

Model restructuring reshapes CFR to survive in a COMPETITIVE market



Romania's railways are preparing to operate in a market environment where the latest European regulations apply. Restructuring has helped to stabilise the freight sector, where private operators now have a 25% share, but more remains to be done to secure the passenger business

ROMANIA'S accession to the European Union this year followed recognition by the European Commission that the country has made impressive strides in switching from a centralised to a market economy. Many of its institutions have been transformed, and the country can demonstrate sustainable economic growth.

In the rail sector, Romania is in the process of restructuring to meet the challenge of operating in a true market environment where the latest European regulations apply. Three main priorities have been identified – to consolidate the restructuring process that began in 1997, to improve the railway's infrastructure, and to modernise its passenger services.

In terms of restructuring, the government has developed a framework with six key components (right).

World Bank model

The World Bank has played a major role. During the 1990s the Bank was financing various projects in Eastern Europe, and it agreed with the Romanian government to finance a programme that would completely reshape the rail industry and serve as an example to other countries.

Fundamental changes started in 1997, with legislation coming into force in October 1998. CFR was split into five legally separate organisations, a courageous move given the state of development in the country at that time.

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Key issues for railway restructuring in Romania

- Reduce excess staff. Already 10% of the staff employed by the railways in December 2003 have been made redundant;
- Reduce unused trackage through closure of some little-used routes and further rationalisation of yards and stations;
- Implement fair, transparent, and competitive track access charges;
- Rationalise passenger services and define a clear public services contract;
- Transform the railways into a fully commercial business;
- Ensure private sector participation in operations and management, particularly freight services.

However, the success of the reforms was soon evident.

The five companies are: CFR SA (infrastructure); CFR Calatori (passenger services); CFR Marfa (freight); SFT-CFR (heritage and tourist trains); and an IT organisation called IT Center. In addition, AFER was set up as a regulatory authority for licensing and safety certification in 1998, and SAAF was created for the disposal of surplus assets (RG 8.01 p529).

The first operating licences were issued to CFR Marfa and CFR Calatori in 2000, followed in the same year by four private railway undertakings. Since then the number of private operators has grown and there are now more than 25 licensed by AFER for passenger and freight transport. Not only that, but more than 100 companies have a licence for loading and shunting. As a measure of

Inter-city trains such as this service at Predeal in the Carpathian mountains are becoming increasingly popular as CFR Calatori develops regular-pattern timetables

liberalisation, this puts Romania well ahead of other countries in the region.

The passenger market

In 2004 nearly 100 million passengers rode the rails in Romania; just half a million were making international trips. In terms of passenger-km the total amounted to 8.6 billion, which was 43.8% of all passenger-km by public transport. This represents about 12% of all passenger trips by road and rail.

Compared with the period when the economy was centralised, passenger travel has fallen dramatically to about one quarter of the 1990 level (Table 1). However, the negative trend was reversed in 2003, and in 2007 total rail passenger trips are expected to climb back to 110 million. The poor figure in 2005 reflected a three-week strike and line closures as a result of natural disasters.

The number of passengers using rail has fallen for several reasons. Increasing

Table 1. Rail passenger traffic in Romania 1990-2005

	Passengers (million)	Passenger-km (million)
1990	407.9	30582
1995	210.7	18879
2000	117.5	11632
2003	94.8	8529
2004	99.5	8638
2005	92.4	7985



A second-hand French DMU operated by Keolis links Bratcu with Sfantu Gheorghe

affluence has given more people the ability to purchase their own cars, so that they have their own private door-to-door service. At the same time minibus services have made sharp inroads into the market thanks to high frequencies, low prices and short journey times; in many cases these vehicles operate on routes parallel to rail services.

Another figure to consider is the average distance each inhabitant travels by rail in a year. Compared with an EU average of 800 km, the figure for Romania is just 400 km – simply because the mobility level of Romanians is low.

In the past the timetable was not well suited to the needs of the market, the policy being to run long trains at infrequent intervals. This still affects short-distance services, but on long-distance routes the launch of inter-city services in 2001 has largely eliminated the problem. Between Bucuresti and Brasov the service pattern is now almost at regular intervals, and a regular-interval timetable is planned for Bucuresti – Constanta in 2009. A similar plan exists for the Bucuresti – Craiova route.

CFR Calatori enjoys a significant share of the long-distance market. In 2005 an estimated 12 million people travelled on daytime inter-city and overnight trains compared with only 127 000 flying

CFR Calatori has run several successful marketing campaigns. Trains operated by Desiro multiple-units on routes from Bucuresti Nord to destinations such as Craiova, Sibiu and Galati have been sold as 'blue trains'



on domestic air services.

