



UK Rail: Lessons from Europe

Presentation to CILT London/RSA
19 October 2011
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Agenda



- Context
- 5 Lessons from Europe:
 - Impact of access charging
 - Importance of long term planning
 - Is there an optimal industry structure?
 - Ubiquitous influence of Governments
 - The grass looks greener than it really is!
- UK comparative strengths
- Conclusions

Differences to the UK

- European railways are still mainly state-wide monopolies
- Largely Government owned and funded
- Varying structures that have evolved, rather than undergone radical reform as in UK privatisation.
- Light or non-existent regulation

Similarities to the UK

- All face a varying mix of pressures from Government/media/consumers on funding/financial performance and service quality
- Management cadres increasingly drawn from other sectors e.g. airlines, auto industry
- All still heavily unionised

Impact of Access Charging



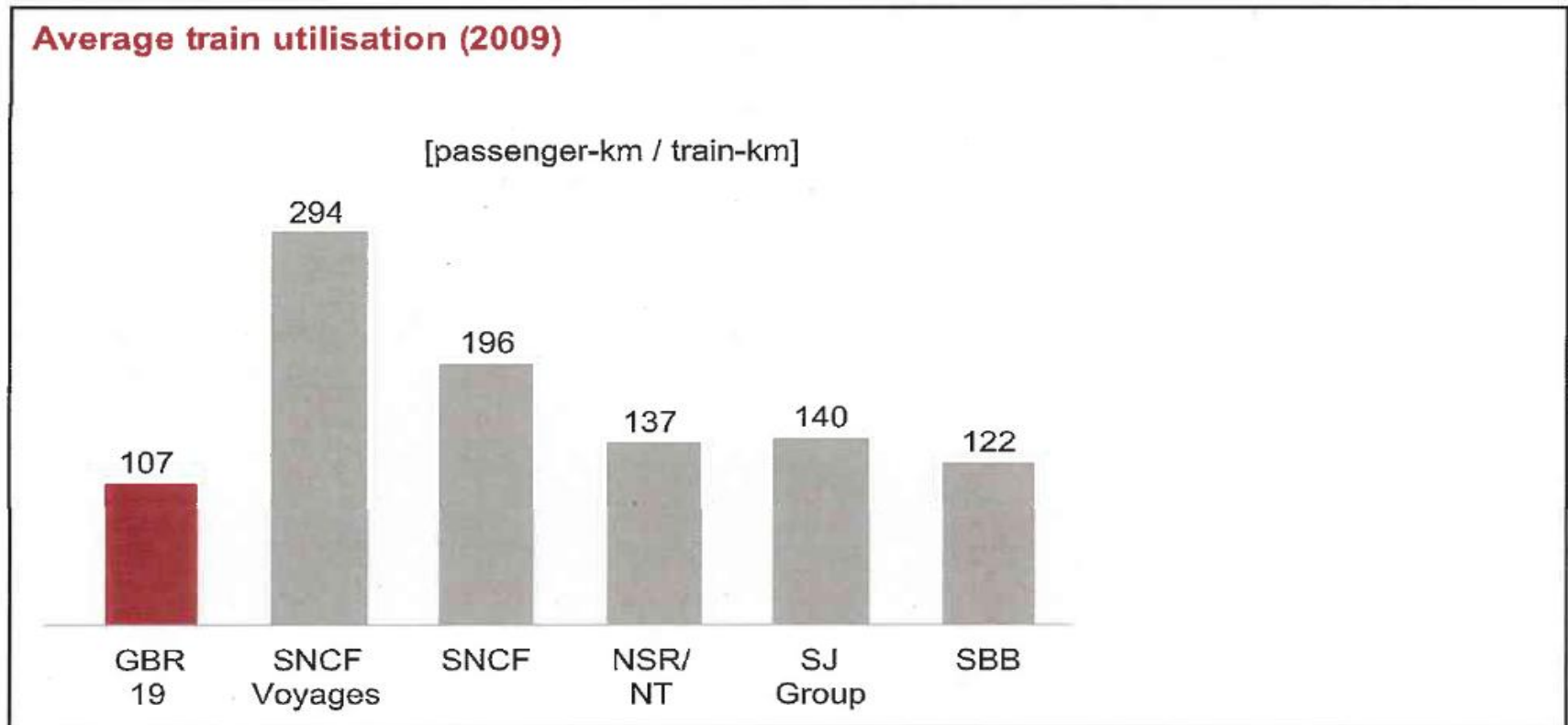
- European access charging structures vary widely

