

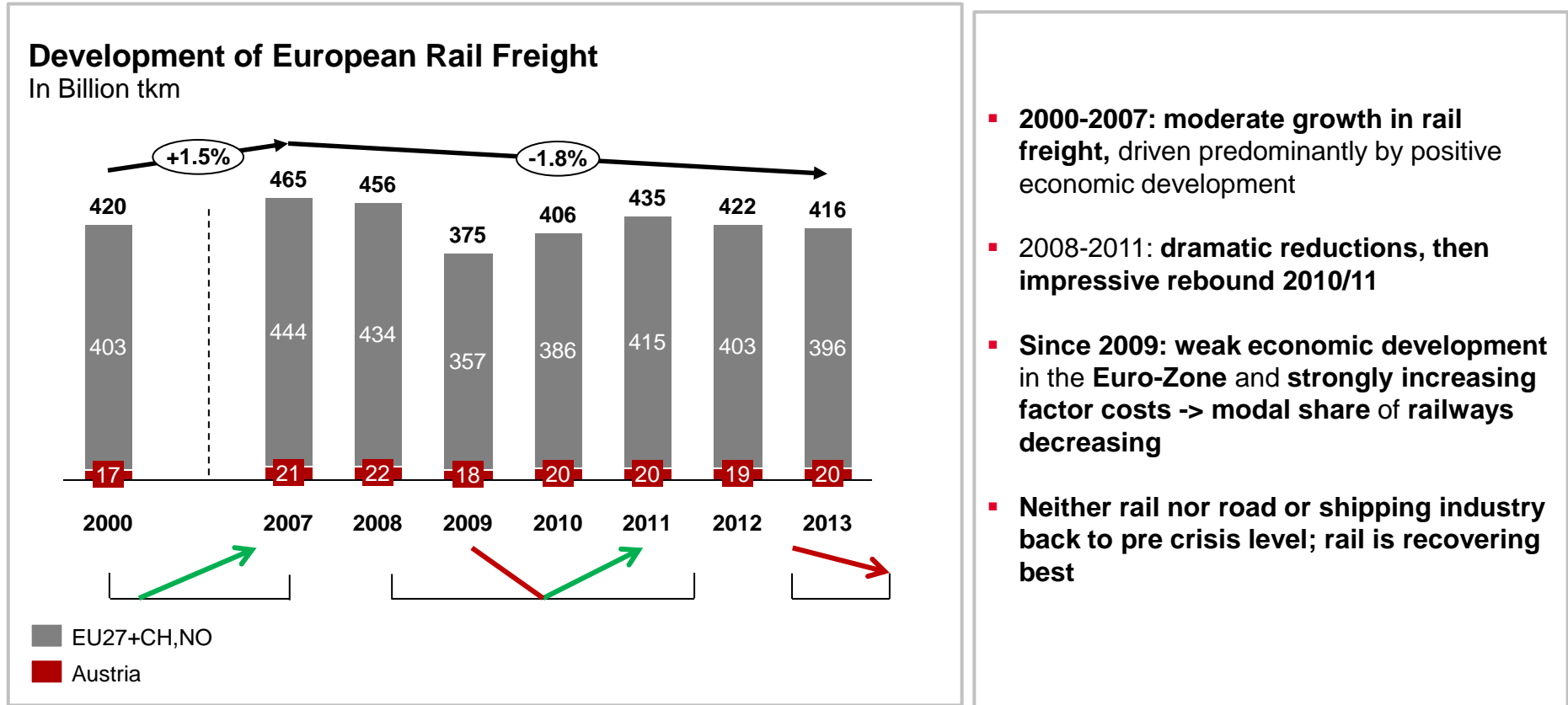


**Market opening – remaining
Challenges**

Irina Michalowitz

Florence School of Regulation, 12 December 2014

European Rail freight remains below Pre-Crisis level



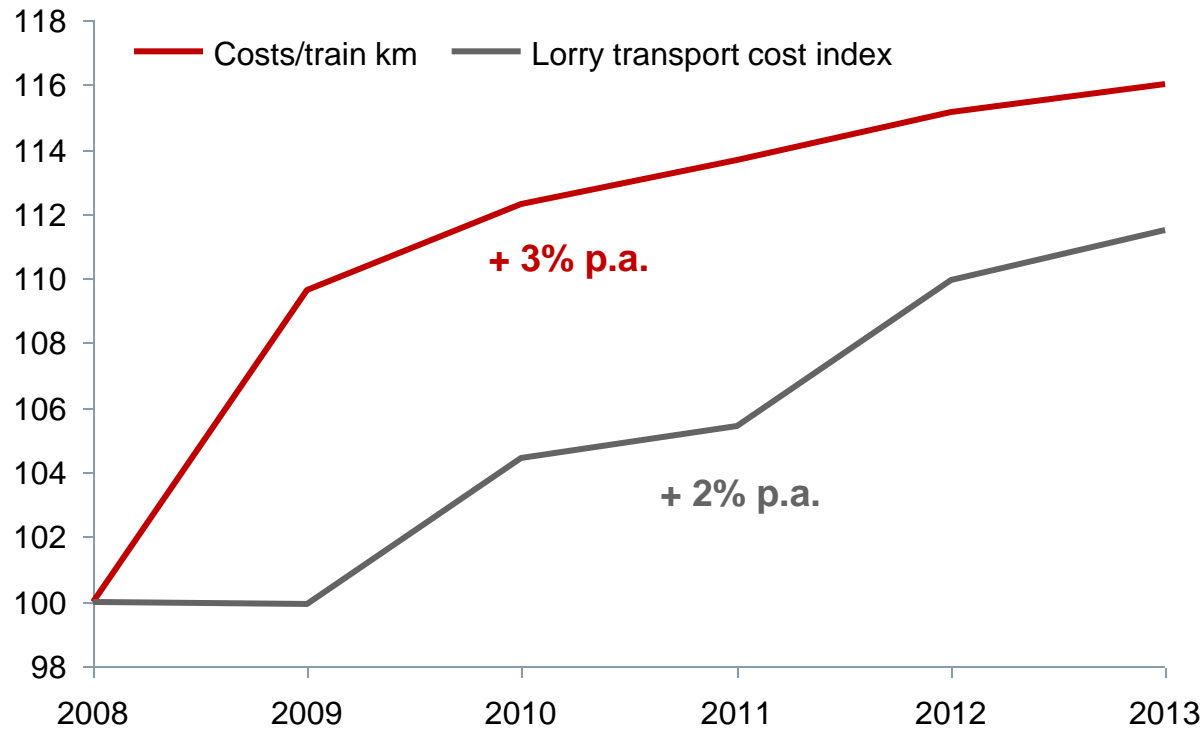
Source: EUROSTAT

Road freight remains with cost advantage compared to rail freight

BEISPIEL ÖSTERREICH

Cost development of rail freight in Austria

