

## SURVEY Industry Watch

# Increasing rail's competitiveness

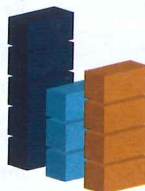
**ANDREAS SCHWILLING** and  
**CHRISTIAN FREESE**  
Roland Berger Strategy Consultants

The market share of rail transport is very low in most countries. According to our analysis, the US freight railroads are best, handling about 40% of tonne-km thanks to beneficial factors such as a long average haul. Rail's market share of freight in China and Russia is similar, but in Europe it is significantly lower, ranging between 10% and 20%. In the passenger sector, dense road networks and the attractiveness of modern cars also result in a low market share for rail, mostly less than 10% in Europe and less than 1% in the USA; the best are China and Russia at 29%.

So what can be done to boost rail's share of the transport mix? Many options have been proposed, and this time we asked our panel of senior industry executives to rank the relative importance of seven levers, rather than picking a single priority. Fig 1 shows the average rank for each, plus the first and third quartiles to indicate the range of opinion.

Additional investment in infrastructure achieved the highest average, with a relatively homogeneous response, as depicted by a narrow quartile range. This covers both the construction of new lines, as in the Middle East, China or Brazil, and the improvement of current networks through works to eliminate bottlenecks or increase average speeds and capacity. Recent years have seen many examples where investment in rail infrastructure has encouraged economic activity, ranging from metros in Chinese and Indian cities to high speed passenger lines, or the upgrading of key freight

## RAIL SUPPLY INDUSTRY WATCH



To find out more about the survey and apply to join our panel, visit the RSIW website at: [www.railsupplyindustrywatch.com](http://www.railsupplyindustrywatch.com)

corridors in North America.

Increased efficiency and entrepreneurial behaviour by railway operators came second. Improved customer focus, better product offerings, and multi-modal connectivity will grow the business, while lean structures and efficient processes help to cut costs. While the average rank is only slightly below that for infrastructure, with some respondents even placing it top, this lever has a wider quartile range signifying less uniformity of opinion.

The high ranking for performance reflects a view that customer satisfaction is to a large extent driven by the railway itself. Efficiency drives lower costs and competitive prices, while entrepreneurial behaviour creates innovative services that attract new customers.

This can perhaps be related to the third place ranking for innovation by the supply industry, bringing new and improved technologies and concepts to serve the market. It is perhaps not surprising that many leading suppliers plus a growing number of railway operators and infrastructure managers have signed up to the Shift2Rail research initiative being co-ordinated by UNIFE.

Behind the leaders come three options with similar rating. Industry experts and politicians often advocate a 'level playing field' for all modes, with comparable infrastructure charges and taxation that takes account of external and environmental costs. In many

In our quarterly survey of the rail supply sector, we asked our panel to consider ways to increase the competitiveness of railways around the world.

countries, railways must carry the burden of their infrastructure costs whereas road traffic is charged only indirectly via fuel taxes or occasionally road tolls.

Additional public support for train operations was ranked fifth. In most parts of the world, public support is pivotal to ensuring a dense network of high frequency regional services. However, industry leaders do not see subsidies as a driver for increasing rail's modal share.

Increased interoperability came second to last. Measures such as a common authorisation process, standardised train control using ERTMS or a harmonised safety regime are primarily aimed at improving the competitiveness of international rail transport. But despite the ambitions of the European Commission, for example, cross-border traffic is still relatively insignificant compared to the volume of domestic business, particularly in the passenger market.

Interestingly, increased liberalisation in the rail sector is ranked last. Competitive tendering of supported operations, and open access, as envisaged in the Fourth Railway Package are not regarded as essential. This may reflect the limited outcome of efforts by the European institutions to mitigate the decline in rail's market share over the past two decades, despite the relative success of rail in those countries that have fully adopted liberalisation. Given the international nature of our survey, it may also reflect the structure and stand-alone nature of many railways around the world.

What seems clear is that our panel regards the improvement of rail's competitiveness to a large degree as a private task. With the right mechanisms, additional investment in rail infrastructure could be funded from both the private and public sectors. But the two levers that follow are clearly the responsibility of the railways and their suppliers. There seems to be a firm belief in entrepreneurial action, and a limited expectation about what political processes, regulatory reforms and liberalisation can achieve.

As UNIFE Director-General Philippe Citroën commented, 'there is no silver bullet; a mix of public and private measures is needed. The industry is ready to play its role, but we expect the same commitment from public authorities, in particular in simplifying authorisation procedures as much as possible.'

Fig 1. Average ranking by relative importance, plus first and third quartiles to demonstrate range of opinions.

