

Shift2Rail will massively improve the experience of passengers and freight forwarders

The interview tackles four major topics Shift2Rail and Research and Innovation file, the EU-Japan and EU-US trade agreements files, The 4th Railway Package and market development.

The European and international railway sector has encountered in the last period a lot of changes and challenges to the usual way of doing business.

Stefan Roscanu is talking with ...
Philippe Citroën, Director General of UNIFE
(Association of European Rail Industry)



Liberalization of markets, development of private sector and private initiative have become new vectors of development for railway operators and suppliers. Home market, international market these are concepts that seem to fade away as intra- and transcontinental railway business seem to evolve. Providing new and innovative products and services might be a key to success for the investors in this economic field.

The railway sector seems to become more and more liberalized at global level. What is the impact of this evolution on European railway supply industry and how do they answer to globalization?

Philippe Citroën: There is certainly more competition on the global rail supply market and it is a growing market. In fact, our recently released World rail market study indicates that the current market is around €150

Billion per year and is expected to grow to €176 billion per year by 2019. The European Rail Supply Industry is already very globalised, and if you look at our members the large majority are operating both within and outside of the European Union. Employing nearly 400,000 people, the rail industry continues to be a flagship industry for Europe by leading the global market—with nearly half of all of the world demand for rail products and services met by EU suppliers. However, a trend that the aforementioned study does show; and something that we have witnessed with our members, is that certain global markets are becoming less accessible to foreign suppliers—meanwhile Europe continues to be open.

The major impact of the more competitive marketplace on the European industry is that it reinforces what we already know—innovation is key to the continued leadership of the global market. This is why UNIFE has been so active in coordinating and preparing the Shift2Rail Joint Undertaking for Rail Research and participating so heavily in European research projects. In addition to research, UNIFE knows that the way to keep the European Rail Supply industry competitive is to lobby for fair access to foreign markets in international trade negotiations, as well as making the EU market more efficient by reducing technical and administrative burdens across the European Union. This is the goal of the Technical Pillar of the Fourth Railway Package—creating a one stop shop for authorisation in the European Railway Agency.

At this moment EU-Japan and EU-US trade negotiations are high on every investor's agenda. What is the impact on the European railway sector and what should be further improved in the documents?

Philippe Citroën: In general, and as mentioned before, UNIFE is a strong proponent for a “level playing field” for EU suppliers on world markets. On the two FTA negotiations that you mention, the issues facing the European rail industry are quite different.

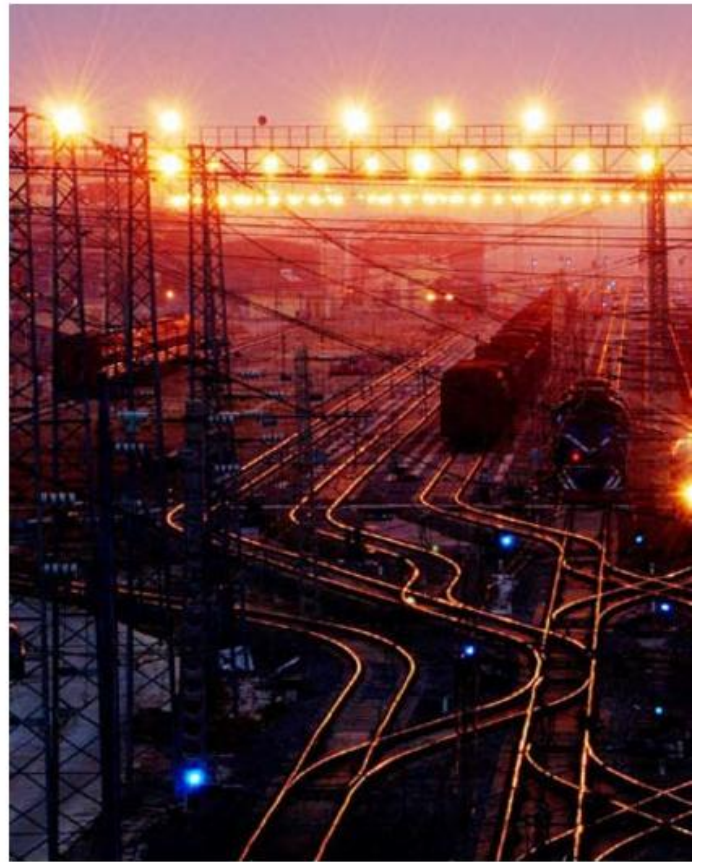
Japan has a very developed rail industry and rail system and claims to be accessible to EU suppliers. Moreover, Japanese companies are increasingly winning contracts



