VIEWPOINT Henry Posner III

Compete, but also co-operate

Only a combination of co-operation and competition can make Europe's railway industry commercially successful, believes Railroad Development Corp Chairman **Henry Posner III**.

HENRY POSNER III

Prior to forming Railroad Development Corp, Henry Posner III spent 10 years in the Operating, Marketing and Sales departments at Conrail. A graduate in civil engineering from Princeton University, he holds an MBA in Finance. An alternate director of the Association of American Railroads and a member of the Transportation Research Board's Local & Regional Rail Freight Transport Committee, he serves as Chairman of Iowa Interstate, HKX and RégioRail.

German open-access passenger operator Hamburg-Köln-Express marked its second anniversary on July 23, having carried 800 000 passengers on more than 3 000 trains. In those two years HKX has been able to establish itself, and expand the market for rail travel, even though our initial expectations have not been met. But with the growth of long-distance buses (p58) and more competition from low-cost airlines, HKX will have more to learn to react to passengers' changing attitudes to travel, where their decisions are based on opportunity and price.

As one of the main backers of HKX, Railroad Development Corp has been an active investor in Europe since 2001 — initially through Estonian Railways and subsequently through HKX and RégioRail in France.

The usual question we face is 'what is an American company doing in Europe, and more to the point, what value do you bring to this highly technical, passenger-oriented, public-sector dominated business, given that North America's railroads are oriented more toward freight in a private sector environment?'

RDC describes itself as an 'investor of last resort' in unusual railway transactions, and because of its size and diversity Europe offers numerous opportunities. The challenge is to identify those that are both legitimate and economically sustainable, a challenge amplified by a heavy public sector involvement in almost every aspect of the business and pervasive competition from private and public companies, both within and for the markets.

While each of our European investments is substantially different — the first privatisation of a former Soviet railway, wagonload freight in France; and open-access passenger in Germany — there are some underlying themes.

In each case few investors were interested, because conventional wisdom suggested that these business were too difficult or unlikely to succeed. This is a market niche that has served us well on other continents, notably Latin America and Africa. Our approach to Europe has been the same: if we believe a country is serious, we can find local partners, and the competition is rational, then we should consider the opportunity.

We have a far from perfect record in determining whether a country is indeed serious, for example, but once we commit to an investment we will see it through to whatever fate awaits us — Estonia and Guatemala were both good examples of this. And for the first 10 years our initial investment in the Iowa Interstate Railroad was at best marginal.

Given the diversity of our experience in Europe and the relative progress we have made, it is perhaps time to reflect on the under-appreciated similarities as well as the differences between North America and Europe, and share a few observations, without getting into the details of our current initiatives.

Firstly, there are very few similarities between the operating environments, but we understood that from the beginning. In our view the biggest differences are not technical but institutional. Perhaps the most glaring is the lack of flexibility in co-operation between rail carriers. Rail is a network business, and North America's freight network has evolved based as much on co-operation as competition. As a network business, railways must co-operate to offer their customers a good service all the way from origin to destination.

If the major competition is road, then on-rail co-operation is even more important than competition, and yet there is little sign that this is even being recognised, let alone addressed in Europe. Take for example SNCF's wagonload business, which historically had a higher market share for domestic traffic than international, perhaps because it required co-operation with other railways.

The situation can be partially explained by a lack of motivation. The market is still dominated by state railways, yet the European Commission seems focused on competition while making virtually no provision for co-operation. In other words, no one cares, nor is anyone motivated to care, at least from a political perspective at either national or EU levels. If we truly believe that rail freight is beneficial from both the environmental and safety perspectives in addition to its economic advantage, this is no less than tragic.

There are also cultural differences, ranging from the role of the state to the business culture of the private sector. I am sure it is an oversimplification, but I compare a culture of optimism in North American rail with one of hopelessness in Europe. I have tested this characterisation with many audiences and sadly I have not heard many objections.

Since our initial contact by SNCF in 2006, we have established several toeholds in Europe and are slowly becoming an accepted part of the railway community. While we remain outsiders, even with the progress we've made, our goal is to make cultural contributions to the European railway scene disproportionate to our size.

On the freight side, we want to promote the vision of a European network of commercially-independent operators. That is essentially how North America's rail market has evolved over the last few decades, naturally and without much in the way of public-sector intervention.

We are taking a similar approach with our passenger service in Germany, where we are working to integrate HKX commercially with other operators, via through ticketing and connecting services.

While we are patient investors, we are impatient managers, and there will inevitably be failures as well as successes to report as our progress in Europe unfolds. If everything you try is a success, you're not trying hard enough. ■

"'We want to promote the vision of a European network of commercially-independent operators'