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**Enrico Grillo Pasquarelli**

**Director, Inland Transport**

**DG TREN, European Commission**

Ladies and Gentlemen,

I would like to thank you for giving me the opportunity, as a representative of the European Commission, to say a few words on the Community's rail policy. This year has seen the full opening of the European rail freight market, and we trust that the European Parliament and the Council will reach agreement on the third railway package by June this year, so that the market for international passenger transport by rail can be opened as well. We have a number of other important policy

initiatives in this year's work programme, to the point that Vice-President and Transport Commissioner Barrot has called 2007 "The Year of Rail".

Are we making progress with the implementation of the EU's railway policy? This is, obviously, a question that a European Commission representative can only answer by emphatically confirming that it is indeed the case. Yes! We are making progress. But I would like to address a second, much shorter, question: 'Is it enough?' Let me try to give you a plain and honest answer to this second question as well.

As I said before, this year has seen the opening of the market for national freight transport by rail, after the opening of the market for international traffic in 2006 and the opening of the Trans-European Rail Freight Network in 2003, almost four years ago. This market opening is a major landmark for the rail sector. After years of decline, freight transport by rail started growing again in 2003, but has not yet reached the levels of the early seventies, when freight transport by rail was almost a third higher than in 2005. The decrease in relative terms has even been worse: In 2005, the modal share of rail was 16.5% in the then 25 Member States of the European Union, against 19.5% in 1995. I do not have to explain to

this audience the problems and challenges rail freight had to face during the last decades:

1. first, there was (and still is) competition from other transport modes;
2. second, railways have been subject to a heavy debt burden resulting both from the bundling of infrastructure and operations accounts, and from investments and obligations that hardly ever could generate revenues to cover operating costs;
3. third, let us recognize the fact that an organization of rail transport along national networks definitely did not facilitate international transport over longer distances, which is the market where rail has so many advantages over the other modes;
4. finally, the pattern of industrial relations in the railway sector continued reflecting an age when rail transport affirmed itself as the nervous system of nation states and carried with it as a consequence a certain level of rigidity bearing little relationship with business and economic consideration.

You know as much as I do what reasons led to this decline. What's more important, is to see what has resulted from the measures that the

Community and its Member States have taken since the early nineties to face these challenges.

As all good things come in three, this also applies to the Community's approach to rail transport. The first pillar was to restructure the conditions under which railway undertakings had to operate, and to create the level playing field needed for a real open market to emerge. Our assumption continues to be that the introduction of competition in this market is to the benefit of consumers – passengers and shippers – as it provides incentives to all players to maximize revenues, whilst reducing costs. The market opening for national transport this year is a clear example of that.

The second pillar is the promotion of interoperability. The Community has undertaken a major drive to standardize technical requirements to allow for cost reductions by economies of scale and to reduce the administrative burden on railway undertakings that have to comply with an amount of rules, regulations and obligations that have been developed for national markets and national traffic in the first place. The two interoperability directives, for conventional and high-speed rail, and the

TSIs that the Commission with the assistance of the European Railway Agency has been developing on this twin basis, point to a common rail **system** for the whole of the EU underpinning the common rail **market** which has been established under the market access and infrastructure directives. The single European license for train drivers – a component of the third package – and the recent Commission proposal on cross acceptance for the homologation of rolling stock pursue the same objective. With the homologation proposal, in particular, we hope manufacturers and railway undertakings will be able to do away with the costly and time-consuming repetition of all the procedures and tests they have to go through if they want to run a locomotive in one Member State when that locomotive has already been safety-certified in another Member State.

The third pillar is money. Member States continue to invest in the sector and to subsidize it. The opening of the market to competition and the establishment of the appropriate conditions may also foster, we hope, increasing private investment. The challenge for the Commission is to make sure that state funding does not alter the balance and that EU State

Aids rules are respected. But the Commission too invests in rail: let's not forget the considerable financial contributions the Community has made and will continue to make through the budget for the Trans-European Transport Networks and the structural funds to improve the quality of the Community's rail network. We are not just co-financing infrastructure with, literally, billions of Euros; starting this year, there are 500M€ available for fitting or retro-fitting ETCS on locomotives in order to support a rapid deployment of ERTMS on the network.

Is this enough? Clearly not – but don't shoot the pianist – we are just playing the music Member States have allowed us to play.

What has come from all these measures? The Commission adopted last year a Communication on the implementation of the first railway package, in which it was concluded that much had been achieved, but that there was still a long way to go. The assessment of the national implementation measures has allowed us to identify several key themes with respect to which we are about to send letters asking some candid questions to almost all Member States. These questions concern 4 domains.

1. The first theme relates to the management independence for railway undertakings and the separation of accounts between subsidized and non-subsidized activities. We have noted that cross-subsidies continue to exist and that these have a negative impact on freight activities developed by railway undertakings who have to pay high access charges to infrastructure managers which then go to fund loss-making passenger services; this is clearly detrimental to developing the competitiveness of rail freight over road haulage;
2. The second theme is well known to the sector. We are convinced that full independence in the exercise of what we call the ‘essential functions’ is absolutely necessary for a market to function properly: capacity allocation and infrastructure management must be carried out in such a manner that conflicts between new railway undertakings and the incumbents do not occur and that the markets are not distorted. We are not dogmatic, we know what the political compromise on the 1<sup>st</sup> package was like, but the best results have generally been achieved in countries where vertical separation has been put in place.

