



## **Rail and Inter-modal Working Group**

### **3<sup>rd</sup> Session, Belgrade, 25 January 2007**

**Chairman:** Mr Frank Jost, European Commission

#### **Members:**

Mr Vullnet Pepellashi, Director of Technical Directorate of General Railways Directorate, Albanian Railways, Albania  
Mrs Nerejda Hoxha, TA to MPWTT, Ministry of Public Works and Transport, Albania  
Mr Danijel Krakic, Senior Advisor, Ministry of Sea, Tourism, Transport and Development, Croatia  
Mr Goran Ilkoski, Traffic Engineer, Croatian Railways, Croatia  
Mr Zeljko Cindric, Head of Department for Intermodal Transport, Croatian Railways, Croatia  
Mr Antoni Pesev, Consultant for Macedonian Government, the Former Yugoslav Republic of Macedonia  
Mr Milan Bankovic, Executive Director Assistant for Traffic Regulations, Railways of Montenegro, Montenegro  
Mr Nenad Babic, Freight Transport Department Chief, Railways of Montenegro, Montenegro  
Ms Tatjana Jankovic, Head of Railway Infrastructure Group, Ministry of Capital Investment, Serbia  
Mr Miodrag Poledica, Head of Department for Intermodal and Railway Transport, Ministry of Capital Investment, Serbia  
Mr Janko Kovljanic, Deputy Director of International Affairs, Public Enterprise "Serbian Railways", Serbia  
Mr Xhevat Ramosaj, Managing Director, UNMIK / Kosovo

#### **Observers from Neighbouring Countries**

Mr Maximilian Bauernfeind, Department for EU Affairs, Federal Ministry of Transport, Innovation and Technology, Austria  
Mr Georgi Popov, State Expert, Ministry of Transport, Bulgaria  
Mr Alexandru Potocean, Director, National Rail Freight Transport Company, CFR Marfa, Romania  
Mrs Adriana Seitan, Head of Legal Assistance Office, CFR Marfa, Romania  
Mr Alexandru Olaru, Head of Commercial Division – Branch Timisoara, CFR Marfa, Romania

#### **Presenters and Guests**

Mrs Cristina Tilling, Adviser, ETF, Brussels  
Mr Klaus-Juergen Uhl, Member of the Board of Managers, Vienna Consult, Austria  
Mr Ad Toet, Adviser Central and Eastern European Countries, CER, Brussels  
Mr Dragomir Mandic, Professor, University of Belgrade, Faculty of Transport and Traffic Engineering, Serbia  
Mrs Mirjana Bugarinovic, Assistant, University of Belgrade, Faculty of Transport and Traffic Engineering, Serbia  
Mrs Vera Morandini, EC Delegation, Serbia

#### **Permanent Secretariat South East Europe Transport Observatory**

Mdme Slavjanka Petruseva, General Manager  
Mr Douglas Rasbash, Project Manager  
Mr Goran Kecman, Planning Manager  
Mr Andrija Gencil, Information Resources Manager  
Ms Jordana Ficovic, Administrative Assistant

#### **Apologies for absence from**

Mr Mustafa Kovacevic, Ministry of Transport and Communications, Bosnia & Herzegovina  
Mr. Paulus Guitink, World Bank, Regional Office, Skopje

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## 1. Introduction

EC acting chairman welcomed to the third meeting. SEETO also welcomed delegates, advising of the approval of the second MAP, the adoption of the memorandum by Ministers at the AMM. SEETO also drew to the attention of delegates the process of collecting data, that has considerable capacity to perform various analyses, and also summarised in the MAP, extracts of the section of the MAP on railway performance was included in the materials.

The progress on the collection and analysis of regulations and laws was also briefly described and thanks extended to all those members that provided information. All information submitted as well as the data is available on the web site in the annexes of the MAP.

The EC advised that there had been progress in certain legislation at the EC including the testing of rail vehicles for cross border operations and – the development of Pan European Axis Infrastructure. Each of the participants introduced themselves – it is noteworthy that those delegates also included academia and representatives of industry, railway companies as well.

Agenda was changed to reflect the travel and other obligations of certain guests and apologies noted from those that cannot attend.

## 2. Challenges and major issues on Rail Border Crossings

Mr Uhl focussed on the customer requirements that require the construction of supply chains to service their needs. The overall object is to reduce the total costs of the product (transport) as were the measures needed. The results of a freight customer survey were given, (sample size 500) where price, reliability and service were top of the list of customer needs. Transit times were of 5/20 importance and is important for border crossings. Passengers were also surveyed where information and service were considered important. The railway sector accounted for 14.5 billion euro. The situation regarding non-state licensed undertakings was covered where the share of the market can be seen to be growing strongly. There was mention of the increasing competitive situation between railways. But 75% of cargo between Central and South East Europe goes by sea. Average commercial speed was calculated as being only 24 kmh by rail. The majority of the time taken is due to border crossings using 2004 data.

