eventually reached a status quo when a right-wing government was elected in April 2002. It is sure that the present government will not renege on its own 1997 Rail Reform Law, which is in accordance with EU directives on transport as well as the views of the majority of liberal French MPs.

CSSPF's Criticisms of rail reform

After attacking the failure to resolve the debt problem, the CSSPF report strongly underlined the drawbacks of the institutional separation between infrastructure managers and rail operators on one hand and between project managers and contractors in the infrastructure sector on the other. It felt such drawbacks called into question the system's strategy and action unit, because separation was frequently blamed for the serious lack of coordination between RFF and SNCF, leading to delays, contradictory views and costly changes in working rules.

CSSPF President Filleul's 13 recommendations came straight from the Council's report backed up by three main areas spotlighting priorities to remedy the reform's shortcomings. The first priority was to restore the railway's unity of strategy and action within a framework of new revised contractual relations with the state and social partners. It basically proposed creating a more integrated overall structure called 'Etablissement Public Ferroviaire Français' to coordinate SNCF and RFF strategy that would become a main partner for implementation of rail policy with the central government and regional authorities. However, no action has been taken so far to superimpose such a third body on top of SNCF and RFF.

The second recommendation parallelled the Council's own proposal that the state quickly draw up top-priority rules to allow more efficient and more transparent management of infrastructure capacities. According to European Commission (EC) instructions, allocation of train paths is the remit of the infrastructure authority (RFF in France), but SNCF has always been reluctant to hand over this responsibility to RFF. Consequently, the CSSPF suggested that the Ministry of Equipment, Transport and Housing should control allocation of train paths. Eventual harmonization with European legislation when international rail freight is liberalized from 15 March 2003 will give RFF responsibility for train path allocation via the Office de Répartition des Capacités. However, SNCF will still compile train diagrams, under the supervision of the state, which will arbitrate any conflicts.

Two other recommendations concern conversion of planning agreements between the state on one hand and SNCF and RFF on the other into multi-year plans as well as for the establishment of a procedure to reduce industrial conflicts. However, neither has been followed up so far.

CSSPF's second priority was an initial 5-year plan to stabilize the railway's financial position by transferring €15 billion of railway debt to the national debt and raising investment to €5 billion a year—70% coming from state and regional authorities and 30% from SNCF and RFF. There is no such 5-year railway finance plan at the moment.

CSSPF's third priority aimed to address fundamental issues regarding transport policy in France within a European framework that had been largely forgotten in the 1996 reform. Laying the foundations for active regulation of the transport sector would ensure sustainable development in transport's economic, social and environmental constitutive elements. There is little chance that such a vast programme will see the light of day anytime soon.

RFF's Optimistic assessment of reform

Immediately after publication of CSSPF's critical report, RFF President Martinand counter-attacked by releasing a well-documented statement of the key role that RFF is playing in the railway reform programme. Martinand noted that the unquestionable recovery of the rail sector since 1996, SNCF's balanced accounts and almost stabilized rail debt were all thanks to benefits derived from the reform and the specific actions of the RFF. The long-awaited evolution of the institutional and financial context of the rail industry included higher capital endowments from the state—totalling €2 billion a year since 2000—as well as a growing total contribution to rail sector needs from all public authorities of up to €10 billion a year.

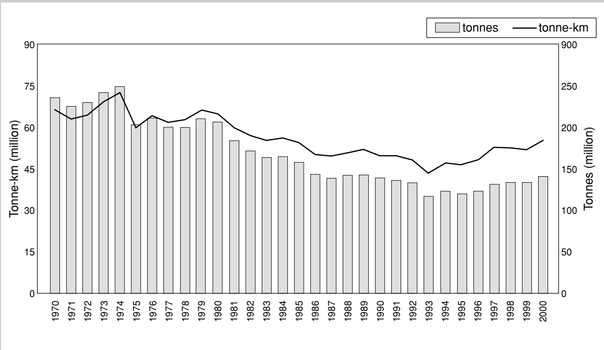
One of the main benefits of the rail reform is clarification of the respective responsibilities of the state, regional authorities, RFF and SNCF. RFF has been able to reorientate investments thanks to new 'virtuous' conditions for financing rail infrastructure projects; RFF is not allowed to undertake projects that will have a negative effect on its balance sheet. Consequently, all projects must generate returns of about 8%, meaning that most if not all require public funding at regional, national and European levels. Thus RFF has adopted a more pragmatic approach to investment in order to get more out of an improved existing network by developing all types of traffic rather than concentrating on high speed while maintaining a high level of safety. Investment is split into three categories: refitting and safety, infrastructure improvement, and new lines.