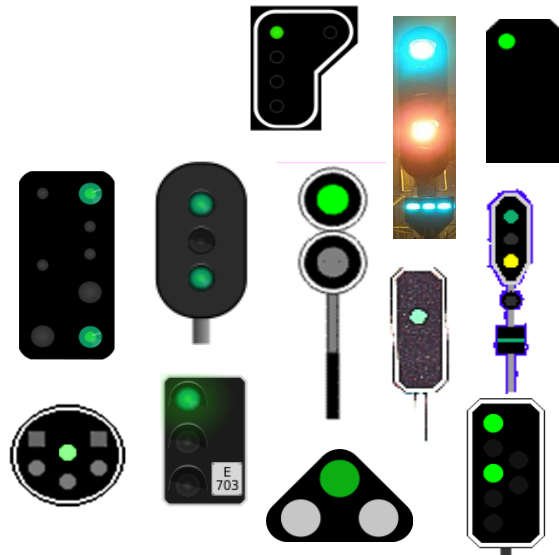
2008 = 100



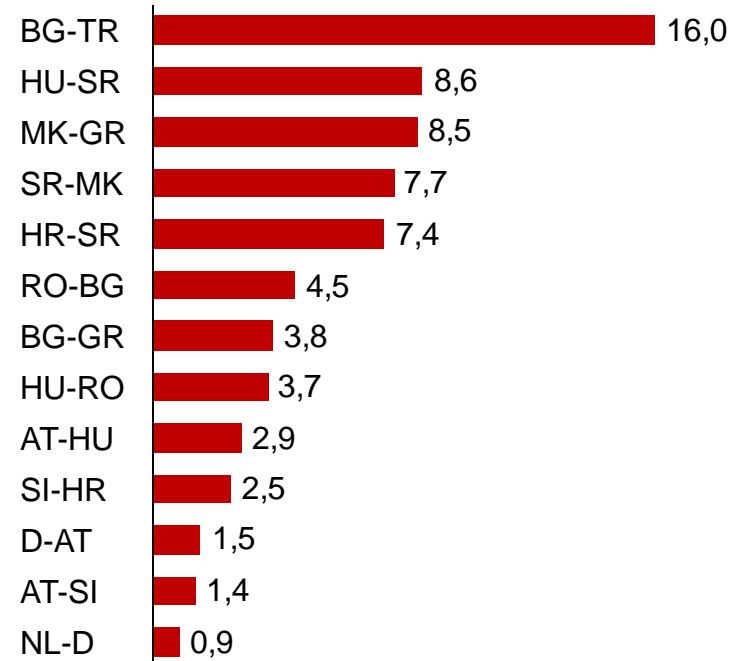
- **Cost development for road transport slightly more advantageous** than for rail transport
- Increase of **rail-related energy levies in AT significantly higher** than for road
- **Track usage fees** for rail freight declined more strongly than road toll for lorries in Austria