in Europe—a prominent example is Hitachi's presence in the UK. However, the reality for EU suppliers on the Japanese market is that there is discrimination and a clear lack of transparency in procurement procedures. One of the main problems our members are facing in Japan is linked to the Operational Safety Clause (OSC), which is part of the Japanese offer to the WTO Agreement on Government Procurement (GPA). Following the first year of negotiations and the agreement on a 'one-year package' on railways, the scope of the OSC has been defined but it is so wide and encompasses all railway subsystems. This is why the industry was not pleased with the lifting of the EU objection to the delisting of the three Honshu Japanese Railways (JR East, Central, and West) from the WTO GPA. In return for this, the JRs have agreed to draft and publish codes of conduct based on principles of transparency and non-discrimination—but we are a bit wary of the follow through on such voluntary commitments and will be following up carefully on future developments by these operators and all the remaining GPA covered entities (mainly the metro authorities). That being said, we are diligently following the EU-Japan FTA negotiations and will make efforts to ensure that there will be real improvements, and concrete tenders, for EU suppliers on the Japanese market.

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The EU-US Free Trade Agreement, dubbed TTIP—the Transatlantic Trade and Investment Partnership—is progressing much more slowly in spite of almost one and a half years of negotiations. The main concern for UNIFE and our members is the increasing “local content requirements” in US public procurement of rail supplies. These “buy America(n)” provisions can act as a major deterrent to EU suppliers when the thresholds are unreasonably high. Public procurement is a very sensitive issue in these negotiations, and the discussion on rail markets are especially difficult as it is difficult to ensure state and municipal transport authorities are in-



volved in the negotiations—something UNIFE continues to look into.

It is not long since JU Shift2Rail has become reality. What is the impact for the sector in general and for suppliers in particular for the next decade?

Philippe Citroën: Shift2Rail will massively improve the experience of passengers and freight forwarders. The main target of the initiative is to boost the attractiveness of rail transport. This means that the capacity of the rail system will be increased by up to double what it is at present, the reliability will be increased by 50%, and the lifecycle cost will be cut in half. This will ultimately boost the demand for rail within Europe and mean better and more innovative products for European suppliers for both the EU and global marketplace as well as creating jobs. The results of Shift2Rail, which will involve the rail manufacturers, operators, infrastructure managers, academia and research centres, will also be much easier to take to market by the participating European companies—which will improve the competitiveness of the European Rail Industry, which is being actively challenged by the growing rail supply industry in Asia.

