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Developing a Framework for Standardising and Harmonising Intermodal Terminal Concession Contracts

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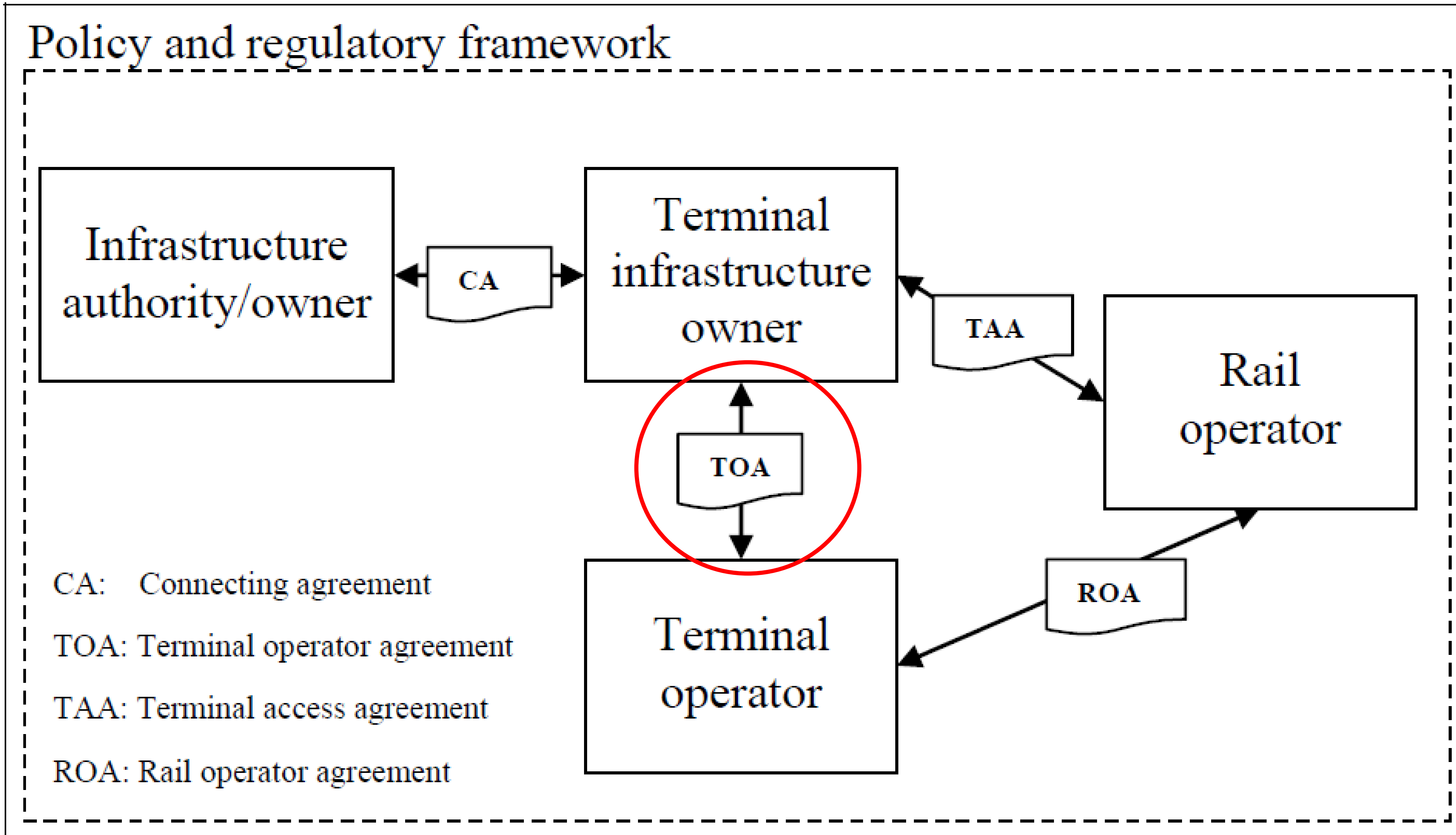
Outline of today's presentation