The most specific actions undertaken by RFF feature more active debt management leading to debt stabilization in the near future and more transparent multi-expert appraisal of projects. RFF is also very keen to make track access charges an instrument of network development. Current charges are insufficient to allow RFF to fund investment wholly from this source. RFF aims to have a more 'coherent' charging structure in France as well as in Europe because it is impossible to develop rail freight in Europe without harmonizing access charges. The first conference on European rail infrastructure was held in Paris in November 2000. European rail infrastructure authorities have formed an international body of infrastructure managers known as European Infrastructure Managers (EIM) that is separate from the rail operator group.

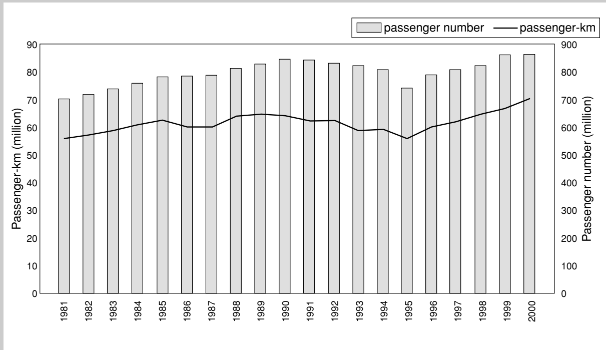
RFF has always been keen to minimize disagreements with SNCF although it is no secret that their relationship has not always been amicable, particularly concerning track access payments to RFF for use of infrastructure and payments to SNCF for maintenance and managing network infrastructure work performed by SNCF on behalf of RFF. Another but less important problem is developing at maintenance and new work sites because newly-appointed RFF local managers are intervening in the day-to-day work assigned to SNCF. The growing possibility of awarding new work directly to private contractors is proving to be a Sword of Damocles for SNCF.

According to RFF, overall, the French rail reform can stand comparison with other restructuring models implemented in keeping with EU Directive 91/440/EEC at least regarding the separation of infrastructure and operations if not the introduction of competition in operations. Britain's radical response to EU Directive 91/440/EEC of splitting British Rail into about 100 different companies increased traffic volumes by 30% in the first 5 years but a series of fatal accidents raised serious concerns about Railtrack's ability to manage the infrastructure (see pp. 16–31 in this issue). Germany has also endorsed Europe's liberal orientation and transferred the total debt of Deutsche Bahn AG (DB AG) to the national debt. However, DB AG is still the holding company for the infrastructure manager DB Netz AG, and the various railway operators including DB Reise and Touristik AG, DB Regio AG and DB Cargo AG. Consequently, RFF views the French rail reform as less radical and less costly than the reforms

Change in Freight Traffic



Change in Passenger Traffic (GL + IDF + SRV)



elsewhere and is going ahead as expected. Many opponents of the French reforms admit off the record that there is no real reason to turn back after 5 years of relative plain sailing.

Reluctance to Introduce Competition

Right from the start of European railway liberalization, the French government has almost always been at the forefront of opposition to introduction of on-track competition. Many of the reasons are not as relevant today as they were 5 years ago and it is not out of the question that a change in attitude might lead to a reappraisal of on-track competition.

French opposition to on-track competition was long justified by rail's (especially freight's) higher share of the transport market than in most other European countries. Another factor was the undeniable commercial success of the TGV in the passenger market, which actually obscured the continuous decline of conventional traffic as well as SNCF's rapidly worsening finances. Despite FFr150 billion of investment in the high-speed network between 1980 and 1995, total passenger traffic dropped by nearly 8% and freight dropped by 20% while accumulated debt increased to four times annual turnover—revitalizing rail activity was as necessary to France as to the rest of Europe. However, pressure for reform from the EC had a lukewarm impact in France because of its adoption of a very special kind of separation of infrastructure and operations and because of its refusal to introduce internal competition.