Marketing pulls the passengers

CFR Calatori is starting to consolidate its market share with the help of high-level marketing for its regular-interval services and seasonal specials. Some success

followed a campaign to advertise the summer 'sun train' services to Black Sea destinations. A similar result was achieved with winter sports trains on routes serving ski resorts in the Carpathian mountains.

The volume of regional and local transport is quite stable, although a form of competition has been introduced with the recent auction of selected services to private operators. Keolis, for example, has established a presence in Romania using second-hand DMUs from France and efficient timetables.

The process of auctioning services does not replace the need for a sustainable medium-term strategy for rural lines, but it will help to keep down the costs for the taxpayer until a strategy has been developed. The use of independent operators also influences the public perception of rail in the sense that competition helps to improve services – or in some cases saves them from complete withdrawal.

Freight keeps its market share

Romania's private rail freight operators notched up an impressive 25% market share of tonnes carried in 2005. As the total volume increased, CFR Marfa was able to keep the same level of traffic in absolute terms. In terms of tonne-km, the private operators also have about 25%. This figure was rising until recently, when efforts by CFR Marfa led some customers to return to the state operator.

Most private operators belong to an association known as ATFER, which represents the private sector in discussions with the Ministry of Transport on legislative matters.

Compared with the EU15 and other neighbouring countries, the amount of rail freight is very high in relation to GDP,

and the Romanian figure is equalled only by Slovakia. It is currently more than 10 times the figure for the rest of the EU, but there are strong indications that this will not be maintained.

Nevertheless, CFR Marfa is working on a new financial strategy and a fresh business plan to raise productivity and achieve more success with marketing. This will be followed by a due diligence process which will finally start the long-planned privatisation.

Table II. Rail freight in Romania 1990-2005

	Tonnes (million)	Tonne-km (million)
1990	218.8	48 912
1995	105.1	17 907
2000	71.5	16 354
2003	68.8	15 039
2004	72.7	17 022
2005	69.2	16 582

Access charges and state support

To fulfil the requirements of EC Directive 2001/14, rail operators have non-discriminatory access to the network by paying a track access fee. The state provides compensation for operation of uneconomic passenger services, and this represents about 60% of the total amount paid by the government to support the rail sector. The state also provides financial support to CFR SA for investment. Some state funding is also paid to CFR SA for ongoing costs, but the amount does not cover the actual sum involved. This is partly because there is a significant amount of track that is no longer required and partly because there is a backlog of deferred maintenance that has accumulated over the past decade.

The total amount of state support to the railways in Romania is about 0.42% of GDP. For comparison, it is about 0.65% in Germany and between 0.43% and 0.52% in the Czech Republic.

Until recently, access charges were much higher for freight trains than for passengers, partly because the state did not reimburse the full cost of public service compensation for passenger services, meaning that CFR Marfa had to cross-subsidise them. In 2003 for example, charges were €3.6/train-km for CFR Marfa and €1.0/train-km for CFR Calatori. This undermined CFR Marfa's competitiveness and reduced CFR SA's revenue which it needed to maintain the track and pay its staff. Consequently the access charge system has gradually been changed to eliminate these undesirable effects.

Transport policy and projects

Current railway policy is based on 10 action programmes for 2005-08 which have quite broad objectives.

Major infrastructure projects are dealt with in a programme called 'Integration of the national network within the European transport network'. This covers rehabilitation of several segments of Corridor IV, including the 225 km Bucuresti – Constanta section, the 26 km Predeal – Brasov section of the

line through the Carpathian mountains and the 175 km from Simeria to the Hungarian border at Curtici.

Included among the projects is a scheme to reopen the Pitesti – Ramnicu Valcea line as it offers the most direct connection between Bucuresti and Sibiu, but so far this project has not seen much progress.

Another programme aims to modernise the network, raise service quality and improve safety and security. It includes investment in the rolling stock fleet with modernisation of 57 diesel-electric locomotives, purchase of main line diesel locomotives for CFR Marfa and refurbishment of inter-city coaches. Purchase of EMUs for operation on the main lines is also envisaged.

Resignalling is another core area for investment with electronic interlockings being installed at major junctions. Further programmes deal with the continued restructuring of the state railway companies and accelerated introduction of IT systems for finance and operations.