1. Putting policy into practice
2. Main stakeholders
3. Background to this research
4. Methodology
5. Results
6. Conclusions
7. Future research

Putting policy into practice

- Government policy: achieve modal shift by removing barriers to rail freight such as upfront costs, sunk costs and availability of suitable terminal locations
- Rail authorities want to provide sufficient capacity and quality of infrastructure for freight operators
- Rail regulators want to ensure fair competition and open access to infrastructure and terminals.
- Operators will only enter the market and provide services if they believe they can operate profitably.
- Government agencies must decide how to incentivise this market entry without granting monopoly power to an operator that would inhibit fair competition with other operators. There is no point exchanging the previous public monopoly with a new private monopoly.
- These issues are generalisable to other privatised and regulated industries: passenger transport, energy, telecommunications, water, etc.
- How does government incentivise private actors to do the things it wants when it is limited in the direct actions it can take?

Main stakeholders



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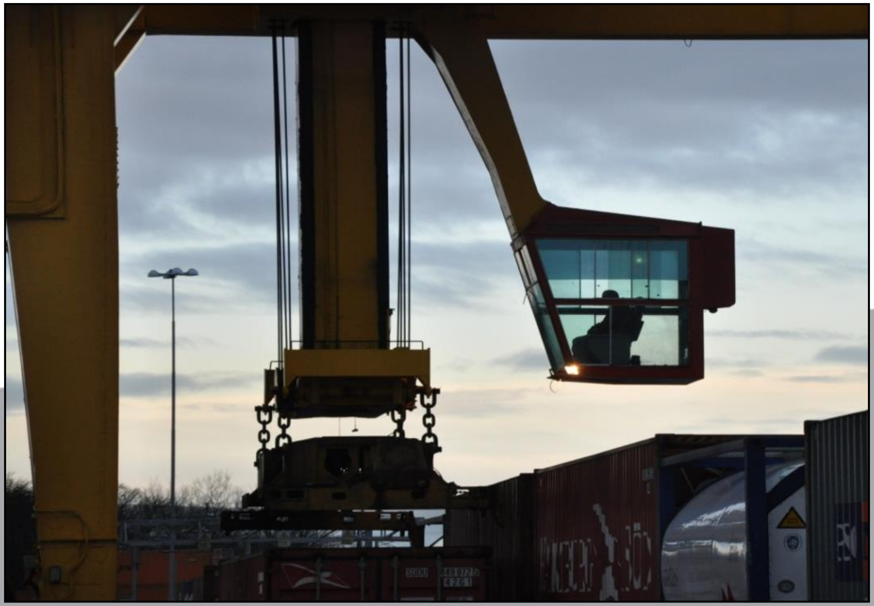
Background to this research

- Public sector actors often provide financial or planning support to intermodal terminal developments (either directly or indirectly) with the aim of achieving societal benefits through modal shift from road haulage to rail transport.
- However, once a site is built, a private operator needs to be found. This is normally done through a tendering process.
- A concession contract is then signed that sets out conditions, fees, performance monitoring, etc.
- Previous research has shown that if such responsibilities are not specified clearly, uncertainties result that can produce higher costs and thus limit the effectiveness of the initial investment.
- This paper applies lessons from the study of port terminal concession contracts to the intermodal sector. The World Bank port reform toolkit is used to create a framework with 72 provisions, which is then matched against five intermodal terminal concession contracts, in order to learn if such responsibilities are specified clearly.