- **Costs for staff in Eastern Europe significantly lower** – Advantage for road sector using lorries under Eastern European flag

Lacking interoperability hinders cross-country traffic in terms of quality and efficiency

12 national variants of the same message: „go ahead“



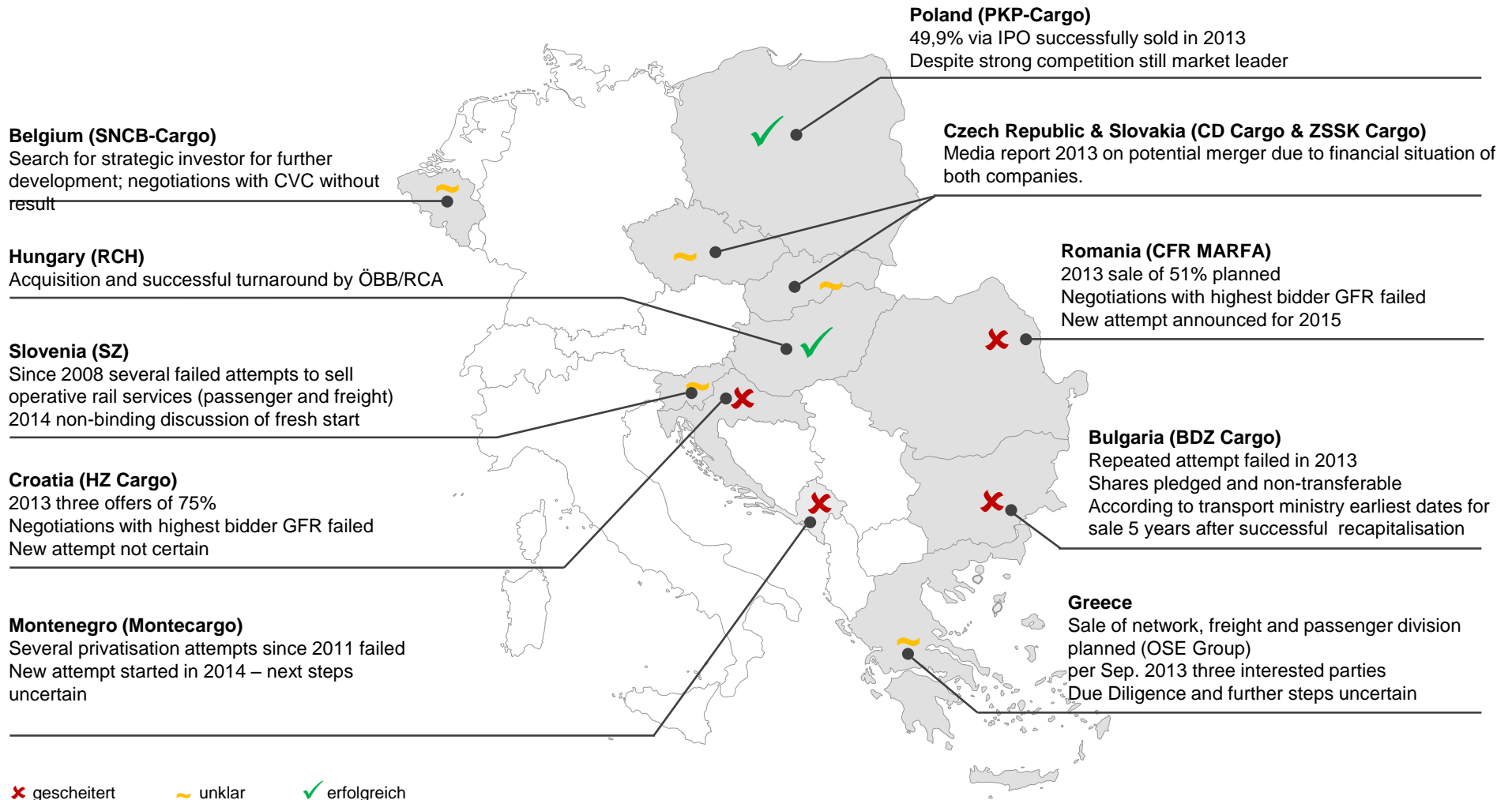
Loss of time due to bureaucracy and lacking technical coordination



