

Cooperation in the Development of the South East Europe Core Railway Network

Discussion Paper

The purpose of this discussion paper is to provide the context for cooperation in the rail sub-sector in the region regarding implementation of EU Directives – in particular network management, open access and charging

1 CONTEXT

1.1 Why cooperate?

Railways of the SEE share a common and fully interoperable system and more importantly a common market in interregional and transit traffic. Governments share a common objective in membership of the EU and by so doing are committed to compliance with the requirements of membership and the Aquis Communautaire. It is also highly relevant that none of the railways can be self financing in the nearest future, are undergoing or will undergo extensive restructuring and require investment from external sources if plans are to be realised.

1.2 Removal of Barriers

Demonstrable collaboration and removal of non-physical barriers, including border control constraints, will also influence the level of commitment from the private sector. It is unlikely that an entrepreneur would be genuinely interested in one part of a relatively small system especially when set in climate of legal and economic transition, whether maintenance of infrastructure or operating services, the private sector requires optimal cross border conditions to obtain economies of scale.

1.3 Starting Point

The starting point is that all railways in the region have common problems, have a common agenda for reform and need to be compliance with EU Directives in the future. The common problems of the railways have been clearly outlined in a paper prepared by the World Bank¹ and understood and need not repeating. Railways are restructuring to contemporise their organisations to comply with new domestic legislation and also to prepare for compliance with EU directives. All railways are in transition and face significant challenges. Arising from this are opportunities as well as threats.

1.4 Maximising opportunities, minimising threats

The opportunities arise from the liberalisation of railway management to restructure and reconfigure to meet the challenges of a competitive market. The threats are that by so doing, railways may reduce interoperability and cohesiveness, undermine the value of network assets and increase the complexity of conducting business.

¹ Railway reform in the Western Balkans, December 2005 Martin Humphreys, Martha Lawrence.

1.5 Obtaining economies of scale

Furthermore, railways are highly geared industries with considerable investment in fixed assets and high overheads. As such, railways cannot afford to be small. However, 5 of the 8 railways of the region have networks of less than 500km. The size of railways when defined by their territorial border, constrains operational efficiency. In addition, railways preparing to restructure their operations to separate infrastructure from operations face demanding administrative and financial requirements. Cooperation through creation of a regional railway supply market will reduce costs and increase the competitiveness of the railway sub-sector.

1.6 Addressing the Common Customer

It is increasingly clear the regional railways share a common and enhancing market in international and regional traffic and that this market is profitable and contributes most significantly to net revenue. It is also clear that railway customers require a single shop window, a simplified and common set of conditions and regionally consistent standards of performance. This is especially the case for newer markets such as inter-modal freight transport.

1.7 Generating private investment

Governments expect that the private sector will become involved in all facets of rail transport, from the maintenance of infrastructure, to the operation of trains. It is also expected that the private investment will provide sources for the considerable capital needed for high quality infrastructure and equipment. But the small size and regional fragmentation of the railway network of SEE does not provide scale and a constant legal basis needed to stimulate large and long term investment.

1.8 Finding legal and financial solutions

Solutions are required to establish one or two competitive operators, create conditions for cross border financing of infrastructure and supply railway support services, such as maintenance. Governments are required to minimise legal and political risks for investors and provide the right environment for the closest cooperation. The main issue is not whether cooperation is acceptable, but how far can cooperation be taken in the region.

2 COMPETENCE OF WORKING GROUP

2.1 Developing the Institutional Framework for Cooperation

The institutional framework for cooperation in the transport sector in the region is taking shape. A memorandum of understanding signed by all governments in the region in Luxemburg 11th June 2004 provides this framework. In accordance with article 9, the Steering Committee comprising members appointed by each government provides the forum to coordinate the development of the SEE Core Transport Network. The SC is served by a permanent secretariat SEETO based in Belgrade. The functions and scope of work of SEETO was agreed by the SC 27th April 2005. The SC has made a series of decisions that has enabled the prioritisation of projects, identification and selection of soft measures and mandate of the first working group – that of Rail and Inter-modal.

Ministers of Transport, as signatories to the MoU, meet at least annually to review the implementation of the MoU and to amend it when necessary. The Skopje AMM of 10th November 2005, reinforced commitment to cooperation and sharing information, the selection of a limited number of regionally important highest priority projects and a number of other matters including the establishment of a Working Group on Rail and Inter-modal Transport. The Working Group has the remit to recommend solutions that will improve cooperation and enhance regional cohesion.