3. Thirdly, I would like to mention the importance of an efficient and effective institutional and administrative framework for the railway sector in the Member States. This framework must guarantee a level playing field for all. The regulator must monitor the market and intervene in case of unfair market conditions, such as barriers to market entry – and all the more so in cases where full vertical separation is not achieved –, but the presence of an efficient safety authority is necessary as well. What's the use of market opening if a railway undertaking then needs more than three years to obtain a safety certificate? That's why, incidentally, we have proposed a directive on homologation by cross acceptance as I said earlier.
4. Finally, the framework for infrastructure charging must provide the appropriate incentives for all players to optimize the use of this very expensive rail network. We are looking carefully into this theme to ensure that the charging principles are transparent and do not represent another burden for railway undertakings to operate.

I have given you an overview of the Community's rail policy and actions to strengthen rail transport, but let me turn now to tell you about the



reasons why the Community does so and what actions the Commission intends to undertake in the coming months.

Rail continues to be an environmentally friendly mode of transport. It is a safe mode of transport and it can be fast and efficient, in particular over long distances. Every container transported by rail instead of road contributes to fight global warming and the increasing congestion of the Community road network.

So, in the first place, we continue working on the development of a consistent charging policy for all transport modes, which will lead in 2008 to a communication on the environmental costs of transport that can be charged on the users (what we call the “internalization of external costs”) and ultimately to reviewing the Eurovignette Directive.

Secondly, since we believe that free market rules and competition continue to be the most appropriate instruments to develop rail transport into an efficient and effective way of moving goods and passengers throughout Europe, we will review the market opening directives in 2008

on the basis of all the work now under way to ensure proper implementation of the first railway package. There will be no 4<sup>th</sup> package, I reassure you, but rather an effort towards stabilization, consolidation and simplification of the existing texts.

Thirdly, we have to work with the European Parliament and the Council to promote an agreement on the third railway package. Under the German Presidency, a compromise will have to be concluded between the two institutions and the Commission is now undertaking many efforts to facilitate this compromise. Keeping my fingers crossed, I'd venture to say that we do not expect major difficulties on the proposal on market opening for international passenger transport by 2010, while we might have some hard negotiations ahead on the scope to be covered by the train drivers' license directive and by the regulation on passengers' rights.

Finally, we intend to publish two policy documents (two Communications) later this year. The first Communication will be on rail freight oriented networks and will highlight several issues that need to be addressed in order to set up and operate international corridors for fast

and smooth freight transport by rail. It will include an action plan with a timetable and indicators to assess its results. The action plan will focus on achieving objectives for 2010-2015, when the international corridors will be equipped with ERTMS for the largest parts. It will take account of the other policy proposals that the Commission intends to adopt in 2007 for intermodality, logistics and port policy.

Its aim is to push all players to improve their performances, since a better performance increases productivity whilst reducing costs. We are considering proposing action along the following lines:

- A co-ordinated and strengthened management at all levels for the corridors. It will be necessary to offer capacity allocation in a simultaneous and co-ordinated way, if not moving altogether towards a single capacity allocation instance, for train paths along the corridor. This also includes harmonised charging to the extent possible;
- The improvement of national administrative procedures;
- The improvement of border-crossings to allow for a reduction of time lost at borders. I know of a real-life example on an important

international corridor where the time lost at borders for changing locomotives and carrying out administrative procedures equals the amount of driving time!

- Access to terminals and shunting yards needs to be made transparent and without discrimination; the implementation of the infrastructure directive by Member States surely deserves a closer look
- An inventory will be made of investments needed to address in an appropriate manner any bottle-necks and other potential delays.

The second Communication will be a Rail Market Scoreboard. It will give an overview of the state of play on the rail market, in particular the development of competition and the transported volumes. We expect a significant input from the stakeholders for this Communication, such as information on service quality, traffic forecasts or cost factors.

All these actions though would hardly have an impact if the stakeholders would not be involved and committed to make them succeed. Co-operation within the sector is important to improve the framework conditions under which railway undertakings and infrastructure managers

have to operate and to do away with the obstacles that continue to exist for smooth and fast international rail services. The co-operation of the infrastructure managers within the framework of RailNetEurope needs to be improved for a quick and user-friendly reply on requests for capacity on international corridors. Railway undertakings and infrastructure managers must closely co-operate to set up a platform for electronic exchange of data on rail transport so that shippers know where there consignments are located at any moment. If I send a parcel via any fast delivery service, I can monitor its progress at any moment on the internet. It is getting more and more difficult to explain your customers why this cannot be achieved for rail freight! I hope that the implementation of the TAF TSI will address this vital issue.

To conclude, there is one final observation I would like to make. National governments provide significant financial contributions to the rail sector. We estimate that this amounts to almost €50 bln per year, for which more than €20 bln is used for infrastructure investments. We have noticed that these amounts are more or less stable over the years. How can we continue explaining, let alone justifying this huge support, whilst volumes

and service quality in rail transport remain substandard? Investments are needed, indeed, but money alone won't be enough to face all the challenges the rail sector will be confronted with during the coming years. We need a vision, we need the political determination to get there, and we need to devise and carry out the actions which are necessary to make that vision come true. For what the European Commission is concerned, I have tried to give you a few examples of these actions.

Thank you for your attention.