Typical time spent by freight trains at border crossings (hours)

- **Waiting times** at borders often for purely **technical** reasons due to lacking interoperability – lorries are faster
- Many different national **safety regulations** (tail lamps, safety systems etc) in cross-border traffic, **electrification systems, train lengths/weights, speeds**

Privatisation rarely successful – state-owned railways in deficit, competition reduces profitability



Additionally, newly emerging business models pose challenges to long-distance rail passenger services

Business models in competition to long-distance rail transport

1 Bus



- **Close gaps in the long-distance offer**
- **Strong players are becoming established**
e.g. IDBus (2012), ADAC Postbus (2013), IC Bus (2009)

2 Car

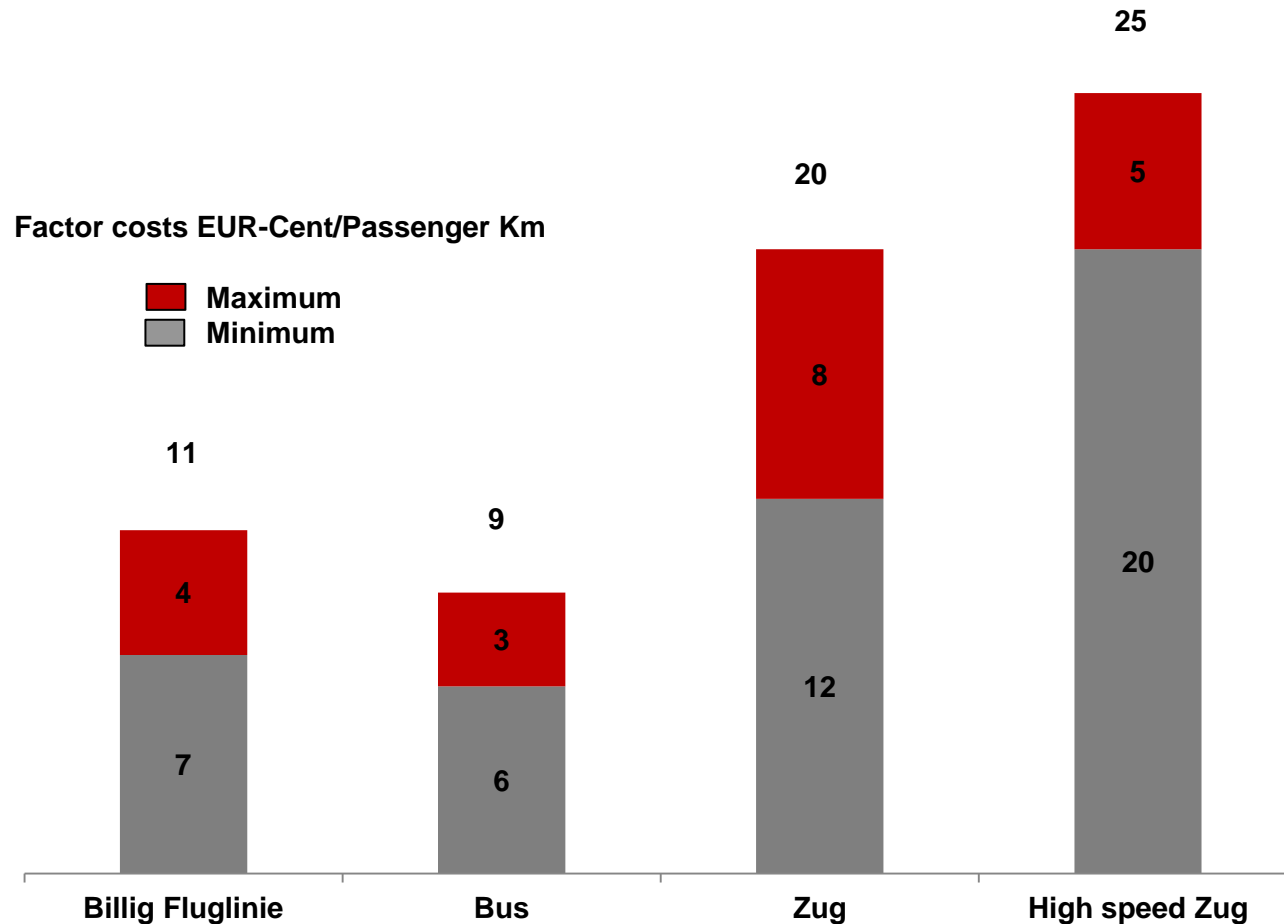


- **„Share Economy“ continues to be successful**