BUT

- Are generally all variable, per train km or per train path
- This produces different behaviours from operators on timetabling and train utilisation
- McNulty highlighted poor train utilisation as a significant source of high UK unit costs

Impact of Access Charging

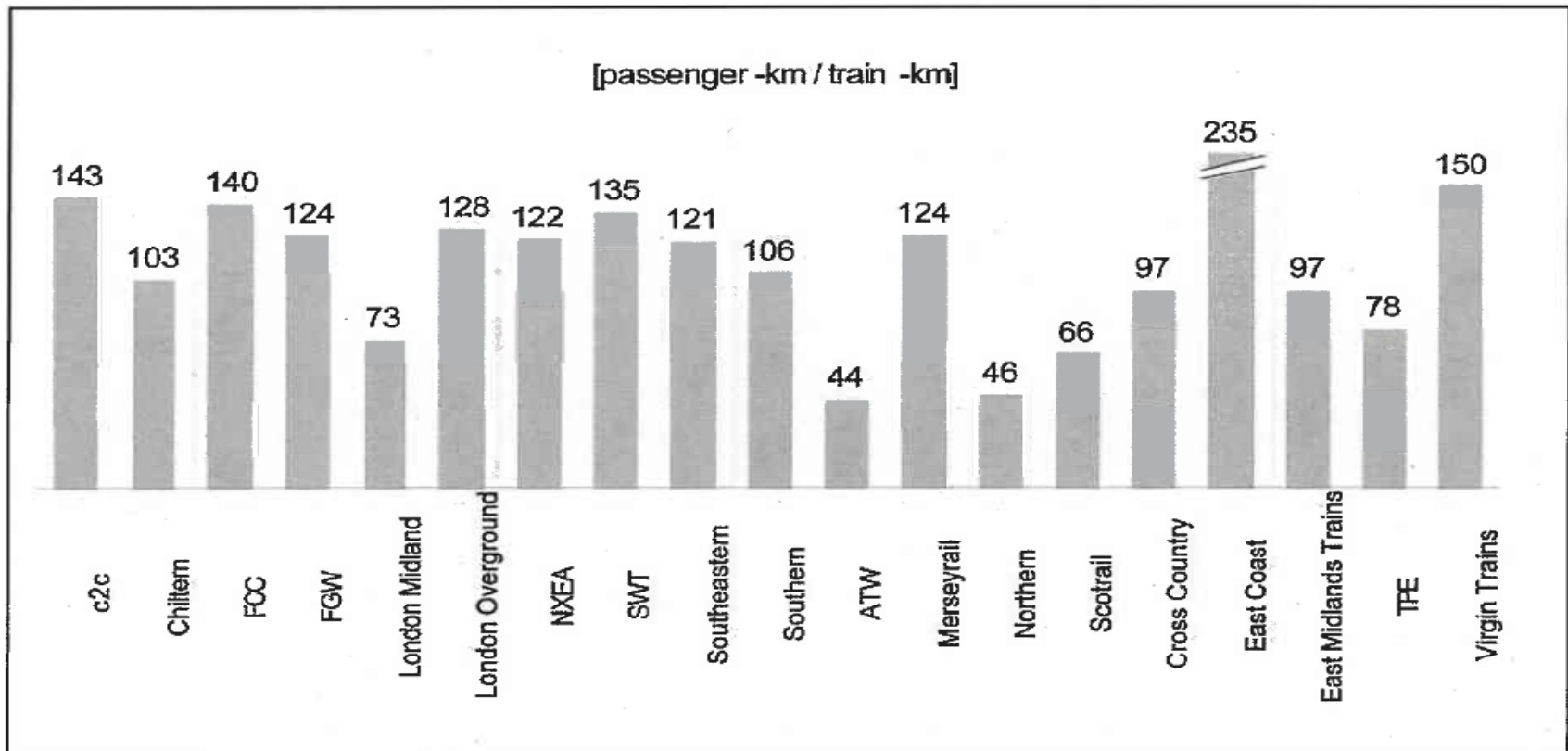
Figure 17.2: The GB's train utilisation is at the low end of the sample



Source: Civity.

