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Barriers to Investment & Development in Polish Rail

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Coordination of rail and road sector

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Problem

- No coordination of the transport policy between rail and road sectors
- No mechanisms promoting rail freight vs. road freight
- Modernizations planned without acknowledging the actual market demand and transport system capacity and needs, needs of freight ignored
- „From rail tracks to lorries" - rail infrastructure is slow and expensive, which leads to the rail demise and volume transfer onto roads
- PKP S.A. used all means of preserving the privileges of PKP Cargo: long-term leases of key last mile infrastructure, blocking entry of independent rail operators
- Lack of coordination of investments in rail and road leading to bottlenecks

Solution

- Setting expectations for modal split and its implementation
- PLK's investments in key cargo lines, which are to ensure access (of appropriate load and speed parameters) to aggregate mines, hard bituminous coal mines, to refineries, chemical plants, etc.
- Shift of all state owned last mile infrastructure into PLK ownership and management
- Planning and execution of railway line renewal and repair prior to road constructions in a given region

Position of the Regulator

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Problem

- Historically the rail market had been regulated more by the Office of Competition and Consumer Protection (UOKiK) and the European Commission and not by the UTK
- The Chairman is subordinate to the Minister of Infrastructure, who also supervises PKP S.A. and its subsidiaries, i.e. PKP PLK, PKP Cargo, PKP Intercity
- Such regulatory architecture creates a temptation of „a soft" regulation where really impartiality and concern for public interest are needed
- UTK - insufficient number and quality of staff, poor financing, lack of clear prerogatives ⇨ poor and a disrupted competition mechanism

Solution

- UTK's Chairman should be subject directly to the Council of Ministers
- Objectives of the UTK's Chairman as a strong regulation body: to promote competition on the market, to protect rail customers' rights (of passengers and load senders), to ensure open and equal access to the whole infrastructure for all, to guarantee traffic safety
- Providing the UTK's Chairman with resources and funds appropriate for the dignity of his office

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Infrastructure management

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Problem

- PKP S.A. – owner of over 50% of PKP PLK shares – ability to exercise control over PLK
- PKP S.A. is also the owner of the majority of land, tracks, yards and terminals, also of these made available by PLK
- Lease charges for PKP S.A. drain PLK, which decreases PLK's investment capability and increases infrastructure access rates
- PKP S.A. leases to PKP Cargo many key components of the general purpose sidings and terminals
- PKP Cargo and PKP S.A. discriminate against independent operators as regards access to the general purpose sidings
- Following the company's privatisation, PKP Cargo's loading facilities may lose their rail function

Solution

- PLK should take ownership over the entire rail infrastructure, without lease from PKP Final relocation of tracks and loading yards still disposed of by PKP S.A., PKP Cargo and PKP Cargo's subsidiaries for the benefit of PLK
- Separation of PLK from the PKP Group without draining the Railway Fund and putting the problem *ad calendas graecas*
- Target model of PLK operating as a government unit following the model of the General Director for National Roads and Motorways

Quality of infrastructure

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Problem

- The rail infrastructure in Poland is in a disastrous condition, with speed and load limits
- Bottlenecks on all lines, including new modernized ones:
  - restrictions of the train speed
  - restrictions on the axle load
  - restrictions on the length of the trains
  - low capacity
- Most trains do not require the highest engineering standards that are expensive to achieve, but simply need restoration of normal technical parameters

Solution

- PLK's obligation to discuss investments with passenger and freight-carrying operators, using the Annual Railway Timetable and Individual Railway Timetable as well as with other clients, e.g. users of sidings
- Review of investments analyzing the actual results in transport corridors context
- Implementation programme of network restoration and removal of the bottlenecks

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System of rail track access fees

Problem

- Fees are too high in comparison to market possibilities
- Very high charges for really low quality
- The fee system changes every year – for operators fees are unstable
- Prices do not create favourable conditions for innovations and ecology – high prices for container and heavy bulk cargo trains
- Higher fees – fewer passengers and less cargo, and in consequence even higher fees and fewer trains in the following year
- Pricing is contrary to the provisions of the I Railway Package, especially to the article 8, point 1 of the Directive 2001/14/EC of the European Parliament and of the Council of 26 February 2001 - „ The charging system shall respect the productivity increases achieved by railway undertakings."