- **200%p.a. Increase of usage**
(e.g. BlaBlaCar 2014 with >9 Millionen users)

Key success criteria

- Focus on target group "Time-rich, cash-poor"
- Focus auf price competition
- Low operating costs
- Use of digital platforms
- Creation of a new market and cannibalisation of existing mobility offers
- Start-Up business models – no costs created by old structures
- High flexibility in operations (rolling stock and related equipment)

Cost level of rail means competitive disadvantage compared to bus and low cost carriers



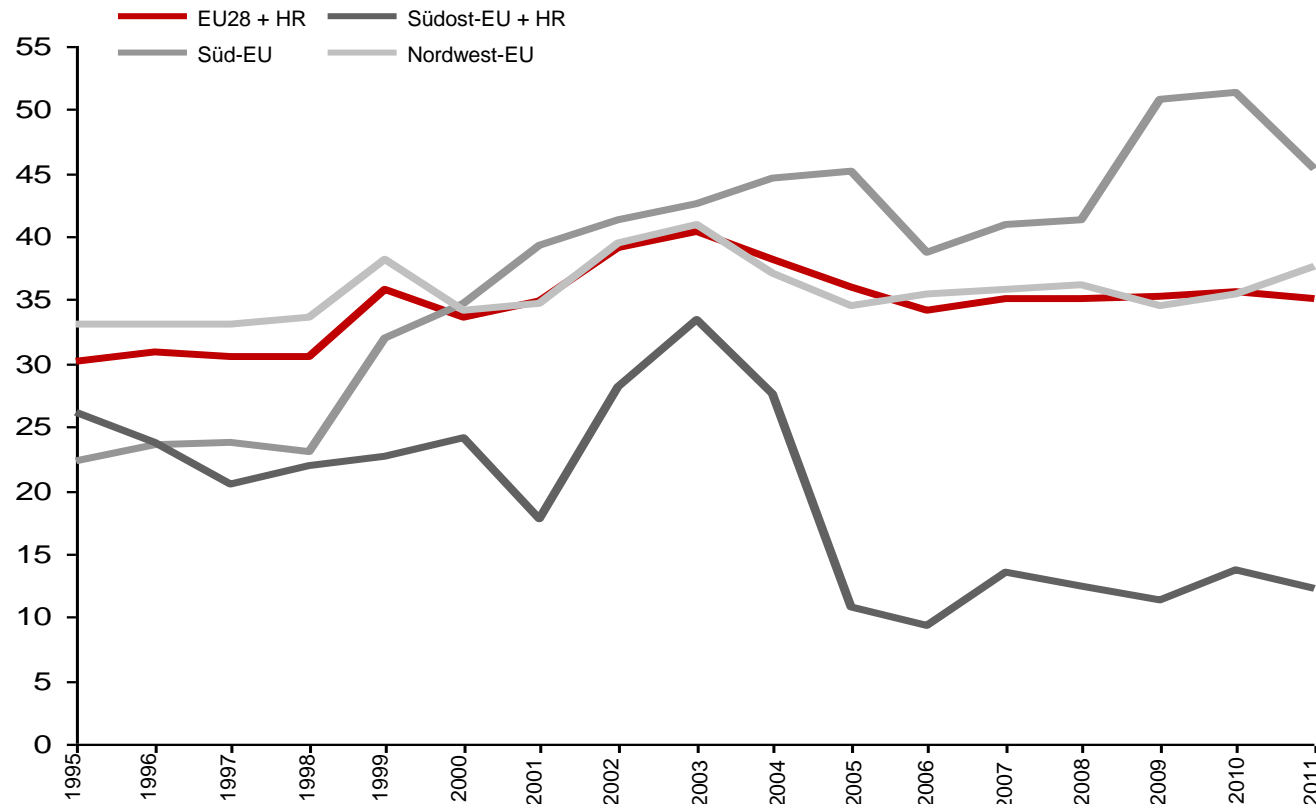
- Low cost carriers and bus companies operate with business models without legacy costs
- High speed trains face a cost disadvantage compared to conventional trains due to higher material costs and more expensive infrastructure
- Factor costs strongly dependent of the respective country, business model, load factor etc

