The quest for a Ryanair of rail freight

The EU wants more goods to be moved by train. Progress is slow

In aviation the arrival of privately owned low-cost airlines has shaken up the market and sent the traditional flag carriers into retreat. But in Europe's railway business there is still little competition in passenger services. Even in freight, where there ought to be more scope for rivalry, the market is still dominated by state-owned incumbents. The European Commission's "Transport 2050" plan, adopted two years ago, promises to get half of all the continent's medium-distance goods transport off the roads and on to rail (or water) by 2050. But although some progress has been made in designating cross-border rail "corridors", the plan will not get far unless there is more choice and competition.

Newer, private rail-freight firms complain that their attempts to get into the market are frustrated by the incumbents. Laszlo Horvath, president of CER Hungary, complains that the state-owned giants, which usually own the tracks as well as running trains, turn nasty whenever young private firms like his try to expand.

In January the commission launched its "fourth railway package", intended to create a single European rail market—clearly the first three were not enough. It requires the incumbents to separate, financially and operationally, the part of their business that runs trains from the bit that owns and maintains tracks and signals—although they can still belong to the same holding company. If the new rules are vigorously enforced—a big if—Deutsche Bahn will for instance have to be reorganised so that DB Schenker Rail, its freight company (which is Europe's largest) shares no operations or cashflows with DB Netz, which owns most of the German rail network.

That should offer more of a chance to firms like Advanced World Transport (AWT) in Prague. "We want to be the Ryanair of rail freight," says Pierre Timmermans, its boss. AWT is a privatised company that grew out of OKD, a state firm which ran coal and steel trucks from the mines of Moravia. Now it is central Europe's biggest private operator, with around 160 locomotives and 5,500 wagons. It plans to expand its operating radius to take it to most European ports.

But AWT, like all freight operators, faces obstacles at every national border. Apart from the state incumbents' lack of clarity about fees for access to their tracks, these include different safety rules, signalling systems and voltage (and the need to switch to diesel on non-electrified tracks), and differences in gauges. A 1,577km haul from Ljubljana to Istanbul involves five countries and eight changes of locomotive according to a 2010 study for the European Commission. Few drivers are licensed for more than one country. Multi-system locomotives are expensive, costing up to €4m ($5.3m), making it hard for any firm other than subsidised operators (ie, the incumbents) to afford them.

Each of the commission's proposed rail corridors (see map) will be managed by a secretariat whose job will be to reduce paperwork and offer operators a one-stop shop to seek permission to run a train. Six of the corridors are supposed to be in operation by November, but are running late. Corridor 1, from Rotterdam to Genoa, runs smoothly from the Dutch port to the German border after €4.7 billion of improvements to tracks and signals. But Germany, having spent heavily on its own signalling standards, is reluctant to upgrade its signals again to the latest pan-European standard, called ERTMS. Only recently has its government agreed to contribute €746m to upgrade a 73km stretch inside its territory.

Other corridors are even further behind. Corridor 6 is expected to cost almost €80 billion to upgrade, but given the dire finances of the five countries it passes through—Spain, France, Italy, Slovenia and Hungary—that money is not going to be forthcoming for a long time.

Closer to reality is a separate experiment called Retrack, initially sponsored by the EU, to encourage a clutch of private companies and consultants to develop a freight route from Rotterdam to Hungary and beyond. It got off to a shaky start but Transpetrol, a rail-freight

firm based in Hamburg, now runs up to five trains a week in co-operation with CER Hungary and LTE of Austria, another private firm—and it makes a profit. The trick seems to be flexibility in putting together trainloads from small groups of wagons, well-timed leasing of locomotives and rolling-stock, and negotiating good access rates. Transpetrol says it has also persuaded customers that they will not suffer any repercussions from the state-owned competition.

Until competition is more open, private challengers will be on an uphill gradient. The future may be that Europe ends up with four dominant incumbents and "a few agile smaller ones" from the private sector says Tom Zunder at Newcastle University. One of the big four will undoubtedly be DB Schenker Rail. It has subsidiaries in Britain, France, Poland, Hungary and Bulgaria. It runs a daily freight service to China (taking 15 days from Germany) and in September it will begin a service three times a week to Istanbul. Even private-sector challengers acknowledge it is well-run.

Few question the virtue of getting more goods onto rail, but efforts to do so have been mixed. EU auditors recently recommended pulling the plug on another project, Marco Polo, in which large sums have been spent on tracks and terminals with not much improvement to show for it. The biggest obstacle is that road transport is so efficient and flexible: "Even this afternoon I could probably get something shipped to Sofia by truck," says Mr Zunder. In contrast rail-freight routes can still take up to 18 months to plan. Even once the EU has all its corridors in operation, it will struggle to get half of all cargo on the rails.

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