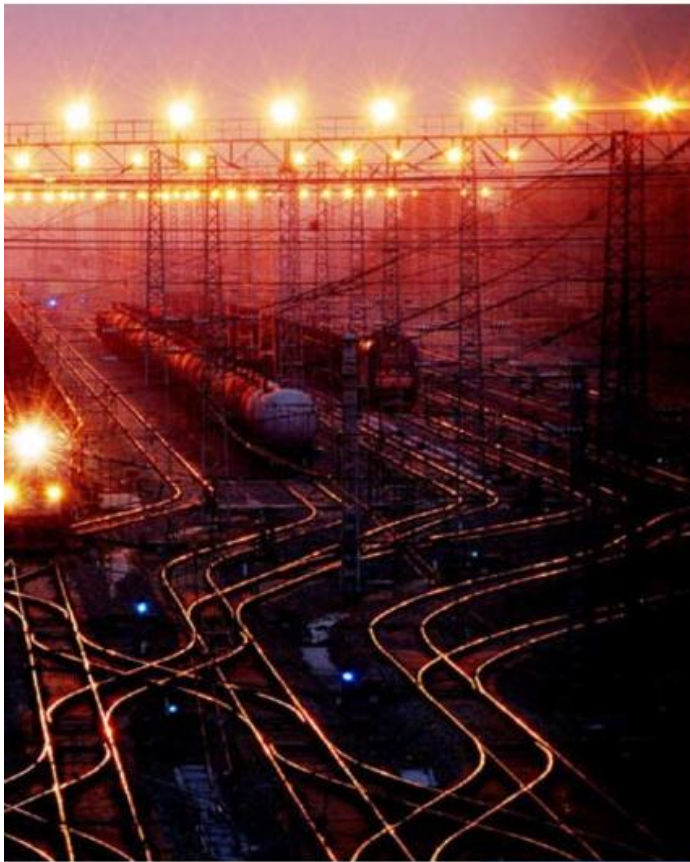


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Do you think Shift2Rail will encourage polarization of industry around some big multinational companies or SMEs will see a growing importance on this market?

Philippe Citroën: While the big European rail companies play an important part of Shift2Rail, the regulation establishing the initiative insists on a significant participation of SMEs, research institutions and academia. In fact there is €150 million of funds in S2R through the Associated Membership application where SMEs or universities could benefit from (on their own or part of consortia) and alternatively another €150 million of S2R funds through the open calls which will take place after the selection of Associated members—which we expect to be announced during this year. So it is evident that this initiative will do as much for SMEs as it will for the large companies. What it will bring for all actors involved is a system-approach to R&D with a massive investment allowing for tangible results that will be tested and, thus, more easily brought to market. We really encourage rail companies and stakeholders in Central and Eastern Europe to participate in Shift2Rail in the future open calls; as we haven't seen a lot of involvement from them up to present.

In this context of introducing new products on the market how do you see the actual progress of cross-acceptance procedures and do you think 4RP will help building a real European market?

Philippe Citroën: The current process of cross-accepting national rules is very useful and, in the current system, is a great help when applying for authorisations. Member States analyse their respective national rules and agree on rules that are equivalent and are accepted in all Member States that are part of this multi-lateral agreement. National Safety Authorities accepting the requirements of other Member States as equivalent reduces the administrative burden related to authorisation. Nevertheless this process needs to be simplified further, for instance with the reduction of national rules. Today we still have too many national rules. I know that the Member States are currently working to clean up the number of rules that will become obsolete with the extension of the TSIs and I would like to emphasise that the entire rail sector, not only the industry, is backing this process.

The Technical Pillar of the Fourth Railway Package, when fully adopted by the Council and the Parliament, will of course bring us much further to a real internal European market for rail. It will build on the work that is done today, such as the reduction of national rules and the cross-acceptance activities. By placing the European Railway Agency at the heart of the Single European Railway Area and giving it the power to issue authorisations in Europe (without being caught up in discussions with dissenting National Safety Authorities) we can move towards a single European market for rail.

This will lead to a reduction of immobilised rolling stock and savings on reduced administrative burden which will be passed onto customers, making rail less costly and even more attractive, not to mention easier to acquire and to put into service.

At the same time homologation and authorization are sometimes used as barriers for accessing international markets. How can you describe the European market in relationship with other international players and the international markets for the European suppliers?

Philippe Citroën: It is true that the European rail industry faces strong barriers of entry in some countries – be it through joint venture requirements, such

as in China, or through the so-called operational safety clause in Japan, or other opaque procurement procedures. In Europe procurement procedures are extremely transparent, making market entry easy. Also, as we are implementing the European framework authorisation procedures are becoming more and more transparent and guidance is provided in more than 20 languages to choose from!

The European market is rather open to non-EU rail industry—and the processes for authorisation and homologation are very transparent, especially when compared with that of certain Asian countries. The transparency of these processes makes it easier for foreign industry to adapt as necessary and meet the procurement requirements. Once the Technical Pillar of the Fourth Railway Package is adopted, this process will be even easier and more transparent, both for EU and non-EU industry.

Last fall UNIFE has issued a new market report. What is the forecast and main drivers of growth for the next 5-10 years on different areas of activity and if there is foreseen any shrinkage of the market can you comment the main causes?