The private operators are also investing, the focus being on wagons, service facilities and locomotives – some are new and some are being refurbished.

A way forward

The restructuring process has defined the basis for developing a sustainable and modern railway system. Nevertheless, a long list of challenges has still to be addressed, and high up the agenda is the need to privatise CFR Marfa. It is profitable and competes well with its private rivals, but it needs to invest and to integrate logistics knowledge and intermodal know-how into the company. It benefits from stable access fees and a strong customer base, so there is no need for the government to remain involved. Privatisation would certainly inject further dynamism into the business.

Much remains to be done in the passenger sector. Investment in new and refurbished trains has started, and it is important to continue this process so that comfort levels keep pace with the increasing number of private cars and



Take the sun train to the seaside! CFR Calatori has attracted business to its special seasonal services thanks to strong marketing campaigns

Une restructuration modèle réforme les CFR afin qu'ils survivent dans un marché concurrentiel

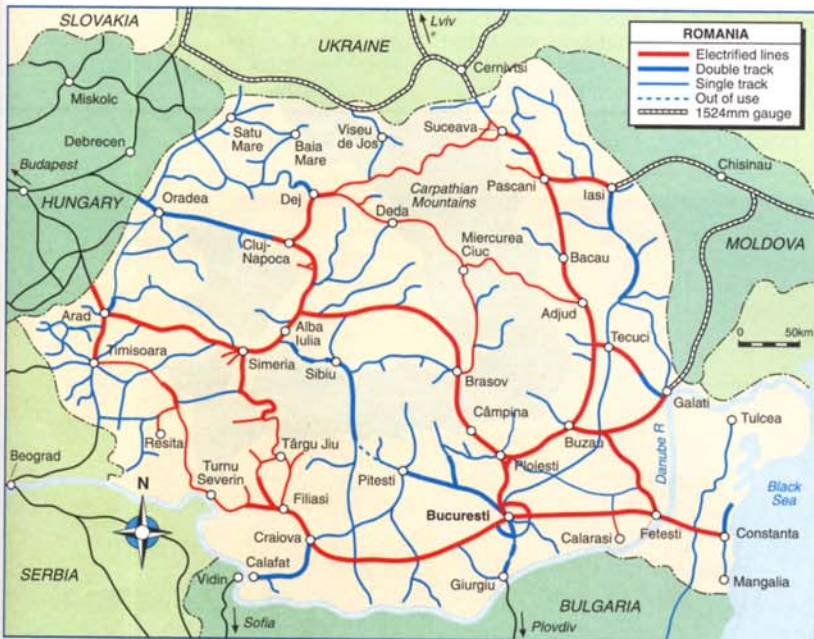
La restructuration des chemins de fer de Roumanie est en cours afin de faire face au défi que représente l'exploitation dans un environnement de marché où les toutes dernières règles européennes sont en vigueur. Les changements ont aidé à la stabilisation du volume de trafic ferroviaire marchandises, dans lequel les opérateurs du secteur privé ont maintenant 25% de parts de marché. Il reste beaucoup à faire pour protéger l'activité voyageurs, avec des investissements nécessaires pour améliorer le niveau de confort et assurer des relations à horaires cadencés afin de concurrencer efficacement la voiture et les opérateurs de liaisons routières par autocars

Modell-Restrukturierung transformiert CFR zum Überleben in kompetitivem Umfeld

Rumänien ist an der Restrukturierung der Bahnen, damit diese den Herausforderungen des kompetitiven Umfelds, in welchem die neuesten europäischen Regulierungen gelten, bestehen können. Die Massnahmen haben dazu beigetragen, das Güterverkehrsvolumen zu stabilisieren, wobei Private nun etwa 25% Marktanteil haben. Mehr ist zu tun für die Sicherung des Personenverkehrs, mit Investitionen zur Komfortsteigerung und zur Einführung eines Taktfahrplans, um wirksam gegen Automobile und Busse bestehen zu können

Una reestructuración modelo transforma la CFR para hacer frente a la competitividad del mercado

Rumania está reestructurando su ferrocarril estatal para afrontar el desafío de operar en un mercado que está regulado por las últimas normativas europeas. Los cambios han ayudado a estabilizar el volumen de tráfico ferroviario de mercancías, en el que los operadores del sector privado poseen una cuota de mercado del 25%. Aún hay que hacer muchos esfuerzos para estabilizar el sector del transporte de pasajeros, ya que es necesario realizar inversiones para mejorar los niveles de comodidad y lanzar horarios con servicios regulares y poder así competir eficazmente con otros medios de transporte como los coches y los autobuses