Although the government proceeded half-heartedly with the separation required by EU Directive 91/440/EEC, the actual on-track work is still carried out by the SNCF infrastructure division while RFF deals only with the managerial side. EU directives on competition have so far been ignored. On-track competition is still only a theoretical possibility because there has been no new entrant in the 7 years since European legislation governing third-party access to tracks was incorporated into French law.

SNCF is still completely satisfied with its traditional cooperation with neighbouring railway undertakings. The *Thalys* high-speed passenger link between Paris, Brussels, Amsterdam and Cologne is often quoted as a perfect example of successful cooperation between railway companies. *Thalys* is French in France, Belgian in Belgium, Dutch in the Netherlands and German in Germany without any need to resort to on-track competition. On-track competition established in Germany along the lines suggested by the EC has proved to be relatively ineffectual because traffic remains stagnant and new entrants have together gained just 4% of total traffic. To all intents and purposes, the British privatization of BR abandoned the concept on-track competion between TOCs right from the planning stages (see pp. 16–31 in this issue).

Liberalization of international rail freight in March 2003

Reorientation of the French attitude towards rail liberalization cannot be ruled out when on-rail competition in international rail freight starts in France in March 2003. This change is due the prospect of impending European rail liberalization since January 2002 when the EC declared a state of emergency on the railways, pointing out that rail market share was continuing to decline, particularly for freight, with trains carrying only 8% of tonne-km in Europe in 1998 compared to 21% in 1970. The new EU legislation on open access will cover international rail freight and apply to the 50,000 route-km of the Trans-European Freight Network including 10,000 route-km in France. Open access will probably be extended to all freight services across Europe around 2006.

Not surprisingly, French transport companies have not hesitated to try to reap the benefits of rail liberalization—out of reach in France itself—on other networks. Connex, a transport subsidiary of the French Vivendi Environnement

SNCF Activity and Results by Division (€ million)

	Passenger transport and services	Freight transport and logistics	Infrastructure, leveraging of SNCF's assets and know-how	Group
Division revenues	8,562	6,622	4,945	20,129
Gross operating income	888	37	230	1,155
as a % of revenues	10.4%	0.6%	4.6%	5.7%
Net operating income	230	-283	73	20
as a % of revenues	2.7%	-4.3%	1.5%	0.1%

group is the most successful of several French transport operators enjoying open access to Europe. Connex has 40,000 employees worldwide and boasts 1 billion passengers a year with most of its business in Britain and Germany. SNCF itself benefits from open access to six European countries through its subsidiary Keolis with 4000 employees and a €500 million international turnover. In Britain, Keolis is the franchisee for Thameslink Rail and South Central and it has also set its sights on the Liverpool region. In Sweden, Keolis operates the Pendeltag Stockholm rail network and Busslink passenger road services. Similarly, SNCF profited from rail liberalization in the Netherlands when its regional bus operator subsidiary Cariane took over running of Syntus rail and road services. Obviously French policymakers are finding it increasingly difficult to reconcile the clear involvement of SNCF in open access abroad with a refusal to compete in France.

Main Pending Rail Reform Problems

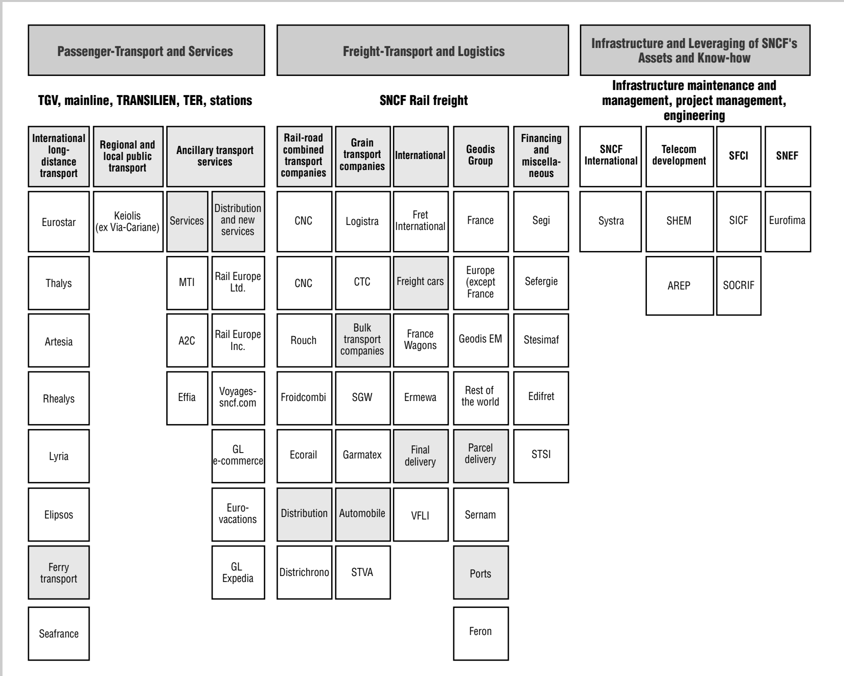
Problems of the restructuring French railways cannot be solved without agreement of railway staff—and unions. Yet some subjects, like strikes, activity-based management and above all privatization, will not be openly discussed during the next stage of the 2003–05 Corporate Plan because they are taboo. But solving these problems would help increase traffic and improve financial performance in an increasingly unfavourable economic climate.

