

Measure 14: Third railway package: improving quality of the rail freight services

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Policy package:

2D: Rail Safety, Quality and Environment

Measure 14:

Third railway package: improving quality of the rail freight services

What is the problem being addressed ?

The Transport White Paper of 2001 and the Commission Communication “Towards an integrated European railway area” of January 2002 underline the importance of improving the performance of rail freight services in Europe in order to contribute to more balanced modal shares in European freight transport.

According to customer surveys (cfr. Sysmonds Group, 2001) one of the most important reasons for customers’ dissatisfaction with rail freight services is the mediocre and still worsening service quality, especially for international services. The average commercial speed of international rail freight services, punctuality and reliability of service are far from satisfactory. The operators of combined transport report a dramatic deterioration of the punctuality of combined transport trains over the last few years causing significant costs to railways undertakings due to claims from unsatisfied customers, inefficient asset utilisation and profit on lost turnover. One main reason for the low quality performance is the lack of responsibility of any one railway undertaking for the good execution of the entire international service in the traditional cooperation mode. Various quality initiatives by the railways have shown that rigorous quality management on specific corridors can improve quality significantly.

The Commission proposed three specific measures to address the rail freight quality issues:

- Amendment of Directive 2001/14 in order to enable authorised applicants other than railway undertakings to apply for train paths. An authorised applicant in rail freight could be, for instance, a shipper or a forwarder with an interest to use the rail mode to transport significant and, over time, fairly stable cargo volumes.
- A number of voluntary agreements that the European rail industry shall undertake to improve the incentive structure for service quality, in particular including systematically service quality commitments in their contracts with customers in a fair and non-discriminatory way.
- A Regulation laying down the terms of compensation in case of non-compliance with contractual service requirements.

However, only the latter measure has been implemented so far by the Commission, and it is discussed in the following.

Measure’s costs and/or benefits:

The cost impacts of poor service quality for the railway sector are considerable. Railway undertakings and combined transport operators cannot acquire new rail freight transport contracts and may even lose traffic to other modes. The possible consequences of poor service performance are lost revenues, inefficient staff and asset utilisation as well as increased compensation claims from customers. In 2000, the UIRR estimated that the overall annual cost of non-quality in rail freight to combined transport operators is € 41 million, representing ca 6% of total international revenues for UIRR member companies. Thus, any reduction in this huge cost of non-quality induced by the implementation of proposed measure has to be accounted for as a benefit for the railways undertakings.

The direct costs of compensations schemes could be estimated considering the basic parameters of the proposed EU Regulation. The compensation level for loss or damage to the goods transported is set at € 75 per kilogramme of gross mass damaged. This means a tripling of the value compared to the one introduced in the CIM Annex to the COTIF 1980, which is justified by the increase of the average value of goods transported in the last 25 years. The compensation levels for delays could be adapted, according to the severity of the observed delay in transport and dependant on the type of rail freight transport. However, for block trains the Regulation stipulates a compensation level of at least 5% and at most 25% of the transport price.

Probably, railways undertakings will have also supplementary costs for enhancing the efficiency and

flexibility of their products on rail freight services. Some investment might be expected in new and better performing rolling stock. Indeed, the Commission expects that the application of the proposed compensation scheme will provide effective incentives to railways undertakings to enhance the efficiency and flexibility of their production processes for rail freight services. At the same time, the changes triggered by the compensation scheme will lead to quality improvements to customers, who may incited to increase their demand for rail freight services. Based on this assumption, the overall economic benefits of the scheme have been estimated to amount to roughly € 70 million per annum in an EU15 context.

Legislative implementation at the EU level:

COM (2004) 144 final, Proposal for a Regulation of the European Parliament and of the Council on compensation in case of non-compliance with contractual quality requirements for rail freight services. The COM (2004) 144 final has been published on 03.03.2004. In case the Regulation will be accepted, the Commission shall report to the European Parliament and the Council by January 2009 on the application and the effects of the Regulation in particular on the performance of rail freight services. The Regulation shall enter into force 20 days following its publication in the *Official Journal of the European Union*.

What are the objectives ?