Average waiting times at borders is about 6 hours but can be as much as 30 hours. Almost all actual waiting times are higher than the time tabled waiting times. The reason for the delays comes from the lack of cooperation between the state railways due to poor operating and management. It is not customs or immigration.

Regarding the approval of third party operations, it takes 2 years to obtain a licence and get a train path approved; the reality is that ex-state railways, including IMs stand in the way and obstruct the progress. It takes many years in some countries to provide good practices with respect to introducing EU directives.

Border crossings – legal basis is based on old cross border agreements; technology – train processing is based on that of the former state railways and is too complex; information flows do not precede the cargo as other modes; inaccurate documents reflect the complexity of documentation and procedures which should be simplified and modernised. But the investment infrastructure is not the issue at all – there is no need for major investment at the border stations, in fact investment in communications equipment, photocopying machines and training personnel.

Some recommendations were made including border crossing agreements, free access to officials by all operators, free border zones, customs and health controls approvals to be given away from the border and advanced information. Also in terms of operations there should be no change of traction and/or driver provided that the traction is interoperable. To get improvements to rely on those which do the job at the borders.

Best Practise is the agreement between Serbia and Bulgaria and could be used as a model. (the [Agreement Between Serbia And Bulgaria On Border Control And Procedures For Railway Traffic](#) is on the SEETO Web

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Site). One of the features is that operators licensed in either country are acceptable and that passenger controls can be carried out on moving trains.

The outlook is to move progressively to open access and free movement of goods by rail without discrimination. Relocation of as many border activities away from borders inland.

Details of the studies and the recommendations are available in a report which can be shared on the SEETO Web Site.

#### Discussion

Serbia mentioned the benefits of having a chain of trust with regards to the technical quality of wagons and their acceptance by railways. Macedonia mentioned the need to standardise the data for exchange across the borders. The speaker advised that there are many different types of documents from many different authorities that will make full digitalisation very difficult – so scanning – for now is the preferred. The EC referred to progress being made through various initiatives as well the need to simplify.

Serbia reconfirmed that many legal issues – especially those concerning sovereignty, had to be solved in the Serbian Bulgaria agreement. The speaker noted that 60% of the agreement covered non-railway matters. The speaker saw no reason why a model agreement cannot be adopted by the delegate countries and that this would take considerably less time. Serbian experience is also that if the parties are willing and have good bilateral relations, those complex agreements are not always needed such as between Bosnia and Croatia. A suggestion was made to invite non-state owned railway representatives too and non-railway personnel since many other organisations are involved in the border crossing issue. SEETO mentioned the other soft initiatives related to borders that are included in the MAP – plus the TTFSE phase II.

### **3. The draft final report of the working group**

Macedonia, proposed to send responses on matters of detail to the EC. There was no response from other delegates. The CER made some general comments describing the approach as being possibly too cautious to face the considerable challenges that are around. A general comment was that it implied some degree of protectionism and insulation from the real market. Serbia supported that some degree of protectionism is needed during the period of transition. The EC acknowledged that the draft was very preliminary. Section 8 that proposed a road map for market opening was a new subject that had not been discussed in the working group before. The working group was asked to openly discuss the issues of how to open the railways of the region to the European Railway market. The rationale of the road map is to step by step open up the railway market.

SEETO advised that it was responsible for the development of the Core Transport Network, which for information the core network is 4,264 km whereas the total network, 9,370 km but traffic on the core network is over 80%. SEETO suggested that issue may not be one of reform and new legislation but one of implementation. That there might interest to consider the core network as a first step. Croatia considered that there could only be one legal basis and that separate implementation may need separate laws. The EC mentioned the position was similar in the EU, with a main network and branch lines.

Serbia noted that each country has already started with their agenda for reform, some of them with EU technical assistance. The EU is funding programmes separately in each country. The need to regionally harmonise the laws as much as possible in each county remains acknowledged – by Serbia and others. It is also a main concern to railways that they may not have the capacity to both prepare laws as well as implementing them. Kosovo proposed that to summarise the best practices in the EU would be useful to provide focus. EC noted that railway market opening is still a new experience.