Impact of Access Charging

Figure 17.3: East Coast shows the highest average train utilisation



Source: Civity.

Variable Costs per Train Km



	€ per Train Km
Eurotunnel	322
HS1	42
Netherlands HS	28
Infrabel – HS	10
RFF – HS	10
DB Netz	4.3
Infrabel Classic	4.4
Netherlands Classic	2.7
UK Franchises (All in)	1.6
UK Franchises (Variable EC4T)	0.8
UK Franchises (Variable only)	0.3

Load factor comparisons



TGV	75%
Eurostar	70%
DB Long Distance	48%
UK Franchises	38%

Long term infrastructure and investment planning



- Obviously crucial in an industry with long asset lives and close interaction between track and train
- European Governments more closely recognise role of public infrastructure investment as an economic driver
- Essential to ensure simultaneous tuning of infrastructure and train service planning

Long term infrastructure and investment planning

Two case studies:

- French Government review of case for second Paris-Calais LGV post 2025
- Swiss Taktfahrplan plan:
 - Achieved by long range timetable planning: 20 years plus!
 - Progressively tuning infrastructure to timetable needs



Long term planning in the UK



Much progress in last 15 years:

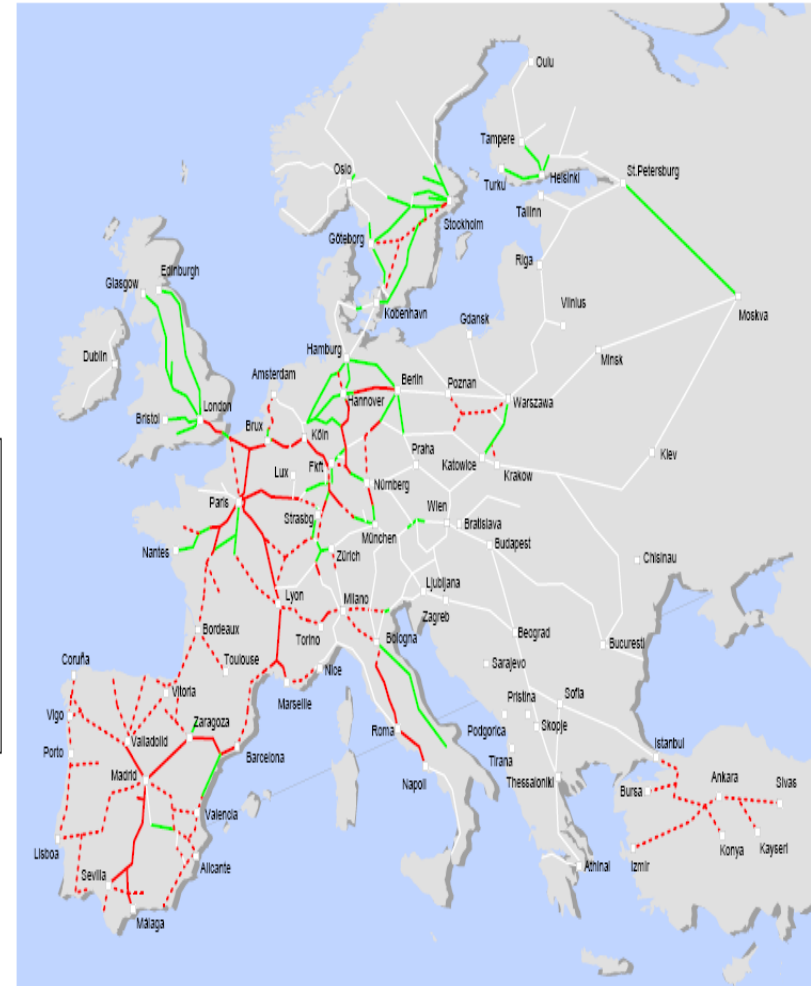
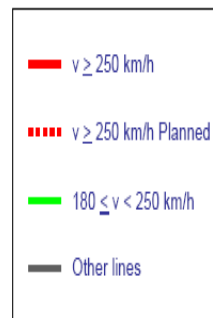
- 5 year NR Control Periods
- Route Utilisation Studies
- Thameslink, Crossrail, HS2 Ltd
- Rail Delivery Group

But much more still to do!