Taboos—privatization, strikes and activity-based management

Privatization has always been held in contempt by French railway union members. Creeping privatization was the accusation levelled immediately against separation of infrastructure and railway operation in 1997 and to an even greater extent against any attempt at introduction of on-rail competition. French railway workers have always taken part in demonstrations against rail privatization in front of the EC building in Brussels. Imminent liberalization of international rail freight is denounced as a Trojan horse towards total rail liberalization in the future. Every sale of railway assets is seen as a prelude to a general sale of everything on offer as occurred in Britain, which is held up as the archetypical example of rail reform to avoid. Conversely, the experience of Japanese rail privatization is either ignored or pointed to as an example of successful railway integration without separation of infrastructure. Thus French rail privatization is out of the question at the moment, as recently reasserted by the Minister of Equipment, Transport and Housing.

Strikes are another taboo subject in the French rail industry because the right to strike is enshrined in the French Constitution and because recurrent strikes are a feature of industrial action by French railway workers. In 1995, SNCF had the highest strike rate of all European railways with more than 1 million days lost. Although the number of lost days fell to 180,000 in 1998 and less than 100,000 subsequently, the propensity of French railway workers to strike has always been blamed by shippers, particularly combined transport operators, as the cause of the decline in rail freight traffic. After successive drops in traffic volumes, Intercontainer–Interfrigo (ICF), the main European combined transport operator, recently relocated its operations hub from France to Germany, although ICF officials deny any link between their decision and the high rate of rail strikes in France. SNCF President Gallois has put industrial action on the agenda of the next stage of the Corporate Plan for 2003–05 under the careful wording of 'conflictuality.' Among the smoothing proposals is a 'social truce' meaning a 15-day cooling off period as opposed to the present 5-days, as well as 'service prévisible,' or a list of guaranteed train services after a 1-day warning. SNCF has also promised to avoid transferring managerial staff in the next 3 years in order to preserve confidence between railway managers and local union leaders. The phrase 'activity-based management,' meaning customer-oriented organization is almost as taboo. SNCF President Gallois carefully avoids using the term 'cap client' (the idea of customer as boss) that triggered a 2-week strike in April 2001, although he is still in favour of the idea. At the moment, SNCF is divided in five main business sectors or 'activities'—Long Distance Passengers (GL for Grandes Lignes), Regional Passengers (TER for Trains Express Régionaux), Paris Region Passengers (TRANSILIEN), Freight, and Infrastructure—each of which has its own budget and bottom-line responsibility. The five activities enjoy separate top management, separate budgets and accounts, and separate rolling stock for GL, TER, TRANSILIEN and Freight. The final stage of activity-based management restructuring concerns actual setting of new establishments for each activity at local level, which entails major reshuffling of staff between the new establishments. This is a major sticking point because a substantial proportion of staff at stations and freight depots—namely everyone except commercial staff—would be transferred to the new establishments with new managers and new career prospects and an unknown impact on the existing local and regional trade unions. Because the transfer involves 30,000 employees, the labour unions fear the unpredictable effects sometime in the future of a potential total separation of infrastructure from railway operations, especially if RFF was not satisfied with purely managerial jobs and stopped subcontracting maintenance jobs to SNCF, which would entail transferring thousands of employees from SNCF to RFF. This is exactly what happened in Sweden in 1988 when Banverket was completely separated from SJ AB and took more than 7000 employees from SJ AB. French railway unions denounce any process leading to the gradual hiving-off of different railway activities as in Britain where the fate of Railtrack is branded the nightmare scenario to be avoided at all cost. However the activity-based management plan has not been ruled out despite of union reluctance. SNCF's FY2000 and FY2001 balance sheets refer to activities and official organization charts clearly show the different activities and their respective and different results that seem to call for a more customer-oriented organization.