EC noted that open access directive is now 6 years old. There are good but many bad experiences. The EC advised that there was a study that reviewed the experience, particularly on the new members states, that will be very useful for WG members. CER confirmed that this would be very useful. CER said that focus must remain on the main objectives of the directives, that is to make railways more effective. Serbia suggested that opening the market might best be done in SEE together rather than one by one. The CER mentioned, that like

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Switzerland, the railways of SEE might open up before joining the EU which may take 1 years or more. Mr Uhl reminded that SEE is also at the centre of several transit routes.

CER advised that railways need to move forward very quickly to take advantage of the market such as income from IUC etc. Serbia noted that IUC income is not sufficient to guarantee for investment, that implementation of EU directives should be based on EU accession. SEETO advised that it should be necessary to focus on the aim overall is to attract traffic, liberalisation and reform may be a route to it. Mr Uhl supported that railways must attract traffic is it is to survive. Croatia considered that market liberalisation legislation must be implemented as a means to achieving a better market share. Serbia raised the issue of access charges and was concerned that a full charge may not be competitive. CER mentioned that unremunerative lines will have to be closed. The EC said that even a business plan is needed by IMs – that this discipline is not in evidence in many countries. Serbia confirmed that it is reducing its network. CER mentioned the experience of Romania; that investment will have to be repaid. Transit traffic will pay for the use of railway services. EC considered that the link to financing in the future will be opening access. In summing up, the EC asked working group members to consider the proposals made in the paper.

#### **4. Round Table**

Albania referred to five year business plan, advised that no further progress has been made on implementation. Macedonia has made good progress for developing legal framework, adoption of the new rail law in this parliament in 2007 as well as safety. The financial situation will be analysed. Macedonia has already submitted information. Bosnia has drafted laws but has not implemented them. Serbia, government adopted the five year business plan for the railways, there are 4 divisions with one final account. Besides railways infrastructure investment including border crossings; Serbia will also start work on developing its own network statement in February 2007 and will twin with German and Austrian Railways. Kosovo is also having technical assistance to implement new laws and is making investments in rolling stock (DMU).

#### **5. CER**

CER emphasised the need for railways to cooperate closely. The background to CER was described, CER now includes 54 members. 6 reasons were stated for cooperation. The first is that it leads to increases in revenue from transit, others are that technical issues need to be harmonised, border cooperation, avoiding fragmentation of the network, most railways / governments are too small to be totally independent. The amount of work needed to build and manage the network statement etc is very high. Regional cooperation will help stable conditions for investors and customers. The common network statement is the tool for this. CER is happy with the MAP and the soft measures; the World Bank's regional approach is very important. Steps to open the market should be based on a legally or non-legally binding SEE agreement. Regional Cooperation is vital for companies and governments. The agreement may be supplemented to the SEETO MoU. Ministers want a simple common network statement by 2008, the Railways are responsible and should be able to count on EC/World Bank/SEETO. A stepwise approach is advocated, 1) make an inventory of the common and non-common parts; 2) elaborate common texts; 3) prepare drafts of non-harmonised parts, 4) making sure that the text and tables of data are in similar form. 5) Manage the network statements into one single document.

The conclusion was that the next steps include that each company preparing each section of the RNE statement, support, from World Bank EC; a corridor study to fix a commercial level for track access charges will be done by the CER, the EC / SEETO to continue to promote cooperation.

Discussion; Croatia questioned the kind of Treaty or MoU;

EC noted that Greece is leading 2 measures regarding corridor X. Croatian delegate to these initiatives mentioned that progress has been slow and referred them to the SEETO data base when asked for data. CER strongly recommended to move forward quickly and internally and not to depend on other countries.

## 6. Track Access Charges

The EC introduced the topic.

Pricing for the use of rail infrastructure is regulated in directive 2001/14/EC. The general objectives are to optimise the use of the existing infrastructure. As a result, only the cost of operating a train should be included in the charge for using the track and the tracks to get access to infrastructure services, i.e. the minimum access package. In addition, mark-ups can be included up to a level where market segments are not priced out. Eventually, charges have to be related to costs of infrastructure provision. Scarcity costs are allowed during periods of congestion. The infrastructure manager is also allowed to average costs across different parts of his network.

Apart from the said minimum access package, the directive distinguishes three types of services, for which different pricing rules apply: For infrastructure services (i.e. terminals, marshalling yards, maintenance facilities etc.) competitive pricing is the basis for setting the charge, while for additional services (traction current, fuel etc) and ancillary services (telecom network, supplementary information, inspection of rolling stock etc) prices must be based on the cost of providing the services.

Other objectives are transparency and stakeholder consultation and here the network statement plays an important role. The state has to ensure the financial stability of the infrastructure manager and the his task correspond to his financial resources. Infrastructure managers must also be incentivised to reduce their costs and perform well by performance regimes built in the charging system.

