

Newsletter 7.06.2006

Dear Reader,



This special edition of InfraConnection summarises the presentations given by a wide selection of British rail industry representatives at the "UK Rail Reform Event" on the 23rd February 2006 in Brussels (Belgium). The event was jointly organised by EIM (European Rail Infrastructure Managers), ERFA (European Rail Freight Association) and ERFCP (European Rail Freight Customer Platform).

The general public opinion of the UK railway structure and performance was one of regular serious accidents, poor performance and reliability, reduced passenger and freight traffic and very high costs. Such at least was the perception until recently with officials from Member States, the European Commission, the European Parliament and the many rail-related organisations represented in Brussels, as well as with representatives of railway administrations and social partners.

This has been used as a reason for opposing full implementation of the EU open access and vertical separation proposals and so far has resulted in a continuing lack of competition, poor service quality and reduced traffic volumes in many parts of Europe.

However, the UK structure was to some extent used as a model for the European rail legislation, and UK rail freight is demonstrably a success – since privatisation its market share of land transport has increased from 8.5% to 11.5 % and the volumes by 60 % -. Hence, it is in the interest of the UK and European rail freight, and indeed of the railway sector as a whole, to put the record straight.

The purpose of the seminar was therefore to describe the present structure of the UK railway industry with particular reference to freight, its success and difficulties, what customers and operators like and do not like and how things can be further improved.

The objective was clearly to encourage other Member States to learn from UK successes and mistakes, and create an environment for the railways to encourage private investment, competition above rail both on a national level and within EU borders with the ultimate purpose to enhance traffic volumes and customer satisfaction.

A brochure and/or copy of the presentations can be obtained upon request (info@eimrail.org).

Marc Falchi

Speakers:

Chris BOLT, Chairman, Office of Rail Regulation

Ian BROWN, Deputy Managing Director, STVA UK

Jim CLARK, Managing Director, Malcolm's Logistic Services

Mike COWELL, Supply and Distribution Director, Lafarge Cement

Adam CUNLIFFE, Managing Director of Freightliner Heavy Haul

Mark LAMBIRTH, Director, Rail Strategy and Finance, UK Department for Transport

Ian McALLISTER, Chairman, Network Rail

Alastair MONTAGU, General Manager Business Development, Maersk

Frank OTTEN, Vice President, ERFCP and Logistics Director, DSM Chemicals

Adrian SHOOTER, Chairman, Association of Train Operators (ATOC) (Passenger Operators) and of Laing Rail/Chiltern Railways

Graham SMITH, Planning Director, EWS Railway

The Success of the UK Railway Structure

UK Structure

The 1994 privatisation involved the dismantling of the nationalised industry, the sale of individual businesses, as well as the creation of a franchised passenger market, a liberalised freight market and a strong independent economic regulatory structure.



Whereas the splitting of infrastructure from train operations was one of the basic principles of the change, it was a later decision to privatise the infrastructure operator, Railtrack. However, an evident lack of investment and maintenance in the following years lead to some serious accidents. As a result, the private sector Railtrack was replaced by Network Rail, a company still in the private sector, but with a government guarantee and no profit, if any, for

distribution.

There was only minority support either for privatisation, full liberalisation or vertical integration. The current structure was accepted by all political parties and had the support of the industry. The new focus was on driving reliability up and costs down, and creating the right conditions for investment in capacity. This was a big challenge, but a nice one to have!

Freight Market

The UK industry has achieved a 60% growth in tonne km in ten years, from 13bn tonne km to 20.7bn tonne km and lifting over 100 million tonnes per year (excluding material for Network Rail). The UK rail freight market share versus road increased from 8.5% to 11.5% and the private sector has invested over €2.17 over a period of ten years in locomotives, wagons, yards, terminals and systems.

Asset utilisation needs to be improved on a continuous basis by reducing locomotive, wagon and staff numbers, introducing stable and affordable track access charges, creating certainty of access to the network and a network fit for purpose. This is key to growth of the business. Some companies like for example EWS locomotives as a result now operate 18 hours/day.

UK rail freight is a major success and has attracted significant private sector investment. The focus on customer service, productivity and performance has resulted in major growth; and there is now scope for rail freight to grow significantly against lorry and short sea shipping. EWS who has recently entered the French market as well put it this way during the conference: 'The only limitation is the extent of our own vision.'

Passenger Market

In passenger kilometres, the UK has been the fastest growing passenger network in Europe during the past ten years.

Over one billion passengers a year were carried in 2004/5, 20% more train-miles are being run than before privatisation, and 157 miles of new/reopened lines and 51 new/reopened stations have been put into use. This growth is due to three, more or less equal causes: economic growth, road traffic congestion and pricing and marketing; more trains, new trains and pricing. 45% of the fares are regulated by the UK Government and are at the same level as ten years ago, allowing for inflation. Air/coach/car competition constrains unregulated fares. There are also very low advance

fares. The sustained growth over ten years of both train and passenger numbers is the result of an increase in passenger satisfaction, less complaints, lower costs, and a high level of investment in new trains (newest fleet in Europe), stations and information systems.

