

# European railfreight can learn lessons from North America

The often-tortuous process of liberalisation in Europe poses major challenges for incumbent and new operators alike. Henry Posner III, chairman of Railroad Development Corporation (RDC), United States, believes that as Europe redefines the structure of its railfreight industry, it should look closely at the mechanics of the business in North America.

**T**HE railfreight industries of Europe and North America have both witnessed massive change over the last 30 years, but the way in which that change occurred and its effect on the business of moving goods by rail, could not be more different.

Mr Henry Posner III (pictured) is one of the few railway professionals to have witnessed this shift first-hand on both sides of the Atlantic. As chairman of RDC, Posner was involved in the five-year period of private operation on Estonian Railways (EVR). RDC also operates Iowa Interstate Railway in the United States, and has invested in railways in South America and Africa.

Last October, Posner shared his views on what drives the railfreight market with delegates at Terrapinn's CEE Rail conference in Budapest, where he explained the fundamental differences in the characteristics of European and North American railways. In North America, traffic is concentrated largely on high-density corridors, whereas in Europe it is fragmented.

The European network is largely oriented towards passenger operations, and this is reflected in the infrastructure, while the North American network is controlled by freight-oriented operators. In North America, two or more railways operate parallel routes, meaning competition is largely intramodal. In Europe, road is the primary competitor. Funding for rail investment in Europe largely comes from the public sector, while in North America it is almost exclusively private.

Posner argues that the on-

rail competition pursued in Europe is an almost pathological argument against profitability. "First and foremost, customers want intermodal competition, and that means having rail as an available alternative to lorries," he says. "If the rail option doesn't exist, everything else is academic."

"In North America there is competition through deregulation, whereas in Europe there is competition through regulation. This is an important point because it has nothing to do with engineering, signalling systems or axleloads. It is an institutional fundamental of the European environment, and I think it is the single biggest problem. The objective of European policy has been to provide perfect on-rail competition. Thus in the long term, no operator will be able to make a profit."

Posner believes deregulation

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in North America was largely the result of the insolvencies of the late 1970s, when a quarter of the rail network was bankrupt. "It really was a question of whether there was going to be an industry or not. The government's response was 'Too bad, there's no money for you, fix your own problems. We will allow you to go out of business if you choose, but we will also allow

you to price your business, and we will give you complete freedom to exit markets or restructure yourselves to serve those markets.' The result was a smaller industry, but an industry that is more profitable than ever. This is why I say the most important factor is ensuring customers have a choice between road and rail."

He argues that providing capacity, or adjusting capacity to the market, is the second priority. "In my opinion, the focus in Europe has been more on promoting intramodal competition even before considering service or capacity, so the priorities have been reversed. In order for rail competition to exist, there must be capacity and service before a customer can start

playing block train operators against each other."

Posner also believes the decline in wagonload traffic seen in many EU member states must be arrested if railfreight is to remain viable. "Wagonload is the canary in the coalmine," he says. "If it goes, you have a sick business. But wagonload is still considered a liability. If you convert customers from wagonload to intermodal or block train operation, you are teaching them how to use lorries, and if you are successful, another open-access operator will try to take the business off you."

Posner adds that European operators can learn from the North American wagonload business, which he says has been profitable because it provides a complete service from one private siding to another. "Elements of this model can be transplanted into the European context in those countries where wagonload survives," he says. **IRJ**

