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# EU unveils rail network reform proposal

By Joshua Chaffin in Brussels and Mark Odell in London

Europe's vertically integrated rail companies will have to erect firewalls between their business units before they can compete for passengers in other member states, according to a new EU proposal to liberalise the continent's rail industry.

The proposal, presented on Wednesday by Siim Kallas, the transport commissioner, marks the latest attempt by Brussels to introduce greater competition into an EU rail network that remains a patchwork of national systems.

Mr Kallas had originally sought a full separation between the companies that own railway infrastructure and those that operate train services as the best way to achieve this, after previous attempts to do so over the past two decades have achieved limited success.

The commission believes that such an approach, known as "unbundling", would level the playing field so that new operators would be better equipped to compete with incumbents in foreign markets.

But after pressure from Germany and France, Mr Kallas watered down the proposal. Instead, Deutsche Bahn and other vertically integrated operators would be required to install a series of internal firewalls between their businesses. The aim is to prevent the infrastructure manager – which controls operations such as route allocation, technical standards and maintenance, and benefits from direct state support – from cross-subsidising the train operating business.

The separation would also include "cooling off" periods before executives can switch from one to the other.

Germany's Deutsche Bahn, Europe's largest state-owned operator, has long resisted attempts to break it up. Its campaign was backed by France's SNCF, the second-biggest operator, which has been separated from the infrastructure provider. However, late last year the new government of François Hollande indicated it would reverse the split.

Deutsche Bahn refused to comment and referred all questions to the government. The government told DPA that vertically integrated Deutsche Bahn was a "successful model" which compared to elsewhere in Europe and lay at the forefront of fostering competition.

In response to the German and French intervention, the commission has inserted a so-called "retaliation clause". This would allow other member states to bar other national operators from competing for service in their markets, if the vertically integrated operator had not erected internal barriers to the commission's satisfaction.

The proposal also seeks to create a common certification scheme for trains to save money for operators. At present, for example, it can take two years to get a locomotive built in one country certificated to operate in another. Officials also hope more common standards will stop the proliferation of different signalling systems, which have stifled cross-border competition. The few cross-border services that do run have multiple signalling systems on board.

The commission has estimated that its proposal could yield €500m in savings by 2025.

Mr Kallas has argued for the latest reform by pointing to declining passenger figures in some member states. He has warned that without new investment and more innovative service offerings, rail will lose out to road and airlines and will be doomed to "an irreversible slide down the slippery slope to a Europe where railways are a luxury toy for a few rich countries".

But Mr Kallas' plan has faced objections – not least because the unbundling at the centre of his scheme is modelled on privatisation of rail in the UK almost 20 years ago.

"It's been a very mixed experience," a commission official said. "In the early days, a lot of things were done wrong . . . but that's all in the past now."

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