

June 2014

Minutes

TRANSFORuM Thematic Workshop:

High-speed Rail

12 / 13 June

Rome, Italy

1 Introduction

Number of participants:	13
Countries represented:	Belgium, France, Germany, Italy, United Kingdom
Men / women:	13 / 0
Policy makers / industry / academia:	3 / 8 / 2

1 moderator and 2 rapporteurs from TRANSFORuM facilitated and took notes at the workshop. 5 additional consortium members participated.

The participants were welcomed to Rome, with a short introduction to the aims and objectives of the workshop and a presentation about the current situation in Italy, where two competing companies are operating High-speed Rail (HSR) services in parallel. A round of introductions took place and participants were given guidance as to the proceedings of the two half day event. It was explained that the main goal of the workshop was to share the progress made on the HSR roadmap within the TRANSFORuM project and to gain additional perspectives and insights on what should be included in the final version.

2 Introduction: the Italian case study

Italy is the first country in the world where on-track competition in the High Speed segment takes place and playing a great role in providing lessons for further implementation, notably across Europe, as the European Commission defined 2019 as a deadline for Member States to introduce competition on national rail markets (EC/91/440). Italy had to re-organise its legal and organisational frameworks to settle the right conditions of competition implementation but the major barrier underlined by stakeholders was the renewal of railway culture. As the infrastructure manager, previously supplier of the single historical and national operator, Rete Ferroviaria Italiana (RFI) had to get the right skills to manage two operators that are now called “clients”. Furthermore, human resistance was a feature to account in the transition process, as deriving from the historical model implied to re-adapt personnel and support them in the introduction of competition among the previously united railway system. Marketing was also a big task as brands needed to be clearly defined as on-track competition implies that the most directly concerned persons would be travellers and for this, communication, ticketing and distribution had to be supported by a strong branding campaign and clear identification of new actors.

Once this cultural step being processed, another essential requirement was to settle an independent and apolitical railway regulation authority that would be the advocator of the legal

conditions and the respects of loyal competition between the two operators (a regulation authority already existed but used to play a significant role regarding competition only for the freight sector). Politics surely had to be involved in that process, since they were the origin of the decision of implementing competition and still decision makers for investments and HSR routes, but it has been clear that strategies and long-term organization was up to the railway authority that was defined as the least political possible, in order to avoid conflicts of interest. As stated by a directly involved stakeholder “It has been first a big nightmare [...] but all actors have increased their capability of doing their job”. But some others to recall “High-speed trains operators are there to make business, not welfare” as to clarify their role regarding political interest.

The Italian case study was the occasion to raise the most problematic issues of HSR and not only its liberalisation but also its attractiveness and the features to focus on in order to enhance it (and thus, its modal share). In that sense, issues were raised about the role of the infrastructure manager and the burden of access charges on some profitable lines that could damage attractiveness and passenger fares of certain links. This problem was supposed to be due to regional lines that are largely subsidised and had low access charge and the trend to consider HSR as a cash cow for the whole railway system. HSR services should be defined as 100% commercial services, but this status is not clear in some countries.

3 HSR and intermodality

In order to think in terms of intermodality, policy-makers and other decision-makers must move away from talking about ‘transportation’ and instead talk about ‘mobility’ and ‘mobility needs’. This includes a perspective that is oriented towards door-to-door mobility and seamless transport that includes different modes. For doing so, fair prices and the internalization of external costs for all transport modes are very important elements in creating a level-playing field, including the issue of who is paying for the provision of infrastructure. Currently, no traveller of any transport mode is paying the full cost, and reaching full cost pricing strategy might lead to lower attractiveness of high-speed rail services.

Track access charges are one very important element of this cost structure. In the current situation in Europe, the outline of rail access charge systems sometimes makes competition difficult. This issue cannot be handled by the EU policy level alone, as railway infrastructures are nationally managed and the respective actors need to be taken into account. There is no European vision regarding track access charges, but stakeholders expressed a desire that at least there general structures should be harmonized across Europe.

Regarding the issue of competition between modes – which will remain even in an intermodal approach – from the railway perspective and the operators’ experience, it seems to be easier to compete with air travel than with road transport. In some corridors, airlines already shut down their services because HSR services are more competitive. This is linked to the statement that HSR services are high-level services. Some stakeholders questioned the usefulness of low-cost HSR services (which may be profitable for a specific operator) from a wider transport system perspective.

In looking beyond HSR lines and physical track routes, stakeholders suggested that an alternative focus, contrasting fast point-to-point connections, could be the investment in better stations and intermodal hubs.

