

## Editorial

# Special Issue: Rail Freight Interoperability in Europe: Lessons from the Reorient Project

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The outlook of a liberalised rail freight sector, which functions in a seamless way throughout Europe, is a promising one. A market which is open for competition for rail freight services will allow transportation to become faster, cheaper and more reliable, to the benefit of the EU economies. Moreover, it will strengthen the railways' competitive position compared to road transport – another strategic objective of the EU transport policy. The task of re-organisation is a complex one however, as market liberalisation and international harmonisation processes interact. On the one hand, as rail only competes well with road transport over longer distances, the view towards liberalisation needs to be a truly international one. For the EU member states, this creates a dilemma: stimulate transport demand by actively promoting the development of internationally competing services, or protect domestic sectoral interests by passively resisting a competitive market? Fact is, the European railways system still struggles with very fragmented physical and management structures, due to national borders, rules and standards. In other words, national systems are not “interoperable”. If we want to be able to handle the expected growth of European freight flows, improvements in the European rail freight system, including its governance and management, are needed. This is the field of research we focus on in this special issue.

The European policy for the liberalisation of the rail freight market has developed since 1990, compiled in various EU Directives called “Railway Packages”. A climax in the implementation was reached in 2007, with the implementation of the 2<sup>nd</sup> Railways Package, when markets would be free across different countries, operating under the same legal framework. The extent to which this framework has been implemented in various countries has been the subject of various reviews in the literature, such as in Eichinger (2004), Eisenkopf *et al* (2006) and Székely *et al* (2007). A bi-annual monitoring report was launched by Deutsche Bahn and IBM in 2002, showing indicators for the level of liberalisation achieved in different countries (see IBM, 2008). Overall, the status quo is that liberalisation has not yet proceeded as well and as quickly as one would have hoped. There appear to be some weak geographical patterns of leaders and laggards in successful adoption of new legislation, Nordic and Western countries being ahead of Central and Southern European countries. Interestingly, some Central European countries that were close to accession to the EU in 2007 showed a relatively high degree of development in ratification of EU Directives. Despite the progress of the formal liberalisation process that was achieved to date, the actual impacts are still difficult to show, let alone to attribute to the change in legislation. In fact, rail modal shares have shrunk considerably, and true market organisation still remains very

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heterogeneous. All the more reason to 1) delve deeper into the factors that determine the rate in which the open European rail freight market is developing and 2) attempt to construct lessons from these experiences for future EU and national policy.

This special issue on rail freight interoperability in Europe discusses success factors and barriers for forming a truly international, interoperable rail freight market. It adds to the present literature by:

- providing a factor analysis of barriers to adoption for the different countries in Europe (Warren *et al*)
- exploring relations between degree of liberalisation and actual competition in three clusters of countries, that appear to be in a similar stage of liberalisation and competition (Ludvigsen and Osland)
- judging the influence of public, political barriers against the power of private entrepreneurship, and recognizing the EU's role herein (Ludvigsen)
- drawing lessons from conditions that were critical for the US market to develop (Spsychalski and Thomchick)

The reader may find that the papers are slightly different in nature than the analytical ones presented typically in the EJTIR. Instead of attempting to present a systematic or exhaustive account of the topic, the four papers each develop their own narrative, starting from different methods of analysis and data sources. The common approach taken, however, is more a case study oriented one, where the focus is on developing lines of reasoning by means of an ordered and rich set of anecdotal examples, rather than seeking statistically representative samples of companies, countries or years. We believe that these "story telling" type of articles fit well into the current state of affairs in European rail freight liberalization, which can be characterized as heterogeneous and uncertain. The data sources and analyses were developed within the EU sponsored, 6<sup>th</sup> Framework Research project REORIENT, with participation from several EU and US partners. The articles were brought together after a joint presentation at the European Transport Conference in 2007. In the remainder of this editorial introduction we discuss the key features of the four papers.

Warren *et al.* develop a statistical analysis using a long list of indicators for 11 countries, which do not only measure the state of implementation of Directives, but all other framework conditions for interoperability, related to e.g. technical and institutional circumstances. A key finding is that the question whether the enabling legislation has passed in a country is relatively unimportant to explain variations between countries in interoperability. Other factors, like financial preconditions are more important.

A further question concerns the *outcome* of the liberalisation process: is there any evidence that EU policy has resulted in a more efficient and more competitive sector? While there are certainly signs of tremendous drops in employment levels, the effects on performance are mixed: rail freight's share has not increased significantly, nor seems there to be a correlation between degree of liberalisation and rail freight modal share. In addition, where there has been success, it is difficult to attribute this to the formal change in market conditions. Ludvigsen and Osland explain that the business climate created by national governments to foster entry of new providers and service innovations, appears to be a critical factor, even dominating national governments' protective tendencies supporting the incumbent railway organisations.

The third paper, by Ludvigsen, takes these points forward and focuses on the role that the European Commission can play to improve the business climate for competitive services to develop, once the enabling legislation has been adopted. A key reason why this business climate is stimulated by national governments only to a limited extent is the concern about major employment effects. Experience from the USA shows that employment in the freight railways

sector dropped by about 65% between 1980 and 2004<sup>2</sup>. Until now, the reduction of the EU's rail workforce hasn't gone further in any country than about 50%. Despite the fact that the US market clearly had different mechanisms at its disposal than the EU market to develop its economies in operations, national governments may want to anticipate on further reductions by protecting current employers from new competition. In order to ensure that the EU Directives are not only adopted by the book, but also in spirit, additional support measures will be required, geared towards alleviating the barriers that stem from differences between national and EU interests. Assistance to new undertakings and creation of social safety nets are examples of such supportive policies.

Spychalski and Thomchick, in the fourth and final paper of this special issue, reiterate the key success factors that have allowed intermodal transport to almost double in the US between 1990 and 2005. They do this in a way that allows us to search for parallels between the US and the EU rail systems and institutional environments. They sketch a rich picture which provides interesting learning points. One is that expansion of the road system may increase intermodal rail productivity – fully in line with the co-modality perspective for freight transport adopted by the European Commission after the 2006 mid-term review of the 2001 White Paper on Transport. Also the availability of new transportation technology, which is emphasized in the other 3 papers as a key success factor, appears as one of the key drivers. Interestingly enough, a competitive market has been a sufficient pre-condition for these technologies to develop, almost without the need for state aid. To my mind, the most intriguing issue is that different business models (the authors mention five) have developed within the US intermodal transport market. At present this is a much undervalued subject within Europe. Their recommendation to look into a 6<sup>th</sup> business model, based on short-haul distances, may become a fruitful topic of mutual learning between the EU and the US markets.

In sum, the set of papers in this special issue provides an inspiring account of the state of interoperability of European rail freight services and the underlying public governance issues. We hope that these insights will contribute to the debate about how the goal of a seamless and open European rail freight market can be achieved.

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<sup>2</sup>Ibid. p 313