SNCF Group Structure



Third Stage of SNCF Corporate Plan

The first stage of the Corporate Plan launched to implement rail industry reform inside SNCF itself during the 1997–99 period provided a backbone for the company's activity with a volume-oriented strategy that drew more traffic and better results. The second stage of the Corporate Plan which began in 2000 saw a more concrete implementation, including an attractive passenger fare structure, regular interval services, successful experiments in devolving responsibility for transport to regional authorities and a commitment to doubling freight volumes within the next 10 years. Actually SNCF recorded an historic rise in traffic volume in 2000, leaving the company in the black for the first time in many years. 2001 was somewhat mixed—the successful launch of TGV Méditerranée in June helped passenger traffic grow, but freight fell contrary to expectations. SNCF could not repeat its performance of 2000 and posted significant net losses amounting to €134 billion for 2001. Much heavier losses are expected in 2002 because all the indicators are much less promising than in 2001 due to a prolonged world economic slump and corporate difficulties. As a result, the third stage of the Corporate Plan covering 2003–05 could be headed for trouble.

Poor 2002 traffic volumes and financial results

Coming after 1 year in the black in 2000 and a sharp return to the red in 2001, 2002 started with a worsening situation due to slowing economic growth. SNCF blamed these circumstances for the €300 million shortfall between budgeted traffic receipts and the actual figures at the end of the first half of 2002, while costs rose 2% and 3%. Actually, the shortfall was almost equally distributed between passenger receipts, freight receipts and infrastructure operating revenue, pointing to a rather alarming trend in all rail sectors.

In 2001, TGV traffic grew by 7% while other long-distance fast trains lost nearly 10% after a short-lived recovery of only 0.8% in 2000. In 2002, passenger traffic was expected to grow by 7.5% boosted by the TGV-Méditerranée's first full year of operation. Actually, during the first semester, traffic volume only grew by 3.5% whilst an encouraging 5.3% rise in receipts was just 1.8% lower than the

Freight is a different activity from passenger transport. (ICF)

TGVs are the main Grand Lignes activity. (Author)

forecast—albeit for a shortfall of €90 million. A worsening trend developed in July 2002 when the TGV reported a 0.7% drop in traffic for the first time ever, with other main-line fast trains down 10%.

Even more disturbing is the disastrous change in rail freight, which (unlike passenger traffic) lost 8% of its volume in 2001. Another drop of 1.8% during the first 6 months of 2002 left volume and receipts 4.8% and 7.2%, respectively, below forecasts—a €110 million shortfall. The situation became even worse in July and August 2002 when volume was down nearly 3% on 2001 figures, revealing a structural problem in rail freight to be overcome at any cost.

To make matters worse, operating revenue for SNCF's Infrastructure division was €100 million below expectations due to work delays. All-in-all, for the first 6 months of 2002, SNCF reported €186 million in net losses—more than the total 2001 loss. Consequently, purchases of new IT equipment were instantly cancelled, 1000 new job recruitments were cut, and sell-off of assets was speeded up. These terrible results have confirmed the necessity for activity-based management, because the performances of the various activities have been quite different, requiring different customer orientation.

Reconciling views of SNCF and railway labour unions

The protagonists in French rail reform are the state, regional authorities, RFF, SNCF, railway employees, railway labour unions, and customers. Each group holds different views that will have to be reconciled one way or another. SNCF and its employees and railway unions must come to an agreement about the third stage of the Corporate Plan for 2003–05. 20,000 employees took part in 100 meetings between May and October 2002 and 45,000 answers were obtained to questionnaires sent to all the staff. The 25% return to the questionnaires is not a very good omen for the future!