Solution

- Decreasing and stabilising access fees
- Introducing preferences for innovation and ecology: containers, heavy bulk cargo trains, technologies which decrease dynamic effects on infrastructure (*track friendly*)
- Extending a 10-year moratorium with clear indexation principles on the proposed solution
- This will enable operators to make endeavours to invest in modern rolling stock, which in turn should increase transportation, and thus PKP PLK's income

Rail infrastructure investments

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Problem

- PLK's investment funds are allocated principally for the passenger traffic, which means a progressing decline of railway lines material to freight-carrying operators
- Fewer passengers and less loads at the rail bring about increased costs of the infrastructure maintenance and greater external costs generated by the road transport
- Rail is threatened by a collapse: the Government has applied for a transfer of 4.8b PLN from the rail investments to the road ones

Solution

- No shift of funds from rail to road – rail needs more funds and better investment management
- Giving priority to rail investments, supported by real actions and financing
- Focus on restoration projects - much cheaper than the big modernization programs, and relatively easy to prepare
- Introduction of the project management on all stages of rail investment preparation and realisation for the purpose of greater absorption of European funds

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PKP Group protection

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- The PKP Group ensured PKP Cargo and PKP Intercity protection against market stimuli which slow down the restructuring and privatisation of these entities
- A ten-year contract for PLN 240 mln annually for PKP IC with the Ministry of Infrastructure on interregional transports without conducting tender – what about a tender and competing undertakings?
- Przewozy Regionalne (Regio) under local governments as a clear example of methods and effects of the PKP Group's operations ⇨ Przewozy Regionalne, PKP Intercity have severe operating and financial problems ⇨ payment hold-ups in PLK
- Dworzec Polski (the Polish Railway Station initiative) as a costly attemp to create a parachute for PKP S.A.

Solution

- Legal and property separation of PKP PLK from the PKP Group
- Privatisation of PKP Cargo and PKP Intercity
- Management over railway stations should be given to local governments and to PLK, abandonment of the expensive concept of establishing a new company which will drain the operators' pockets and make passengers leave the railway
- Liquidation of PKP S.A.

Effects of the decade of sham reforms

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Problem

- PKP S.A. was initially set up to sell off PKP's redundant assets, pay all debts and then be liquidated
- Meanwhile PKP S.A. has become a rentier – it collects lease fees from PLK, PKP Cargo, PKP IC, PR, KM etc.
- PKP S.A. does not need passengers and cargos to „continue its operations"
- The PKP Group, as the PKP Cargo and PKP IC's owner, pursues dishonest policies of supporting its „daughters" and of blocking competition

Solution

- Eliminating PKP S.A.'s monopoly on the formation of the rail transport market in Poland and of its regulatory system
- Immediate transfer of all state owned last mile infrastructure to PLK – at least 1 in 7 are still owned by PKP S.A., PKP Cargo and subsidiaries
- Ownership transfer of entire infrastructure to PLK (tracks, land, yards, railway stations)
- Sensible privatisation of PKP S.A.'s subsidiaries, PKP Cargo and PKP Intercity - not through the sale of a monopoly to a foreign state-owned rail operator