The overall development in the service quality of international rail freight services is alarming. Indicators for the punctuality of international combined transport trains, compiled by UIRR and covering all major European freight corridors, show that the level of performance is unacceptable. In 1999, 40% of combined transport trains were delayed more than 30 minutes (see table below):

Punctuality of UIRR trains compared to programmed arrival time 1999 – 2001 (in %)

	Trains on time Delayed by ≤0.5 h	Trains delayed by > 0.5 h	Trains delayed by > 3 h	Trains delayed by > 24 h
1999	60	40	17	3
2000	48	52	28	5
2001 (1 st semester)	42	58	32	7

Source: UIRR (2001)

Three years later, in 2002, 52% of the trains were not on time; 7% were even delayed more than 24 hours. The major causes for the delays were missing locomotives or staff at hand-over points. The picture remains very disparate according to the corridor considered. Whenever the proposed Regulation will be implemented, punctuality indicators to be elaborated at the aggregate and main corridors level will be the key indicators of objective achievement.

Interactions with other WP measures:

Measure 14 is linked to Measure 7 - Opening up the national and international freight markets.

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Output indicators:

The level output of the *Third railway package: improving quality of the rail freight services* measure can be monitored by assessing the rail transport contracts in which the quality requirements have been defined.

Outcome indicators: intermediate impacts on transport markets

The main impact of the improving quality of the rail services will be a stronger competition with road, thus possible enabling the shift from road to rail on specific segments of the market where rail will become more competitive. Currently, the overall traffic performance of rail freight in the EU is rather disparate. In the 1990ies transport volume grew slightly by 0,7% per annum after it fell in the 1980ies by 1,2% per annum. However, the performance of rail compared to competing modes is very modest. But there are also signs in some Member States that traffic performance can become more dynamic, if the quality of services on some corridors or specific situations is improved. For instance, in the UK the transported volume by rail has risen by 50% since 1994. This growth of rail freight traffic has been aided, amongst other things, by a strong increase in maritime container transport by rail through UK ports, in total 56% between 1992 and 2001. Improved rail performance will be reflected in particular by the following indicators:

- Changes in transported tkm by rail: at yearly level, for EU27 and at the country and region level. The EU27 and national aggregated figures could be provided by Eurostat and national statistics. Differentiation of domestic / international / transit and segment of the market is desired. Data at regional level could be provided by the national statistics.
- Changes in company productivity, and especially wagon fleet productivity: the general characteristics of European freight operations are such that wagon fleet productivity is severely constrained and below that reached by American and Russian operators. For instance, the average for Europe of 350.000 net tonne-km/wagon/year compares with around 4 million net tonne-km/wagon/year in the USA. This reflects, in part, the respective average lengths of run, which are 250 km and 1350 km respectively, but also the technical constraints in Europe (e.g. lacking interoperability, emphasis on mixed passenger and freight operations). One particular productivity issue is the empty running time of wagons: almost 50% of wagons on the European network run empty generating no sales revenues for the railways. There is considerable potential for improving cost competitiveness as the costs of freight wagons account for about 20% of the total production cost of a rail freight company (cfr. COM/2002/18 final – Annex I)
- Changes in company employment: the effect on employment is likely to be neutral. The implementation of compensation schemes in rail freight will incentivise railway undertaking to a more efficient use of their staff which could lead to lower employment levels. However, the expected growth in demand for rail freight services induced by higher service quality could lead to additional recruitment which would offset the negative employment effects of productivity increases.

Outcome indicators: final impacts on transport users and non users

The most relevant outcome indicators that are affected by the improved efficiency of rail freight are:

- Accessibility to intermodal terminals. Rail accessibility to intermodal terminals, including ports, shall be improved as a result of increased quality and reliability of rail freight.
- Emissions to air. The modal shift from road / air to rail may induce a reduction in air pollutants emissions. This is true in particular for the shift from air to rail transport (which is however small if compared to road), because aviation is by far the most polluting freight transport mode, except for specific PM emissions. However, it must be remembered that shifting freight transport from road to rail without improving the environmental performance of diesels trains might have an adverse effect on transport emissions.