4 Services and attractiveness of rail services

In a situation with competing operators, it is important that also the incumbent actor will change its behaviour and react to its emerging competitors. This has been the case in Italy and shows how competition can lead to improved services and better customer experience. In Italy, the national rail operator Trenitalia was challenged by its new operator NTV (with the “italo” brand for HSR services) who offered a wider range of services on board its trains, e.g. special compartments for business travellers. Trenitalia has reacted to its competitor by also improving the services on board its own Frecciarossa HSR services.

One important issue is that also all policy measures in the HSR market should ultimately benefit user experiences and make conventional rail and HSR services more attractive for users. Only by taking this user perspective it can be supposed that the policy activities will actually build towards the final goal of increasing rail modal share, following the overall vision of the White Paper. Therefore, the main target is the idea of “seamless” transport, especially when planning competition, since competition can favour travellers only if it doesn’t become a barrier to easiness of ticketing, booking and other services.

5 Maintaining a dense railway network

High access charges for HSR lines can be a problem, particularly if the infrastructure manager has to maintain and finance an extensive network with many regional lines. However, the subsidisation of regional lines can be justified under certain circumstances. In some regions where commuting by rail is a top-priority in land use and urban policies, an assessment focused on external costs, such as environmental costs, can lead to a strengthening of commuter services as a more environmentally

friendly mode than road, and of regional commuting by rail as a factor for preventing urban sprawl. In order to identify whether subsidizing commuter services is in line with regional distribution policy, a recommendation is to take into account indirect effects of an enhanced regional accessibility of urban zones. No general result can be formulated from this statement since each urban and economic area has specific conditions. Yet, transparent assessments methods can lead to a specification of needs in a search for equilibrium between financing infrastructure for commuter and regional services or for HSR services. This is to say that balancing the framework conditions for an integrated railway network where HSR lines and conventional lines are combined in the most efficient way needs careful coordination and an adequate level of public funding. Furthermore, with the changing perspective on the relevance of services and mobility needs etc. instead of the mere speed of single trains, the optimal size of the railway network might be changing. This again includes giving more importance to the overall efficiency of the intermodal transport system.

In general, the notion of a 'dense' European railway network is another critical wording in the formulation of the White Paper goal. While the White Paper includes the notion of 'maintaining' a dense network, this is actually already in question in some parts of Europe, particularly if connections beyond the links between major cities are concerned. However, a 'dense' European railway network is not necessarily dense everywhere across Europe.

Stakeholders say that in the current state the connectivity of the European regions is very weak. It would be an important focus to address this connectivity, not only with HSR lines, but also with an integrated conventional rail network. Currently this is very difficult because every single actor looks at his own conditions and remains in its respective limited perspective.

6 Extension of the HSR network by new investments

Stakeholders urged for more pragmatism regarding the White Paper goal, no more focussing on an arbitrary opposition between the different transport modes, but instead striving for overall efficiency. In terms of HSR lines this could imply to not triple the physical HSR network, but maybe increasing the density of the network, the range of the network, extending train services to renovated conventional lines etc. In fact, during the workshop stakeholders clearly stated that the tripling of the physical HSR network is just not realistic.

In many cases, in case of doubt the political decision is more valid than the numbers proposed by centralized plans, also because the money for financing new infrastructure is mostly coming from the state, and brings an investment decision down to a political decision. In a similar line of thought, the

decision between HSR lines with many stops to serve regions along the route and fast point-to-point HSR lines may be a decision that is influenced by territorial planning perspectives. In a general sense, this is not a problem in itself, but yet requires transparent explanation and transparent planning processes and procedures by policy-makers. However, this again brings up the issue of who should be paying for such a decision – in a similar way like metro services running through the night are publicly subsidized. If public institutions decide to finance infrastructures where it can be expected that they will never or not very soon amortize in financial terms, there need to be very good explanations and justifications why such money is spent and why the investment is still in the wider socio-economic interest, not least in the interest of future generations – instead of just accepting that it happens. This is linked to the contrary challenge of successful projects where private firms take all the benefits which can be a very sensible issue in citizens' perceptions.

Many HSR investments until now were financial failures, mostly because traffic expectations were wrong. Therefore, there is a need for further assessment, taking more into account uncertainty in calculations and looking closer at the “worst case” scenario of the respective project. As an example, the European Investment Bank (EIB) gives much effort to the appraisal of projects, and this very often gives strong signals to the remaining banking sector, almost like a certificate. With the respect to HSR, the EIB can offer longer lending times than private banks which is particularly relevant for the financing of infrastructure. When looking at a project, the EIB does not only appraise the project itself, but also the envisaged market and the prospective operator(s) (capacity to maintain and operate, as well as to keep the service attractive). It is important to mention that, whilst public money may be scarce, private savings are enormous, so the challenge is to turn them into long-term infrastructure investments.