Few investments in rail infrastructure especially in SEE

Investment in infrastructure

Share of rail in investments in rail and road

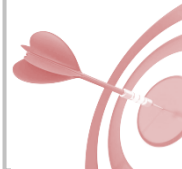
In %



**SEE: 7x as many
investments in road
than in rail during the
past 10 years**

4th Railway Package to increase competition

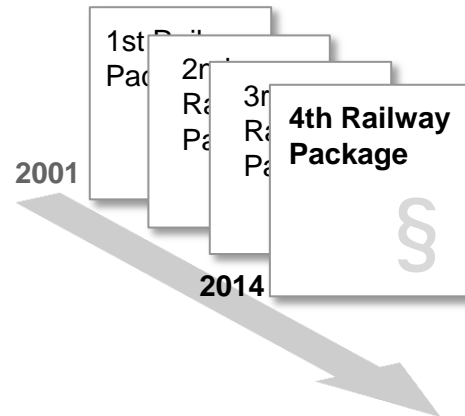
Internal Market and the 4
Freedom of the EU



4th railway package to increase competition:

- „Better value“: higher efficiency of public means
- Unified market conditions
- Abolishing discrimination suspicions

Goal of the European
Commission: Creation of a
Single European Rail Area



Commission Proposal

Separation of Infrastructure and operations

- Alternative: strict „Chinese Walls“ between infrastructure and operations within Holding structure
- Prohibition of double hats in supervisory boards

Opening of domestic passenger market

- End of direct award, mandatory tendering as of 2019
- Maximum contract volumes of 1/3 of the overall PSO volume
- Rolling stock to be made available to tendering winners
- Staff transfer not clear (responsibility of Member States)

Harmonisation of interoperability and safety certificates

Amendments 1st Reading EP

Strengths of Holding Structure acknowledged

- Independence of infrastructure manager (IRM) to be safeguarded
- Double hats Holding CEO/IRM supervisory board possible
- Regulator powers remain strong weitreichend

Direct award until 2022 (max. 10 years), afterwards under strict conditions¹⁾

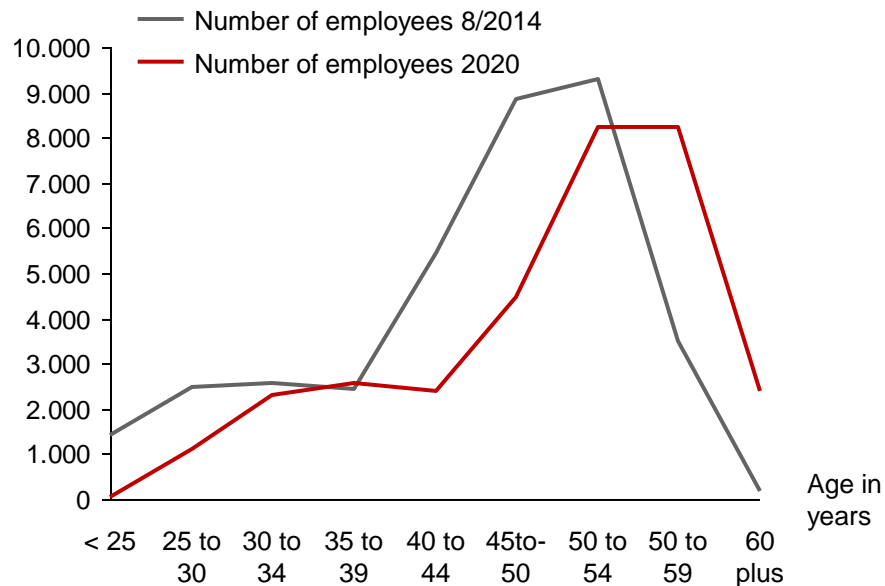
- Ab 2022 for AT min. 2 contracts, 1 of which with max. 75% of the overall PSO volume
- Agencies in charge can eliminate bidders from tenders under certain reciprocity conditions