Philippe Citroën: The World Rail Market Study that we announced at InnoTrans in September 2014 has a cautiously optimistic outlook for the Global rail market. Overall, over the next five years, we expect to see 2.7% year over year growth, on average. This of course differs by region but we are quite pleased to see this result considering the world economy has yet to fully recover and governments around the world have less to spend on rail infrastructure. The main driver of growth for the rail supply industry over the next five years will be population growth, increased urbanisation, and of course more concern on the environmental impact of transport—which benefits rail as it is the most energy efficient and carbon conscious of the major transport modes.

Over the next 5 years there will be growth in all areas, but less in certain parts. For example by market segments, Rolling stock will grow at 2.2%, slightly below overall market growth average (2.7%), while infrastructure will grow at the market average. Train Control, services, and turnkey management are expected to exceed the global market growth average by growing anywhere from 3-4.2% per annum up until 2019.

As far as global regions go, there is much more growth

expected in certain regions (Latin America, Asia Pacific, NAFTA) than in areas with more developed rail systems like Europe and the CIS.

When you compare the European market with other international main regions, what do you see as pros and cons for a private investor?

Philippe Citroën: The pros for the European market is that it is heavily developed and there is generally a lot of support for rail travel. At the EU level, there is a strong push for more rail transport in order to meet its transportation and CO2 targets it outlined in the 2011 White Paper for Transport. The EU has also made billions of euros available through the European Fund for Strategic Investments (EFSI), the Connecting Europe Facility, the Structural funds, for developing rail infrastructures (especially the 9 TEN-T Corridors) and hopefully rolling stock. In particular, UNIFE and its members will investigate possible funding opportunities in the so-called Juncker investment plan, based on a partnership between the European Commission and the European Investment Bank aiming at mobilising private investment primarily in strategic areas, including transport infrastructure. EUR 21 bn are made available under the European Fund for Strategic Investments (EFSI) that will complement the existing instruments (Cohesion Fund, CEF, EIB loans). EFSI is expected to generate a



photo: www.interrail.eu

fifteen-fold leverage effect, thus resulting in a massive EUR 315 bn investment plan. The rail industry is very much looking forward to the implementation of the Juncker plan and we will push to target the investments towards rail projects. On the other hand the European rail system is still far from being fully interoperable, although full deployment of ERTMS will help address this issue in the coming years. Therefore, in the short term, some investors may be discouraged especially as far as cross-border sections are concerned.

In a recent hearing before the European Parliament, Transport Commissioner Bulc said that "investments needs are particularly high for the cleaner modes of transport — rail and inland waterways — where missing links and bottlenecks must be solved, notably at the borders, in order to have a unified and more efficient transport system". All in all, I believe that there is clearly momentum for rail investments in Europe. The rail industry looks forward to contributing to the ambitious plans of the European Commission to make railways even more attractive.

The very slow absorption of European funds by the railway sector in many Central and Eastern European member states is still a problem, especially when it comes to EU money allocated to rail projects. What can be done to further address this problematic situation?

Philippe Citroën: Through the Cohesion Fund and the European Regional Development Fund (ERDF), the European Union makes several billion Euros available for investments into transport projects in economically less developed European Member States. However, some Member States have found it challenging to properly absorb these funds which would enable them to rebuild their railway infrastructure and when possible to renew their rolling stock. Together with its national associations and with the Community of European Railways (CER), UNIFE advocates for the use of these funds for rail investments in the Member States and promotes conditions favourable to railway funding at the EU level.



Raising awareness on the existence of these funds and building capacity to use them is the first step. Over the past years, UNIFE has organised several workshops with transport stakeholders (including transport and European Affairs national ministries) in Central and Eastern Europe to address this important issue. However, this is clearly not enough. Better communication is needed between European and national authorities in order to build the necessary capacity for an efficient use of EU funds. The creation of dedicated national agencies for EU-funded rail projects (already successful in the road sector) is a concrete proposal that UNIFE would like to re-launch if no significant progress is made in terms of absorption rate. In this respect, UNIFE looks forward to working fruitfully with Romanian Commissioner for Regional Policy Corina Crețu to ensure the best use of available EU funds.



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