2.2 Defining the Core Network

The network is defined in annex A of the MoU and detailed by section in Annex A1 of the Multi-Annual Plan 2006/10, the length of rail network being 4300 km. Details of the sectioning of the core network has been determined and will be of importance with respect to the preparation of network statements, access and charges etc for the core network. Future extension of the SEE Core Network to include the South East Axis, defined by the High Level Group² would ensure that network and market coverage in SEE are coincident.

2.3 Monitoring Implementation of EU Directives

Implementation of EU Directives by Governments of the SEE in coordinated way is supported by signatories to the MoU. The importance for railways is well understood to maintain and enhance the integrity of an interoperable network. The Working Group may monitor implementation of related EU directives including:

- Council Directive 91/440/EEC on the development of the Community's railways,
- Directive 2001/12/EC of the European Parliament and of the Council of 26 February 2001 amending Council Directive 91/440/EEC on the development of the Community's railways,
- Directive 2001/13/EC of the European Parliament and of the Council of 26 February 2001 on the licensing of railway undertakings
- Directive 2001/14/EC on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and safety certification, applicable from 1st of January 2006;
- Council Directive 96/48/EC of 23 July 1996 on the interoperability of the trans-European high-speed rail system
- Directive 2001/16/EC of the European Parliament and of the Council of 19 March 2001 on the interoperability of the trans-European conventional rail system

2.4 Harmonising restructuring

To comply with Directives 91/440 separation of the accounts of infrastructure and operations is required. It is to be noted that there is no requirement to set up separate companies, only accounting. Nor is there any requirement to privatise. But should privatisation of any sort be required, a common strategy to participation of the private sector would be beneficial to maintaining regional coherence. To have separate company in one section, a state company in the next may add complexity. The Working Group can provide the forum to prepare for a regionally harmonised response to the market.

² Networks for Peace and Development, Report from the High level Group, European Commission, Nov. 2005

2.5 Harmonising access to railway infrastructure

In 2001/14 establishment of an equitable basis for the allocation of capacity by infrastructure managers IM to infrastructure users IU is mandated. By 2010 all EU rail infrastructure shall be open for unrestricted use by any IU.

To avoid different sets of regulations, conditions and charges across the region the Working Group can oversee the selection of a common model and preparation of harmonised set of documents that will include

- *A document establishing the infrastructure access regime and its regulation*
- *A network document / statement describing the infrastructure, the method for allocating capacity and procedures for arbitration etc*
- *A contract for access including commercial details such as discounts for scale and payment procedures*
- *A common set of IM services.*

2.6 Common Infrastructure Services for the Core Network

There are a wide range of services needed to sustain railways operations to be supplied to the IU by the IM. Some of these services may be included in the standard access charges whilst others may require an additional fee. Clearly a common customer requires a simplified transparent and harmonised response that covers of the core network.

The Working Group can formulate a common set of IM services to be supplied as standard on the Core Network

2.7 Common Access Charges for the Core Network

The basis upon which charges are to be calculated should relate to the cost of provision, but there are several issues. Firstly ascertaining reliable costs is problematic as historic accounting is unsuitable because a) cost centre accounting may not be established b) railways accounts reflect a suboptimal financing and performance and c) restructuring will change the financial base. Given the varied financial circumstances and status of each railway in SEE, the possibility for harmonised access charges would appear remote. Secondly, the infrastructure cost recovery policy of each government, which is generally inconsistent between modes of transport within the state, will certainly be different between the states themselves. Moreover, differential charges by train length or weight, by route or branch and by level of service ie fast or slow compound the problem.

The Working Group should agree a common framework for access charges to be applied on the core network as follows:

1. *use of normative costs³ for establishing a common set of access charges for the Core Network*
2. *agree that IUCs shall recover the cost of maintenance, traffic control, terminal operations etc but not asset replacement*
3. *develop agreed norms and costs*
4. *agree on the principle of simplicity and apply universally to the core network*

³ normative costs are based on what will be needed to provide the level of service required rather than what has been spent in the past; costs built up from norms.

2.8 Infrastructure Management

Implementing IM legal and administrative responsibilities is onerous, expensive and may stretch capacities of domestic legal systems and newly restructured organisations. Furthermore agreement will be needed at the regional level for prioritisation in the allocation of line capacity for transit and inter-regional services.

The Working Group may develop common procedures and explore alternative possibilities of outsourcing IM tasks especially allocation of capacity, negotiating access agreements, payment of fees and arbitration.

2.9 Common Independent Operator

The advantages are recognised of restricting the number of emergent independent freight and passenger operators in South East Europe to compete with larger operators. The starting point is to share information on the regional and international market, develop the concept of a single shop window and move forward with a common marketing and commercial strategy.

The Working Group can develop the framework in which one or two operators may emerge to service the international market.