Technical part mostly accepted – cross-border rail traffic will be eased

1) Steigerung Personenverkehrszahlen, Pünktlichkeit, Kosteneffizienz, Frequenz Zugbetrieb, Kundenzufriedenheit, Qualität Rollmaterials

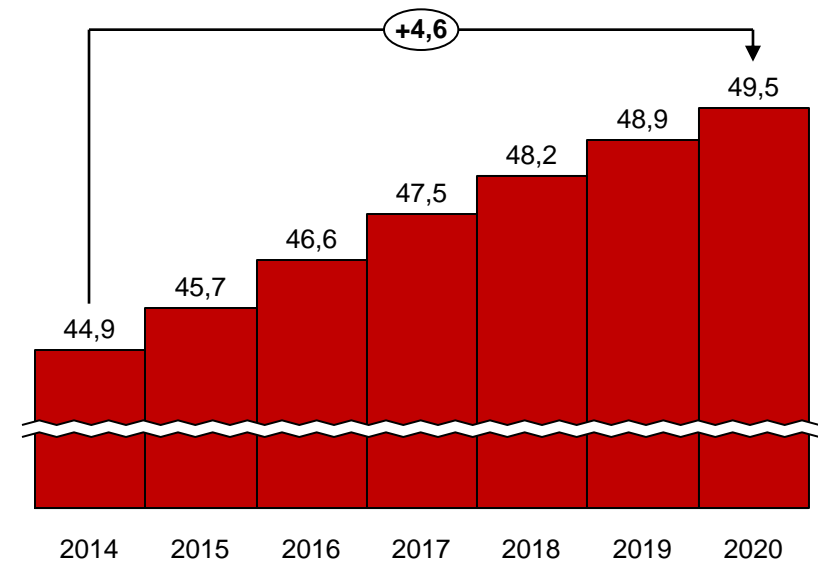
Competition is leading to labour cost arbitrage

75% of ÖBB employees older than 40



- Cohort 50 to 54 years with largest share
- In 2020 rise of the above-40-year olds to >80%

