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Rail: Europe fails to follow U.S. route

By Robert Wright
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For most observers, it is hard to see immediate similarities between the vast rail yards that handle much of the US railroads' traffic and the windswept corners of industrial northern Europe where many European freight trains start.

Yards in the US typically handle standardised trains, sometimes a mile-and-a-half or two miles – two or three kilometres – long.

Slow-moving freight trains are normally the main, and often the only, priority on the section of track involved. European yards handle lower, shorter trains, with a wide variety of train technologies, while the neighbouring main line often serves mainly passenger traffic.

But, when the European Commission was preparing for the liberalisation of Europe's rail freight market just under a decade ago, officials were fond of pointing to North America's rail system as a model for Europe.

Their plans, they suggested, would have the same revolutionary effect as the US's liberalising Staggers Act of 1980. The act allowed private US railroads far greater latitude to decide how to run their businesses, freed them from dependence on government bail-outs and ultimately returned the industry to financial health.

Eight years on from one of the key liberalising steps – the opening up to competition of international traffic on Europe's main freight corridors – there remain substantial questions about how far the European effort has succeeded.

Few of the new private operators that had been expected to challenge the state-owned incumbents have survived. European rail has at best stopped losing market share to rivals. The question is whether the industry will remain a niche part of the European logistics scene or whether it will emerge from the recent reforms stronger and more competitive.

For **Henry Posner**, a US rail investor who has run trains in Estonia and looked closely at the French market, the biggest question is whether Europe's train operators, who typically run services on track either owned by arms of their national railways or separate, state-owned companies, have enough to differentiate themselves between each other.

US rail companies own their own track and can do far more.

"Everybody [in Europe] is paying the same track access fees; the train length is constrained by capacity, so there are not a lot of key differentiators from either a cost or service perspective," Mr Posner says.

The main effect of liberalisation, according to Mr Posner, has been to reduce charges for customers, sometimes to uneconomically low levels for operators.

However, Carsten Hinne, managing director of logistics in the UK for DB Schenker Rail, part of Germany's Deutsche Bahn, insists competition is improving European rail freight's competitiveness.

The countries seeing the best recovery in rail as a share of their freight markets are those that have done most to increase competition, he says.

“I think competition is obviously necessary, not only in rail freight, but all markets,” Mr Hinne says.

Yet, although a sprinkling of new names and liveries – such as DL Cargo, Rail4Chem and Shortlines – appeared immediately after liberalisation, the private sector’s role in the industry is now limited.

John Smith, managing director of GB Railfreight, part of France’s Groupe Eurotunnel, says that, while private operators’ existence shows that liberalisation has made some progress, the disappearance through merger or insolvency of many is a worry.

“What concerns me is a number of them are swept up by the existing, incumbent, state-owned operators,” he says.

Mr Smith points to episodes such as Deutsche Bahn’s rush in the middle of the last decade to acquire rivals as an example of a state railway apparently pursuing a national, strategic agenda beyond normal commercial interests.

“I just think they have different remits,” he says.

The result of DB’s acquisition spree, and a similar later one by France’s SNCF – has been that competition could mainly take place not between state-owned incumbents and private start-ups but between rival, international empires constructed by the big state companies.

Mr Hinne portrays DB’s role in that process as positive.

DB, he says, has sought to build a network across Europe that can meet its customers’ needs, whether by rail or other forms of transport, from the door of a factory in Poland to a warehouse in England.

DB also insists that, where it is competing against incumbent operators, as in France, it wins traffic from other modes instead of just taking other train operators’ business. About half the traffic of its French Euro Cargo Rail business has been new to rail, DB claims.

Such efforts are undoubtedly helped by train operators’ increasing ability to run trains seamlessly across national borders. EU law has removed many of the bureaucratic obstacles, while increasingly sophisticated locomotives can now often handle several of Europe’s multiple electrification and signalling systems.

“Our strategy is…to give the customer a real offer in the marketplace to go by rail, with the economic effect and the environmentally-friendly effect,” Mr Hinne says.

Yet Mr Smith points out that there remain countries where it can prove very difficult simply to have a privately operated train run across the national rail network.

Such unreliability can prevent railways from winning the most lucrative freight – deliveries of high-value goods that need to arrive on time.

European railways, Mr Posner points out, continue to carry only just over 10 per cent of the continent’s freight movements, against more than 40 per cent in North America.

While the continuing technical barriers between European railways continue to contribute to this shortfall, they are not, according to Mr Posner, the biggest problem.

“There’s lots of room for improvement and it’s more institutional and cultural than it is technical,” he says.

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