2.10 Investment in Rolling Stock

Rolling stock replacement and enhancement in SEE is overdue, but should be viewed at the regional level. SEETO may be appraised on the number of technically compliant units for regional and international operation, level of utilisation and other statistics so that it may provide the analytical background to support investment decisions and develop ideas such as a regional rolling stock leasing company.

2.11 Inter-modal transport

The Core Network consists of nodes as well as links, to be developed as points of interchange with road, maritime and inland waterways. Proposals for the location of interchanges, development of infrastructure and initiation of services may be sent to SEETO for inclusion in the MAP for 2007 to 2011.

The development of inter-modal transport will include sharing market information, consensus on number and location of interchanges, information flows, level of service and method of PPP, should be coordinated regionally by the Working Group.

3 SEETO MULTI-ANNUAL PLAN

3.1 Railways

The above described topics have been elaborated in the Multi Annual Plan for Development of the Core Transport Network. The Plan covers the period 2006 to 2010 was adopted on 27th April by the Steering Committee on behalf of participating governments included the following measures for railways:

- Rw01 Regional monitoring - implementation of EU Aquis Communautaire
- Rw02 Through operations facilitation and action plan
- Rw03 Border controls on moving trains

- Rw04 Regional Railways sub-sectoral strategy and Preparation of Common Network Statement
- Rw05 Preparation of product plan for Corridor X
- Rw06 Establishment of locomotive and rolling stock leasing company
- Rw07 Harmonisation of infrastructure user conditions and basis for charging
- Rw08 Harmonise conditions for public sector obligations
- Rw09 Prepare and implement EDI programme
- Rw10 Development of regional railways industry /services sector
- Rw11. Harmonisation of legal conditions for carriage of passengers and goods
- Rw12 Harmonise and simplify freight tariff structure
- Rw13 Development of common marketing
- Rw14 Promoting SEERAIL concept

3.2 Inter-modal transport

In additions the MAP included measures to advance inter-modal transport that included the following measures:

Im01 Multi-modal development capacity building

- Im02 SEE Inter-modal Development Strategy
- Im03 Provide the legal basis for multi-modal operations
- Im 04 Provision of private sector incentives.

Implementation of these measures was envisaged to be in collaboration with private sector freight forwarders / expeditors and shipping lines; linked to Motorways of the Sea Policy. The inter-modal measures are also to be supported by the creation of an equipment fund for railways and inter-modal development may provide a useful instrument not only to gain short-term improvements in services, but also to stimulate long-term change. The equipment could, for example, provide the start up for a private equipment leasing company. The details of an equipment fund and its modalities will be worked up for the next plan.

4 NEXT STEPS

4.1 Data base on utilisation and condition of the Core Transport Network

Working group members already participating in SEETO will be providing data on operations and infrastructure, others from neighbouring countries can participate in information sharing. Additional information regarding rolling stock use is also required.

4.2 Information on progress with Aquis Commautaire

The Working Group may agree a form in which compliance can be monitored so that processes may be harmonised as much as possible.

4.3 Submission of projects for inter-modal transport

Members of the working group – at least for CARDS programme may submit projects to SEETO through their respective National Coordinators.

4.4 Preparation of Memorandum of Understanding for the cooperation of the railways of SEE

Members of the working may be aware of increasing activity to prepare for a formal framework of cooperation. A memorandum of understanding may provide the basis for a legally binding treaty. The Working Group may decide on the principles of the cooperation based on a common agreement of the problems and shared vision of the future that may include but necessarily be limited to the following:

- a common appreciation on issues and solutions (indicated in this paper)
- the geographical extent of cooperation such as Core Network extending to South East Axis
- definition of a common market for railway transport services on the common network
- definition of a common market for railway sector services
- promoting a common approach to restructuring
- harmonisation compliance with acqis communitaire
- a common set of conditions for regulating access to the network
- common set of standard access services
- common charging regime – based on normative costs
- common IM administration services - to be outsourced
- creation of framework for development of a regional inter-modal infrastructure
- inclusion of border crossings into to network and agreement on their performance
- adoption of standard technical acceptance procedures for rolling stock
- rapid progress in establishing through operations
- inland clearance of cargo – away from borders
- elaboration of EDI systems
- immigration checking on moving trains
- commercial cooperation, marketing and information sharing
- application of COTIF rules for conditions of carriage
- use of wagon based tariffs and through pricing of services
- establishment of a common freight operator
- establishment of a common intercity passenger operator
- harmonised rules for public support of passenger services
- harmonising conditions for PPP and cross border investment

Note well: The views expressed in this note are those of the author and not that of the EC or its agents.