Average age of ÖBB employees by 2020: 49,5 years

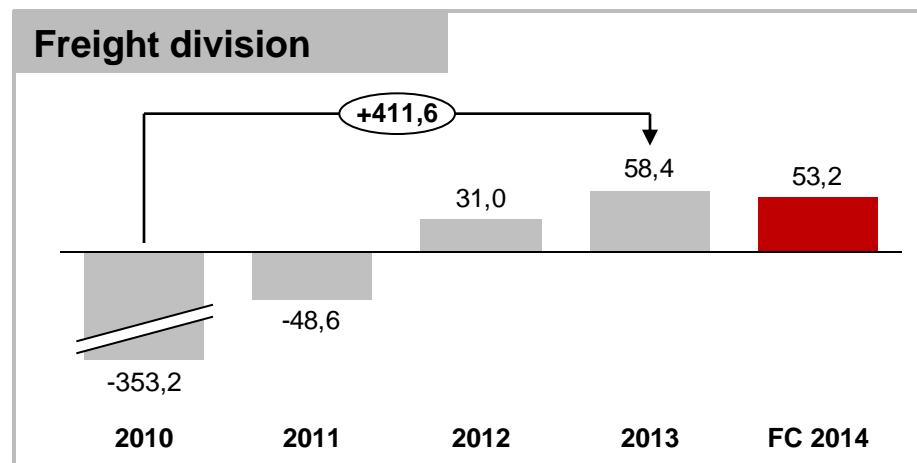
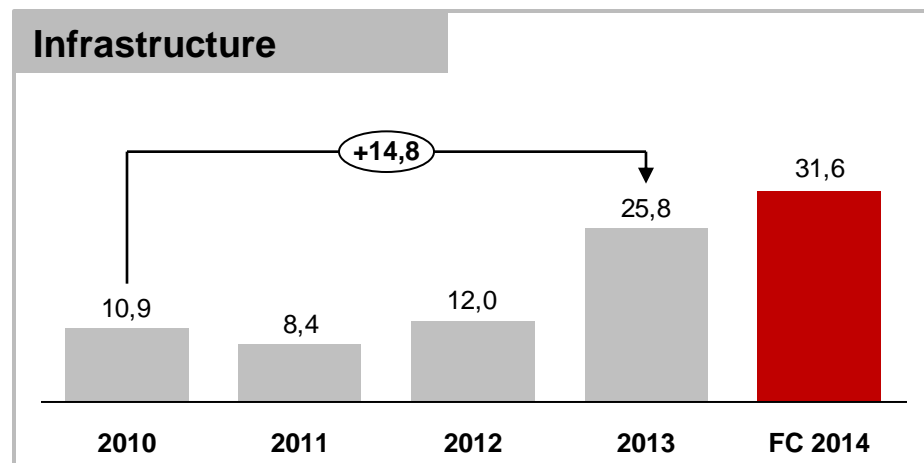
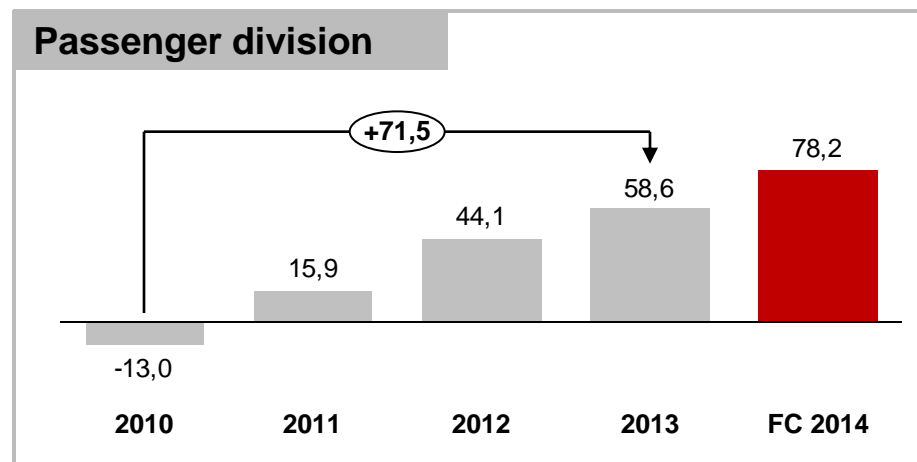
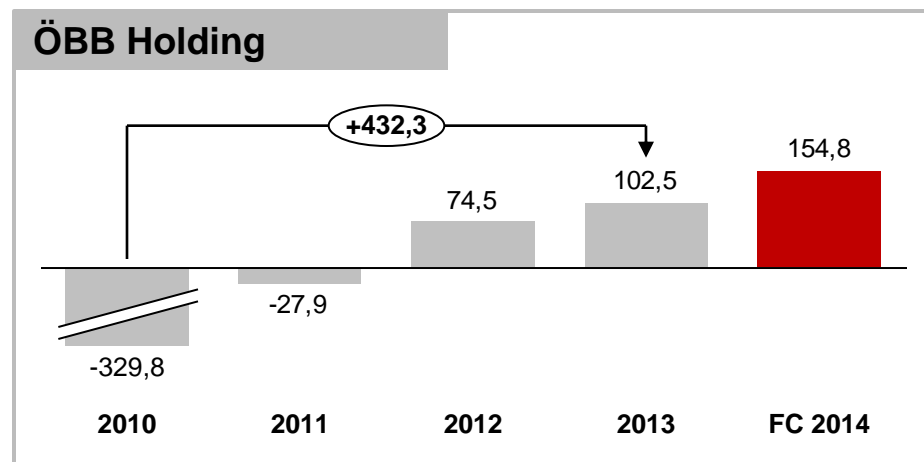


- Average age today: 44,9 years
- Increase by 2020 by +4,6 years

Retirement wave due to age within the next 15 years – focus on health management and strategic human resources planning in order to maintain competences

Annual results 2010-2013: Big leaps in EBT – all operating divisions with a significantly positive balance of accounts

In Mio. EUR



Conclusions regarding the European Commission's proposal on rail domestic passenger market opening

ÖBB welcomes fair and open competition in European railway markets

- **As long as** it leads to an **increase** of the overall rail system **efficiency**, overall **customer satisfaction** and **service quality**
- Measures are welcome that effectively lead to **better customer service**, **higher efficiency** and **increasing modal shares for rail**

Two conditions dominate differences between countries and railway undertakings

- **Legacy costs**: historical **debt** and **staff contracts**
- **Structural costs and needs**: **intermodal competition** disadvantages and **integrated timetable**

Who benefits and who pays for legacy costs?

- **Integrated solutions** are needed that take the **greater context of foreseeable future competition development** into account
- Without a prudent solution, **one state monopoly will be replaced by another one**: tendering of transportation services is **not always and not in every Member State the adequate solution** – and needs, at minimum, sidelining measures to guarantee a level playing field