

## **SURVEY ON LONG-DISTANCE CROSS BORDER PASSENGER TRAFFIC IN EUROPE**

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IRG-Rail is the network of independent rail regulatory bodies from 26 European countries. The overall aim of IRG-Rail is to facilitate the creation of a single, competitive, efficient and sustainable internal railways market in Europe. IRG-Rail acts as a platform for cooperation, sharing of best practice on regulatory issues and promotion of a consistent application of the European regulatory framework.

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## **1. Purpose of the document and methodology**

1. The international passenger traffic is undergoing some changes. The Third Railway Package (adopted by the European Parliament in 2007) opened up the international rail passenger transport market in 2010, although competition is still limited. Further changes have been introduced as a result of infrastructure development decisions such as ETCS implementation and following inter-modal competition developments like the growth in long distance bus services in several member states. In view of these developments an overview of the current situation is important in order to evaluate and assess the position of the international passenger market.
2. IRG-Rail strongly supports competition in the rail sector as a mechanism for promoting efficiency and performance. IRG-Rail has observed that the number of competing companies carrying out international long distance passenger traffic is limited and a lot of passenger transport operations at international level are still carried out in cooperation in particular between incumbent railway undertakings of different countries.
3. The purpose of this paper is to present the findings of survey which addressed the possible reasons behind the lack of competition and the main barriers that hinder a more effective competition in the international passenger market. Such competition creates clear benefits to the rail sector and customers.
4. In January 2015 IRG-rail carried out a consultation of companies which run or may run long distance cross border passenger services. Railway undertakings of several member states were asked to participate in a written questionnaire or an interview conducted by IRG-Rail members. The questions concerned the general organisation form of the traffic, the significance of infrastructure, potential barriers, intermodal competition and future expectations. This paper is the result of the IRG-Rail analysis of the responses and summarises the main findings submitted by the railway companies.
5. This paper only reflects the views of the respondents and does not necessarily represent a full picture of the market. This paper summarizes the replies submitted by 8 Regulatory Bodies and 15 Railway Undertakings, notably Netherlands, United Kingdom, France, Croatia, Czech Republic, Poland, Norway and Germany.
6. With regard to the legitimate interests of railway undertakings, and the protection of their commercially sensitive information, the interviewed companies remain anonymous.

## **2. Results of the survey**

### **2.1 Models of cross border traffic**

7. Cross border passenger traffic in a narrower sense is a service carried out by one single railway undertaking in different countries. Another possibility is that international passenger transport is coordinated via the creation of a subsidiary in the other country to carry out the international passenger services.

8. IRG-Rail notes that a number of cross border services are carried out in cooperation models. These cooperation models mainly consist in running passenger transport services on a foreign territory together with the respective partner in that country. This is a model that is often used in Member States where incumbent railway undertakings still operate.
9. The survey shows a clear preference for the cooperation model. The most frequently cited reasons why companies choose a specific model are as follows:

Cooperation:

- The main reasons for the cooperation model – whether with the own subsidiary or a foreign company – are the benefits from relationships and access to the resources in that respective country.
- Another important reason for cooperation is that it is more efficient for the railway undertakings, as it does not require administrative involvement in other countries. This applies in particular to areas such as access to railway infrastructure and service facilities, capacity, technical aspects like safety certificate and staff training. Understanding of costs play also an important role especially understanding infrastructure charges. In cooperation railway undertakings have a better understanding of the cost structure because it is their own country. Other factors include investments in rolling stock and rail infrastructure.
- One reason is that international passenger railway undertakings also run domestic passenger services. Therefore they tend to cooperate and offer international as well as national services on the same train. This is only a possibility for operators who operate in a liberalised market or have an exclusive concession in that country.

Own traffic:

- To operate passenger traffic directly as a single railway undertaking, it allows the company to control the quality of the final product which is not necessarily the case under the cooperation model.

**2.2 Significance of infrastructure**

10. Journey time is a major factor for international passenger traffic as it influences and determines the nature of markets which might be attracted to rail and the price customers may be willing to pay. Infrastructure capacity limitations and low speed constitute a problem with respect to profitability and competitiveness of rail transport. Poorly developed infrastructure and missing cross-border high speed lines makes it difficult to establish an offer that is competitive compared to road and air transport.
11. Maintaining similar parameters of train operations on both sides of the border is also often a prerequisite for efficient and competitive train operations.

**2.3 Barriers**

12. Participants in the survey have identified several barriers to a more dynamic and competitive international passenger market. One of the main barriers is the lack of flexibility. The biggest determinants in taking a decision on a new cross-border service

are harmonised technical and operational rules for access to infrastructure. As there is no technical harmonisation yet, trains require technical systems for both countries. Trains are sometimes equipped with systems applicable to only one route and therefore cannot easily be transferred to another route.

13. The lack of harmonisation in signalling, timetabling, security and regulatory compliance creates difficulties in cross-border traffic. Trains have to be homologated in both countries and separate operating licenses and specific management systems are required in both countries. Additionally the personnel need to be fully trained for both sides of the border. The language requirements for train drivers on international routes differ from one country to another and form a barrier that does not exist for road transport (no requirements) or air transport (only English is required). The homologation of new rolling stock is both time-consuming and costly.
14. Another important barrier mentioned by several railway undertakings is the level and structure of access charges and rail related services, which are perceived to be too high. It is difficult to negotiate access conditions and prices in some countries.
15. Availability of capacity is another limitation. International trains require capacity for railway infrastructure and service facilities that is adequate in both countries.
16. All these technical and operational requirements influence the flexibility and scale of the investment.

## **2.4 Competition**

17. The main competition for the international rail passenger market is buses and airlines. These modes of transport have less prescriptive regulations which results in greater commercial freedom. High costs of ownership of vehicles and a long rolling stock certification process as well as difficulties of financing and the non-availability of a second hand market for rolling stock makes competition for rail traffic harder. Additionally competitors in other modes of transport have greater flexibility as they have more possibilities in adapting their routes. Compared to rail the infrastructure, fuel charges are also lower. Trains are preferred because of their energy consumption, volumes and train-to-train transfers for long trips.

## **2.5 Future expectations**

18. As the rail competes against road and airlines it is important to have a level playing field in terms of commercial freedom to engage with and respond to the needs of the customers. A lack of liberalisation of the rail sector is a reason for non-development of rail services.
19. No significant changes are expected because, in the current situation, the market for international train passengers is not very attractive. The problems seem to be both competition from other modes of transport and entry barriers for new operators or more services. Higher passenger volumes are a prerequisite for commercial rail services.
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### **3. Summary**

21. This analysis showed that simplifications for market entries are needed in order to increase cross-border passenger traffic. It widely confirms a number of issues hindering competition and market entry at national level which have been identified in the European Commission's impact assessment<sup>1</sup> accompanying the European Commission's proposal on the Fourth Railway Package. Finding of the survey is that full opening of domestic passenger market and measures introduced in the Fourth Railway Package - such as the safety certification and vehicle authorisation roles of ERA for cross border services - may facilitate international rail passenger transport in the future.

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<sup>1</sup> <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52013SC0010>