A Customer Oriented Industry

Competition above rail has brought a noticeable change in the rail freight industry, in customer service, reliability, Key Performance Indicators (KPIs) and contractual penalties. Also, operators are no longer limited to providing rail services and can offer a more complete service.

Customers welcome:

- competition between track and traction providers
- improvements in timetable reliability
- terminal development in factories
- a commercial awareness regarding pricing structure
- an increased customer focus
- an improved rail wagon design of covered wagons

They also welcome the ideas of COMAS (committed assets) with dedicated locomotives, train crews and unloading ones. This allows for high utilisation scheduling, with less than 24 hour round trips and maximum 5 hours dwell time on sites.

Since privatisation the industry has introduced innovations allowing rail operators to extend their services beyond rail to total logistics solutions, and factory gate pricing models. All this has resulted in quality performance improvement, hub and spoke supply chain logistics and a reduction in the distance required to compete.

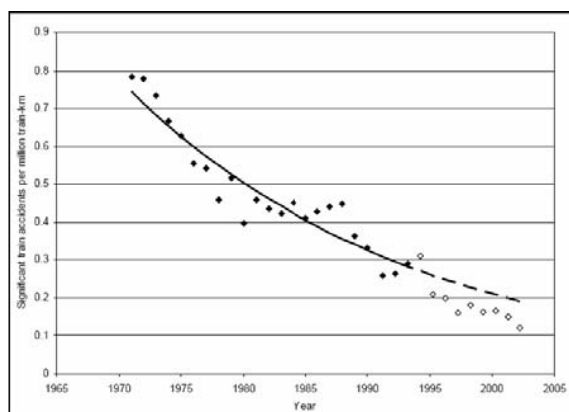
The proactive marketing of rail by the industry as a basis for logistics problem solving and dynamic innovative solutions has encouraged customers to consider rail opportunities increasingly: "We don't have to go to rail. We choose to go to rail."

Customers concluded that the last ten years have seen a significant improvement in customer orientation, delivering customer value, and increasing their confidence in rail, leading to more investment.

Safety

When looking at the changes that privatisation brought about, it is evident that the key drivers of safety are good management, a strong safety culture, effective regulation and increased investment. The impact of privatisation on safety meant more interfaces, improved focus, brand protection, better regulation and facilitated investment. Safety performance remains good on the principle safety indicators. The downward trend of broken rails continues and is again at the lowest level ever recorded, as goes for SPADs (signals passed at danger) – a result of the successful introduction of TPWS.

The chart of significant train accidents per million train-km shows that safety improvements have been more considerable since privatisation than might have been expected if the previous trend had continued.

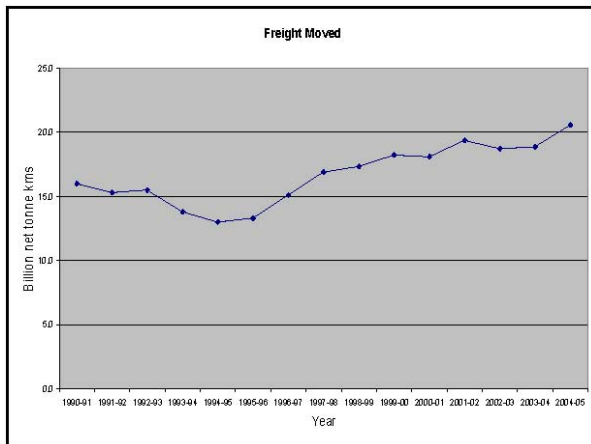


Costs

Under Railtrack infrastructure costs escalated by more than 50%, but without proper maintenance of the tracks and signalling systems. Network Rail's costs are now under control, and are on course to be reduced by 31%, as required by the regulator (ORR) for the Control Period 2001/2 to 2006/7. Meanwhile, Network Rail provides and maintains a network fit for the reasonable requirements of its customers.

Passenger rolling stock costs have reduced in real terms, but the big change is in growth. Over the last ten years passenger demand has increased by 40% (see figure below), far outstripping economic growth, and freight has increased by 60% in tonnes per miles over the same period.

Investment



Investment in the railway has increased dramatically from €2.17 bn in 1994/5 to €7.98 bn last year on the West Coast Main Line, the Channel Tunnel Rail Link, TPWS. About 40% of passenger rolling stock has been replaced, power supply upgraded and a €3 bn renewals programme was started. Alongside this, the private sector has invested over €2.17 bn in rail freight equipment and facilities. There are also plans for Crossrail and Thameslink under London and many station upgrades.