- Electrification and fleet plan
- ERTMS
- HS Network
- HS2 and conventional network

European HS Network

Situation as at 02.2008



Industry Structure

Case Study 1: France



- Network owned and financed by RFF
- SNCF run trains , stations and depots
- TGV operates commercially, Transilien and regional services on contract to regional authorities
- RFF sub-contract operation and maintenance of network back to SNCF
- SNCF pay RFF access charges, and receive payment for network operation and maintenance under a long term contract
- Retains good measure of vertical integration via SNCF operation of track and trains

But: Growing Tensions

- Rising access charges are squeezing TGV margins – light regulation
- Each new TGV line also worsens TGV economics
- Track operation and maintenance contract does not cover SNCF costs
- SNCF being forced to set up network operation and stations as separate entities to facilitate competition!



Industry Structure

Case Study 2: Germany



- DB both train operator and network manager
- DB Netz has 85% of renewals and investment paid for by Government grant, €1.0bn p.a. EBITDA therefore available to finance other DB activities e.g. Arriva acquisition
- DB Bahn Long Distance operates commercially
- DB Regio on contract to regions and cities – growing competition
- Produces financially strong DB!

Growing Tensions Too!

- EU and German Competition Authority pressure to split track from trains!
- Federal Government requiring €500m annual dividend
- Political pressure to spend more of surplus within Germany on network investment – ICE, Berlin S-Bahn and winter problems have created perception of under investment



Industry Structure

Case Study 3: Switzerland



- SBB main operator, but many medium and smaller operators
- SBB are vertically integrated, as are some other operators – operation over each other's infrastructure similar to BR O for Q organisation
- Many operators styled as "private", but most shareholdings are by Federal Government, Cantons and Communes

Some Tensions Even Here!

- SBB foresee 1 bn CHF p.a. funding shortfall for maintenance
- Some tensions between operators over cost/service quality for penetrating services



Conclusions on Structure



- There is no “perfect” structure – all have some (or many) tensions and pressures to changes
- Switzerland’s “plural” system is probably closest to being optimal, but

Caution

- Switzerland is a rich, highly democratic country with more power at Canton than Federal level
- It’s multi-centric and mountainous geography is well suited to a network of movement corridors
- Long-term planning is in the DNA: transport policy has long-term stability

Government Influence

- Importance of Government is all-pervasive in every country:
 - sets broad structural framework
 - Determines degree of capital availability, and investment priorities
 - Determines degree of pressure on opex
- Regional and Local Governments have much bigger role in contracting/funding unremunerative services than in the UK
- EU policy becoming increasingly influential/invasive



The Grass looks greener than it really is!



- Nearly all European railways have significant challenges from Governments, consumers and/or the media
- Consumer groups slowly gaining traction
- Media/public opinion often very critical of train service performance:
 - Winter 2010
 - ICE Performance
 - TGV Performance
- Few European countries really “satisfied” with their railway system – similar poor image to UK

But the UK performs better than we often think...



Comparative Strengths

- Customer service and consumer orientation
- Marketing expertise
- Transparency and accountability
- Age of train fleets
- Clear and effective regulation
- Strong culture of continuous improvement:
 - Safety
 - Punctuality
 - Growth
 - Unit costs

Some Conclusions for the UK



- Access charging regime gives no useful price signals to either TOCs or NR. Imperative to rebalance toward much higher variable charges
- Long term planning is vital
- There is no perfect structure
- Need to engage more with Governments and politicians to improve their understanding and engagement
- No need to look over our shoulders, UK Rail has much going for it