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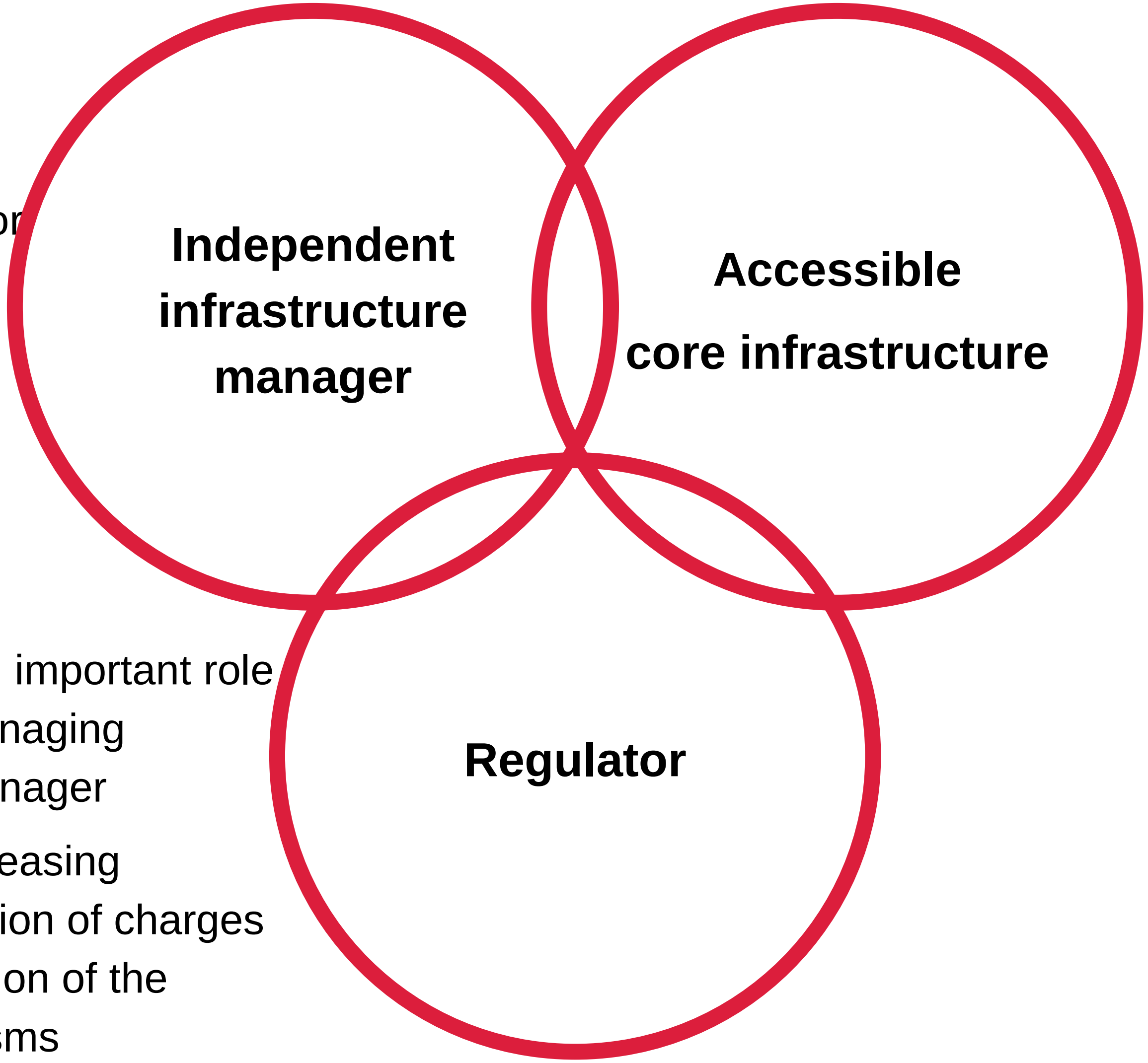
Rail infrastructure separation and adequate financing are a pre-requisite for rail success vs. road



- Core infrastructure should include sidings and terminals
- Window of opportunity for the governments to correct allocations within existing rail holdings before infrastructure separation

- Regulator has an important role in proactively managing infrastructure manager
- Should drive increasing efficiency, reduction of charges and implementation of the market mechanisms

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