Upgrading the Bucuresti-Constanta main line

Improving the standard of infrastructure on the TEN-T network has been given special attention in Romania, not least because about 50% of all rail traffic moves over lines designated as part of the TEN-T network – this represents about 20% of the 11 364 route-km national network. The main objective is to permit passenger trains to run at 160 km/h and freight at 120 km/h, at the same time implementing interoperability regulations

The TEN-T infrastructure rehabilitation programme began in 1999 with an EIB loan which paid for rehabilitation of the 90 km Bucuresti – Campina section of the Bucuresti – Brasov main line, while ISPA-financed works on the Campina – Predeal section (40 km) are

being tendered at the moment. The Bucuresti – Constanta line (225 km) is currently being rehabilitated with the help of ISPA and JBIC funding. The total cost of work on this line is put at €356.3m.

The Bucuresti – Constanta line is considered to be a model for rehabilitating other lines and is judged to be the 'best practice' project on Corridor IV. Developments such as the launch of a regular-interval timetable, a new fares structure and sophisticated marketing have been matched by the introduction of new trains, and the intention is to repeat the process for other lines.

A consortium consisting of PADECO from Japan, Seneca from the USA and Railistics from Germany is heavily involved in this work.

new buses. At the same time a complete restructuring of the timetable with regular-interval services along the major corridors would help rail to compete successfully.

A more modern fares structure is needed too. It should match local incomes and yield expectations, while ticketless travel must be halted so that revenue is not lost. At national and regional level government needs to accelerate the integration of other public transport modes with the railways, especially in Bucuresti. It also has a role to play in setting reasonable and fair standards for the future financing of regional passenger services.

CFR SA has an opportunity to reduce costs and raise standards by adopting new technologies, initially during the upgrading of main lines. These could then be used more widely so that all busy routes can benefit.

Lessons learned

Other railways planning to restructure in Eastern or Central Europe may benefit from the lessons learned in Romania. An essential element contributing to the success of the restructuring programme has been the consistent railway policy of the transport ministry. A strong ministry has helped to overcome all kinds of obstacle generated by frequent changes of government and strong pressure exerted by the road lobby – something which has often destabilised the rail sector in other countries.

Another factor has been the success of SAAF as an institution selling redundant assets. The funds generated have been openly returned to the rail sector for investment and not lost in obscure public or private pockets. This has ensured that at least some investment could proceed even when times were hard.

Open access freight operations have so far proved a success for shippers, with drastically improved services and reduced rates. The arrival of open access was also a catalyst for the modernisation of CFR Marfa in terms of management and operations.

Unfortunately it is not clear whether competition has generated more traffic for rail – volumes have remained stable in the last five years. On the other hand it is obvious that the country's industries have gained huge benefits. If rail is to carry more freight and increase its market share in the future – with matching higher profits – operators must first acquire logistics knowledge and penetrate deeper into the value chains of their customers.

In 2004 the OECD nominated Romania as an example for successful restructuring in Eastern Europe. The conclusion for the



CFR Marfa and its competitors have succeeded in growing the intermodal business. This train at Medgidia has arrived from the port of Constanta

railway market is that true liberalisation brings benefits for all stakeholders – but it only works when backed by strong supervisory and regulatory bodies able to ensure non-discrimination. Transparent management structures are also essential.

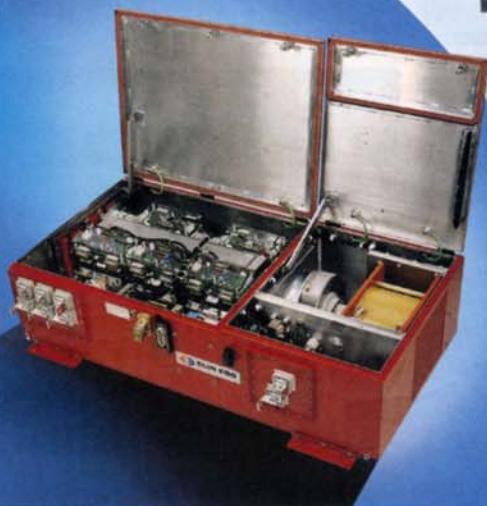
Freight clients in Romania testify that they receive better services and lower rates, and passengers can expect a higher service quality, while society as a whole obtains better value for money. Any government or political decision-maker interested in ending the monopoly of an incumbent operator and improving the performance of the rail sector should take a hard look at Romania. ■

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