An Independent Infrastructure Manager

Network Rail has achieved significant progress in the last five years, with train performance improving strongly and a good safety record. This was achieved by increasing the volume of renewals, bringing maintenance in-house and closer co-operation with train operators through the integrated control centres. Rail renewals had increased from 397 km in 1998/9 to 1009 km in 2004/5. Network Rail recognised the importance of freight, for example carrying 25% of the coal for electricity generation and 80% of London's construction stone. Rail produces 80% less CO² per tonne moved on rail than by road.

Network Rail is committed to raise its management and technical capability through the controlled delivery of high quality, accredited training and work experience aligned to its future needs. To that purpose, Network Rail has created a hierarchy of life-long learning for technical and leadership development.

In the future, the short term pressures are on reducing costs, delays and improving performance. In the medium term, the focus will switch to improving capacity, delivering choice and investment in major enhancement schemes to further competition. Network Rail wants to be globally recognised as a great company to work for, and globally recognised as world-class in rail infrastructure management.

An Independent and strong Regulator

The independent Office of Rail Regulation (ORR) has the role, as defined in the 2004 Government White Paper, to “help to ensure that the railway provides value-for-money for the fare-payer and the taxpayer, taking into account safety, performance and cost”.

It is also to become a merged safety and economic regulator for the following reasons, as mentioned in the 2004 White Paper: “Bringing regulation of all aspects of the rail industry - safety, reliability and efficiency - together under a single public regulator will streamline the regulatory system, reduce bureaucracy, and ensure that these issues are looked at as a whole, and not in isolation from one another.”

Key duties of the ORR include:

- Promoting improvements in railway service performance.
- Protecting the interests of users of railway services..
- Promoting the use of the railway network for passengers and freight.
- Promoting competition.
- Enabling providers of railway services to plan the future of their businesses with a reasonable degree of assurance.
- Contributing to the achievement of sustainable development and to have regard to the funds available to the Secretary of State.

The continuing importance of independent regulation was outlined. This included: ensuring effective incentives and accountability through a coherent and consistent regulatory framework, establishing a level playing field for service providers and suppliers, providing assurance of value for money for rail users and taxpayers, and underpinning private investment in long-life assets by providing expectation of reasonable returns for companies operating efficiently.

In support of this, some examples of current ORR activities include: the development of the Network Code which defines the conditions for access to track, supporting joint initiatives through the Network Code between Network Rail and train operators on performance and integrated control rooms, encouraging and improving the process for developing Route Utilisation Strategies, developing cross-industry groups in charge of forming ideas for increasing capacity whilst balancing the interests of different users, and approving longer term access agreements between train operators and Network rail to support investment and market development. The ORR's long term vision is ‘a successful partnership of Network Rail, operators, suppliers and funding bodies, working together to meet the needs of passengers and freight customers.’

Conclusions

The chairman of the UK Rail Reform event, Frank Otten, Vice President, ERFCP and Logistics Director, DSM Chemicals, concluded that the presentations had demonstrated that the UK model, which provided fair competition above rail coupled with the private sector discipline and investment that comes from this structure and the transparent regulatory regime, was the way forward for the European railway system. It would best give the customers the service quality and creativity that they need from the railways – and enable them to grow their traffic as has happened in the UK. With privatisation, safety had improved, reliability and infrastructure costs had declined and then recovered, other costs had changed little, whereas demand from passengers and freight had both increased and investment had boosted significantly.

Problem areas now being addressed included reliability and costs, infrastructure operator interfaces with maintenance and other suppliers, with government and with passenger operators. “Growth came through privatisation and a mindset change towards a customer oriented attitude at the traditional railway companies.”

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Conclusions by EIM, ERFA, ERFCP

The purpose of this seminar was to present hard facts to a large audience about the UK rail reform and the benefits it had for all stakeholders: government, customers, operators and the infrastructure manager.

The objective of EIM, ERFA and ERFCP in sponsoring such an event was to showcase a rail reform model as a “best practice” model because of its transparent, fair and open conditions for all actors.

Indeed, all contributions to the seminar have demonstrated that a full and open railway market is beneficial for rail. Figures from Network Rail have shown that the system has an excellent safety record in the European benchmark and that system interfaces between operations and infrastructure are not bound to be lost in a vertically separated model.

Therefore, all three organisations urge the EU Commission to take a more proactive role in creating similar market conditions on the continent; to allow rail to prosper by enforcing its existing rail legislation. In many EU countries, market conditions are far from being transparent and fair, especially private rail freight operators are too often discriminated. Best practices developed in certain Member States, as in the UK, can serve as guidelines for both the European Commission and other Member States and should be promoted actively.

EIM, ERFA and ERFCP are ready to support the European Commission in this task and provide the necessary feedback in terms of best and worst practices experienced by their members.