Case study methodology

- Data availability in this field can be difficult due to commercial sensitivity, which may also explain the paucity of research on this topic.
- 5 cases of intermodal terminals in Sweden, based on the rationale that it was one of the first countries in Europe to liberalise its rail sector and vertically separate infrastructure and services.
- For each case, the concession contract between terminal owner (public sector) and terminal operator (private sector) were analysed.
- It is expected that some categories will not be applicable, due to the different operational requirements between ports and intermodal terminals, as well as the reduced complexity and traffic of the latter.
- It is not appropriate to conduct quantitative analysis of contracts because strict frequency counts of certain contract clauses, for instance, could be misleading, especially with a small sample. The paper is therefore limited to an exploratory approach.
- The goal is not to enumerate statistical frequencies of contract types but to explore how the achievement of policy goals "on the ground" can be constrained or enabled by contract design, which has clear implications for policy makers.

Results summary

No.	Section	No. of provisions	Coverage
1	Intro and basic conditions	5	All provisions are covered, but only in basic terms.
2	Hand over	4	All provisions are covered, but only in basic terms, except for exclusivity, which received detailed coverage in all five cases. This is acceptable as it is the hand back that needs more detailed specification.
3	Project control and finance	4	All provisions are covered, but only in basic terms. This is acceptable as this is a fairly straightforward topic.
4	Extension works	13	Good coverage of 5 out of 13. It is difficult to comment further on this section as it is very case specific. It would require more detailed qualitative analysis of individual cases.
5	Operations	8	Good coverage of 4 provisions but no coverage of 4. This is an area of concern.
6	Fees	8	High coverage of 5 provisions, no coverage of 3 which are not needed. This is a good result.
7	Legal and insurance	5	Good coverage of 4 out of 5 but more detail is needed on these important provisions.
8	Hand back	13	6 well covered and 7 not covered. This is a concern as this is a very contentious topic
9	Legal and insurance	2	Coverage of 1 but not the other. This is not so important.
10	Performance	4	Coverage of 2 out of 4. This is a concern as these provisions need detailed specification.
11	Legal and insurance	6	Coverage of 4 out of 6. This is acceptable but could be improved.

Conclusion 1

- Much effort, time and money goes into planning/funding of freight infrastructure to achieve government policy aims of modal shift.
- Government actors strive to make rail operations manageable and affordable in order to induce private sector operators to enter the market.
- However, while intermodal terminal concession contracts do not exhibit any universality of conditions, terminal operators may not be able to offer handling services at consistently low prices to the rail operators, who in turn will be constrained in their ability to provide regular reliable services to shippers and forwarders at prices competitive with road haulage.
- When terminal users do not have confidence of stable and standard conditions across the network, potential service coverage may be constrained as certain terminals are favoured.
- The result of this is that usage of intermodal transport may be reduced, threatening the achievement of government modal shift policy targets.

Conclusion 2

- What this research reveals is that even with . . .
  - a clear government policy (encourage modal shift)
  - a planning regime (incentivise terminal development and usage)
  - a funding system (grants for terminal development and to subsidise services)

- . . . the goal may be threatened because of uncertainties in contracts, meaning that:
  - Terminal operators are uncertain about future costs, so they can't offer handling at the cheapest cost, therefore …
  - Rail operators are uncertain about future prices they will pay at the terminal, so they can't offer rail services at the cheapest cost, therefore …
  - Customers will not use those services, therefore …
  - Modal shift from road to rail does not occur.

Future research

- The aim of this paper was to use Sweden as a test case for this methodology and to establish a framework that can be applied to all terminals.
- The framework can be used in future research as a basis to develop a template applicable in other national contexts to compare how the same contractual features are managed in other cases, working towards a standard framework for analysis.
- As seen in the port sector, a standardised framework could be of great use to public sector administrators managing the concession process, who do not always possess the required industry knowledge to specify such provisions with confidence.
- What is needed is a generic contract that can be applied across the sector to increase standardisation and reduce divergent contracts with misaligned motivations and instruments for achieving them.
- We have just submitted a bid for Horizon 2020 funding to take this framework further by adding more terminals in other European countries as well as examining not just the concession contract but the other operational contracts between owners, operators and users. The aim is to produce a generic set of standard contract forms that can be tailored for each situation, in addition to best practice guidance.

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Questions?

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