The European Commission could take a role in recommending which particular lines need to be extended from a European perspective, based on transparent financial, economic and social criteria and most probably focussing on missing cross-border links.

The Eurostar services provide an example where the initial investment was not profitable and where the first years of services did not pay for the operators. Yet, there was a political vision behind this link across the channel, which cannot be calculated in terms of Euros or Pounds. Nowadays, the service is profitable, but this could only happen after significant parts of the investment costs for the tunnel across the channel had been written off.

Given the current economic circumstances, it is an open issue if public institutions should take the opportunity and invest generously now while the interest rates are so low for them. Private long term investment in infrastructure needs some form of public involvement to maximise the catalytic effect of public spending. Hence, the relevance of PPP contracts and of risk sharing instruments such as those developed by the EIB with support of the EU budget. On the other hand, attractiveness for

investors in general is a very important issue for the railway sector, particularly for the HSR. In order to get this private funding, the institutional, legal and economic framework needs to be attractive for investors. Furthermore, the fact that some HSR lines are still under state control (at least partially) implies complex administrative processes (e.g. due to public procurement rules). These do often require more time than in the private sector, leading to an administrative burden which represents a source of reluctance for private actors that could otherwise be interested in investing.

7 Balancing different strategies

It is important to recognize that public and private interests may differ. Increased competition will move decision power about the detailed layout of the future HSR system from policy towards management.

Stakeholders believe that there will be a choice to be done between a market-driven policy and a politically driven economy. A political ‘masterplan’ towards the HSR goal can only work if it takes the former into account. It could be very useful to suggest the development of specific tools that help politicians making these choices. One example to show where policy-makers and operators must collaborate in order to move towards a socially viable HSR system are projects in the public interest where territorial planning will have some influence on the distribution of stops along the HSR line etc., as indicated further above. This collaboration is of strategic relevance in order to achieve the White Paper goal. However, this is also related to the issue of who is paying for the investments. Despite any public justifications for investments that are not fully economical in the operator’s perspective (and only in the social perspective instead) this issue reopens the funding debate – or as stakeholders put it: “Who wants to take a decision needs to pay.”

EU-wide thinking is required, especially considering the wider issue of rail capacities and bottlenecks. From the EU perspective, missing (cross-border) links with a high demand potential should be the top priority. Furthermore, because the main planning activities regarding HSR infrastructure are taking place at the national level, the role of the EU should be to put the national plans together and create a momentum towards moving forward in a balanced way. Still, the particularities of the different European regions and countries must be taken into account, so despite a certain value of harmonization, some differences might remain and contribute to efficient solutions, fitting the respective mobility needs – beyond a European backbone.

Again, stakeholders highlighted that HSR is a commercial service and as such has very limited profitability to contribute to the financing of the (conventional) network. This should be highlighted by

the implementation of existing directives, in particular Art.32 of Directive 2012/34/EU, according to which access charges should take into account “optimal competitiveness of rail market segments” and the existing rules for vertical unbundling)). This is despite the fact that true open access competition seems to be a viable option only under very specific conditions, e.g. on cross-border links or in certain corridors.

8 Outlook

The final results of the TRANSFORuM project (roadmaps, recommendations on joint actions across actors, and a strategic outlook into the future of the European transport system beyond 2030) will be presented at **TRANSFORuM’s final conference in Brussels on 8 December 2014**.

Information about the final conference:

<http://www.transforum-project.eu/events/dec-8th-2014-brussels.html>

Registration for the final conference:

<http://www.transforum-project.eu/?id=135>

9 List of participants

Surname	Name	Organisation	Country
Abegg	Peter	DB, Deutsche Bahn AG	Germany
Borrell	Jaime	ALSTOM Transport SA	France
Croccolo	Fabio	Ministry of Transport	Italy
Dancoisne	Jean-Michel	SNCF, Société Nationale des Chemins de fer Français	Belgium
Giuricin	Andréa	NTV, Nuovo Trasporto Viaggiatori	Italy
Holden	Robert	High-Speed 1 Ltd.	United Kingdom
Loubinoux	Jean-Pierre	UIC, International Union of Railways	France
Marty-Gauquié	Henry	EIB, European Investment Bank	France
Mazzolla	Alberto	FSI, Ferrovie dello Stato Italiane	Belgium
Musso	Antonio	University of Rome	Italy
Perkins	Stephen	OECD	France
Soulage	Bernard	Committee of the Regions	France
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Members of the TRANSFORuM project team

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