The infrastructure manager must not discriminate against certain railway undertakings. So, comparable prices must be charged for equivalent services.

The state must set a charging framework. He also has to set charging rules, unless he decides to delegate that to the infrastructure manager. It is then up to the infrastructure manager to set charges, unless there is no clear separation of providing transport services and infrastructure services. In that case, the state sets charging rules and sets the charges, while the infrastructure manager is only allowed to collect charges.

The regulatory body is appeal body for railway undertakings. It also has to supervise possible negotiations on the level of charges. In addition, judicial appeal must be provided for.

Charges shall be used to fund the business of the infrastructure manager, i.e. not other services, such as passenger transport services.

There is a legal obligation for infrastructure managers to cooperate with one another, including cooperation across borders with the objective to establish optimum competitiveness of international rail freight. In this context, the law explicitly allows infrastructure managers to set up a joint organisation in pursuit of the said objective, where that joint organisations is bound be the same rules is individual infrastructure managers.

A strong cooperation of the region's infrastructure managers across borders is considered vital for the sector.

Actual IUCs in the EU 27 show that 3 countries – the Baltic States cover all maintenance costs. The standard IUC per train km varies from about 1 euro per train km to 9 euro per train km for freight trains. Passenger trains IUCs are about the same as freight in West and much lower in the East.

The EC recognise that the structure of the charges are different in each country and that this provides a complication to users that should be redressed for example. The EC advised that cost categories that should be included are not included in the law.

Serbia asked if the IUC could vary with time of day. How to fix the cost – is at maximum capacity or some other level. Serbia noted that for Slovakia the IUC was 9 euro but that the only 50% of the costs covered. The EC pointed out that the costs are influenced by the utilisation. Also that the maintenance costs, generally represent only 20% of the total costs;

SEETO adviser ( based on experience) suggested that the calculation of IUC could be based on normalised marginal costs because the past historic basis may not provide an optimal basis for predicting the costs needed

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to sustain the operations in the future. Such normalised costs may also provide a good basis for harmonising a methodology for calculating IUC that is regionally acceptable which may use benchmarking acceptable to all members.

The chairman felt that the topic of methodology for calculating IUC fell outside the remit of the working group as it was not a part of EU Directives as it was up to the IMs to estimate IUC.

## **8. Social Impact**

Ms Tilling advised members of the working group that the ETF European Federation of Trade Unions is concerned with the social impact of railway reforms. The three reasons are that those lose their jobs may not be able to obtain other jobs without a lot of support, the second is that high unemployment is socially destabilising and the third is that it will lead to migration and depopulation. Massive retrenchment, as occurs with railway down-sizing, requires serious discussion and analysis to evaluate the social effect. Cost savings by the railways may lead to higher costs due to social problems. ETF appreciated being able to present to delegates the social and labour aspects of railway reform.

## **9. Croatia Focus**

Reform on the railways is well advanced. Restructuring started in 1998 and is taking a long time mostly because of the social issues. There has been support from the World Bank to reduce the working ration where working expenses were more than twice the income. Restructuring created market conditions that allowed private and public participation. So HZ Transport for passengers; HZ Cargo; HZ Traction for locomotives and HZ Infrastructure have been set up. Railways in Croatia have been reformed in line with the first package of railways reforms covering licensing and safety as well as the separation of accounts.

Technical support was provided through CARDS programme and new projects will advance the implementation in 2007 including railway access charging; TA for developing contracts with users and setting up the regulatory bodies in 2007 and 2008 and training is also needed. Croatia also needs to understand how certain countries have set up their regulatory bodies.

Croatia has set out the plans for reform in their pre-accession strategy adopted by the government. Investment is expected to be around 2 billion euro over the next 5 years.

## **10. Information**

SEETO maintains a library of all related documents and also making them available on the web site. The documents are mainly: traffic, track inventory and condition, laws and regulations of most countries and questionnaires but not limited to. The chairman proposed that if the information is already in the public domain, it should be in the public part of the web site. However, whilst some of this information is publicly available much of it is not, such as legal texts in English, questionnaires and performance data can be on request also kept in the trusted part of the web site.

## **11. Agenda and next meeting**

For the next meeting; country focus to be Macedonia; a presentation on the broader experience of the EU 27 on implementation of the railway package with reference to the study on open access mentioned earlier; the delegates expressed a wish to learn from the particular experience of an EU country. Austria was willing to provide this insight if invited. SEETO shall provide an update of the progress made in the soft projects that are included in the MAP. SEETO advised that subjects in the mandate to be covered include COTIF OTIF and inter-modal transport.

The next meeting 25<sup>th</sup> April 2007 in Belgrade.

Date of meeting to be advised.

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