In October 2002, 6 months before European rail freight opens to competition in March 2003, the unions reasserted their opposition to free access when an SNCF subsidiary tried in vain to run its own trains on a 30-km stretch of SNCF track. The idea was to carry coke from a coking plant located on the tracks of an SNCF subsidiary to a steelworks just over the Franco-German border. Just three coke trains a week were involved, but the unions refused any concession on free access even to the SNCF subsidiary.

As a consequence, we can only wonder how the French railway unions will put up with foreign railways and rail operators after 15 March 2003 because France cannot escape European rail liberalization. On 23 October 2002,

2001 Results by Activity (€ million)

	Operating revenues	Operating charges	Internal charges	Gross operating income	Net income
Passenger mainline services	4657	2840	-1139	540	11.5
TER	1725	644	1016	3.5	-110
TRANSILIEN	1849	938	579	283	9.3
Stations	88	87	42	43	-0.4
Freight	2055	-1272	-821	-120	-265
Infrastructure	3889	-3677	18	91	-16.5
Traction	7	-1292	1312		5.2
Rolling stock	340	-1555	1272		-10

SNCF President Gallois spoke with 4500 railwaymen gathered in Paris. He explained that SNCF's ambition is to forge a public service that is both firmly in line with Europe and in line with French rail industry concepts of public service, inter-railway cooperation, and exclusion of social dumping. The meeting was opened by the Minister of Equipment, Transport and Housing explaining that railway privatization is not on the agenda.

Possible argument with regional authorities

Another set of disgruntled SNCF partners could well prove to be the regional authorities who have been in charge of local passenger rail transport since 1 January 2002. Recent negotiations of agreements between the Régions and SNCF have spotlighted growing discontent with train paths, access charges, contribution to rolling stock purchase and refurbishment, station renewal, costs of adapting regional services to new TGV services, etc. Regional authorities are gaining more knowledge and experience of rail operations and will want to reduce the growing cost of railway services for which they are now responsible. Such views could lead the Régions to ask to be released from the obligation to choose SNCF as the sole operator if another cheaper operator is available. At the moment, prospects that the European Union might compel the transport authorities to put local passenger services to tender have receded, because Brussels has conceded that trains could be exempted for safety reasons. However the French right-wing government is very favourable to decentralization and might be ready one day to open up the local passenger railway market to competition if regional authorities requested it. When in opposition, liberal MP Dominique Bussereau kept asking for open access to regional rail services; he is now Secretary of Transport and still favours liberalization, although he is keeping quiet on the issue for the present.

Nevertheless, the liberalization of international rail freight market in March 2003 occurs at a time when there is growing turmoil among rail freight customers. Local shippers are angry about the apparent incapacity of SNCF's Freight division to meet their needs, despite a 10% fall in traffic volumes in 12 months. SNCF and its customers are making quite contradictory statements. SNCF claims improving service reliability with only 70 late freight trains daily compared to as many as 140 in 2001 and more than 200 in 2000. Conversely, combined transport operators complain that 48% of their trains are delayed, including 25% by more than 2 hours and some by as much as 24 hours. There is a growing misunderstanding between SNCF and large shippers in the metal and chemical industries who put forward the German example and quote the success of BASF's and IKEA's private trains running on DB AG tracks. Regional authorities are incensed when they are blamed for freight delays due to the increasing numbers of local passenger trains having path priority over freight trains. Regional assembly members remind SNCF that besides financing operations and rolling stock renewal, they are currently being asked to contribute to costs of infrastructure improvement including new high-speed lines under the pretence of releasing capacity on existing conventional lines, although at the same time they are told there is not enough room for all trains on the same tracks of conventional lines. The growing discontent of rail freight shippers has led the Minister of Equipment, Transport and Housing to appoint two members from regional assemblies to seek a solution to freight problems.

Numerous questions about rail restructuring in France remain unsolved, although nobody thinks that the process can be stopped or reversed. Rail freight liberalization in March 2003 will probably herald a speeding up of more far-reaching measures as required by the European Union. The 'salvage operation' of French railways started in 1997 could well be completed more quickly than expected and at considerable cost to some current shibboleths. ■

Further Reading

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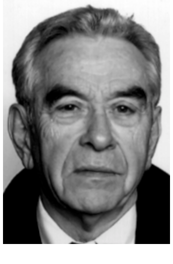

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