



EPTO

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RAILWAY SECTOR:

IMPACT OF THE ECONOMIC CRISIS AND PERSPECTIVES

Meeting on 9 December 2009 – European Commission – DG TREN

EPTO's position with regard to the private sector

The general position and views of EPTO on crisis measures are:

- In general, public funding should be allocated to public transport in a similar way as it is done for other economic activities such as car industry.
- Additional public funding from crisis programmes should only be accessible for those sectors and fields where competition has taken place and where the best and most efficient solutions is in place.
- Public funding should be mainly spent for the upgrade of existing or building of new infrastructures.
- The distortion of competition by economic crisis-related measures resulting in illegal or unfair state aids, public guarantees or direct awards to public-owned companies must be avoided by all means.
- The private sector is part of the solution due to its high quality and efficiency, especially as public budget will tighten more and more over the next years due to the cost of the crisis programmes.

Figures produced on this issue show a reduction in traffic and patronage for the railways at large. However, these results which show a negative downturn in rail activities should be segmented according to market types addressed (regional, suburban, long distance, high speed, etc.), to RUs type (private, public, monopoly or not), to services type (contracted, commercial) and according to countries or regions.

Main problems in the field of financing the rolling stock investments:

- The main problem encountered by private operators and which has already an impact on competition where it has been implemented is the financing of rolling stock due to the higher cost of lease and of borrowing money from the banks. In countries such as Germany transport authorities are already claiming that competition is terminated due to the impossible situation of the private operators to face the obligation of financing new trains. The problem is mainly due to the uncertainty about who will have to support the "residual value risk" when the contract ends. Negotiations are going on between operators and authorities to find acceptable solutions and to ensure that competition will not suffer from this problem.
- In Great Britain too, the market for financing investment remains difficult. Availability of finance remains lower and at a higher price than seen previously and there is limited investor appetite for increased borrowings at any level.
- As for contracted public services on continental Europe, the main concern is the choices local and regional authorities will have to face in financing their investments, which could lead to shrinking transport offer in terms of lines or timetables.

The impact on patronage

The impact on patronage is not obvious and passenger volumes are generally bearing up very well compared to the last recession indicating that many of the additional passengers won by rail has not reverted to other modes.

- As for Great Britain, the weaker economy and increased unemployment has had a clear impact on the UK's railways. Despite this, some of them continue to deliver growth with like-for-like passenger revenue increase in the six months to 30 September 2009, compared to a year earlier. The trend in revenue growth has stabilised during the quarter ended 30 September 2009. Demand for advance purchase and other discounted tickets have been strong, with weaker demand for First Class products. This has shifted the mix of ticket sold, reducing the yield and offsetting the fare increases which have been introduced in the last year. Yield remains the challenge, most especially as corporates discourage First Class travel.
- For some operators having net cost contracts or operating purely commercial services, having revenues behind their targets may become critical.
- In other continental Member States such as Germany or France, general public transport market trends show a significant revenue growth confirmed over

2006-2008. In 2009, no decrease of passenger volumes due to the economic crisis has been observed so far. However, it should be stressed that this has happened mainly on contracted public services on regional or local level. Similarly as what has been noticed on the British market, if the number of trips on regional rail may happen to be lower than previously, a quite noticeable increase in number of season tickets sold is to be underlined, confirming the shift in terms of tickets purchased by the public.

Conclusions of EPTO

Impact on passenger rail traffic has to be considered together with the question of, mainly domestic, market rail opening. Many arguments support market opening of rail services, particularly pressure on operating costs and development of services, in both quality and volumes, through customer orientation.

Problems caused by the difficult financial situation of public monopolies and the economic crisis could be avoided by market opening and particularly by competitive tendering. Regulated competition in the rail sector has shown very positive results in countries where it has been implemented and should not be sacrificed, as it rather appears to be one of the solutions to be envisaged and confirmed to answer challenges the rail industry is facing .

Competitive tendering and regulated competition leading to private operations of railways can reduce operating costs and call on taxpayer's money, and help to solve partly the financing difficulties met by the rail industry and possible "undercompensation practices" which may occur in some countries.

Market opening and regulated competition can therefore contribute to the establishment of sane and clear relationships between national or regional authorities on one hand, and railway undertakings on the other hand, and allow a better assessment on what is needed for each segment of international and domestic rail services.

It should therefore be monitored by the European institutions that State aid guidelines issued recently by the European Commission are strictly implemented and enforced throughout the European Union and that the excuse of the economic and financial crisis will not lead to unacceptable subsidies paid by Member States to present or ex-public monopolies.