

SCI/VERKEHR BERLIN 2016



EUROPEAN RAIL FREIGHT TRANSPORT MARKET

Developments – Volumes - Players

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With its “**European Rail Freight Transport Market**” Multi Client Study, SCI Verkehr is responding to the current high demand for information on the present situation in the market for rail freight transport and its operators. The aim is to make available a reference work which provides comprehensive information about all key companies active in rail freight transport in Europe, covering their market environment and competitive situation. SCI Verkehr has already compiled six MultiClient Studies on this topic.

European rail freight is still in a difficult situation despite a moderate increase of 1% in transport performance in 2014. Several railway operators have been implementing restructuring activities and cost-savings measures for some years now, but without significant achievements in general.

In concrete terms, the market study includes:

- A comprehensive overview of the European railway freight transport market, including major trends and central points of development
- An analysis and benchmark of the most important rail freight transport operators in Europe
- A deep analysis of the rail freight transport in 18 country markets, including
 - Development of basic parameters (rail freight performance, GDP, modal share)
 - Outlook on the medium-term period, evaluation of the market drivers
 - Development of the transport performance per destination (national, export, import)
 - Overview of the rail freight infrastructure and major transport corridors
 - Development of the goods structure transported per rail
 - Development of market shares of national incumbents and independent private competitors
 - Rail freight turnover of the most important players measured in EUR
 - Information about most important changes in operator landscape
 - Overview of freight rolling stock fleet per country
 - Fact Sheets of approx. 30 top operators

This MultiClient Study is based on numerous information sources, which are continuously analysed and evaluated, and are recorded in SCI Verkehr’s database system.

The English version of the study is available from February 2016 at the price of EUR 3,300 + VAT.

SCI Verkehr is an independent consultancy company for the mobility sector with activities around the world. We specialise in strategic advice to the railway and logistics industry. We have established an international network of professional experts. Our activities focus on companies in the transport and rail industry and in the transport operation, logistics and financial sectors, as well as the transport and economics departments at national, regional and municipal levels.

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2 Rail Freight Market in Europe

Poor financial performance, instability, changes in the customer landscape and the strength of road transport regarding factors such as cost and flexibility put rail freight transport structurally under pressure. Rail freight companies have to react with investments to increase quality and productivity, flexible networks and tailor-made assets. In this regard, sufficient financing and operative implementation are indispensable. The companies who can respond to customer demands in a timely and flexible manner, who can use networks and partnerships in a profitable way and effectively implement necessary changes will be able to expand their positions, gain additional market shares and ensure a sustainable future development.

	Rail infrastructure [km]	265,000
	Modal share rail* [%]	18%
	Market volume for rail freight transport [EUR million]	17,500
	Transport volume [million t]	1,720
	Transport performance [billion tkm]	440
	Expected tkm growth [2014-2019 p.a.]	1.2%
	Share of international rail freight transport [% of tkm]	51%
	Incumbents' market share [% of tkm]	68%

*available for 2013, EU-28

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Central points of the rail freight transport development in Europe could be summarized as follows:

Firstly: Rail freight transport shows some structural weaknesses and is losing ground in the transportation market. Intermodal competition is increasing and intensifying problems as well as hampering the competitiveness of rail freight operators.

Secondly: Structural changes within the rail freight market also present additional problems for the operators. There is a demand for innovative tailor-made assets.

Thirdly: Rail freight companies are still achieving unsatisfactory economic results, which in turn lead to a lack in investments.

Fourthly: Volatility and instability are a prevalent issue. Rail freight companies have to take early warning systems seriously to react quickly if required.

Rail freight transport shows some structural weaknesses and is losing ground in the transportation market. Intermodal competition is increasing and intensifying problems as well as hampering the competitiveness of rail freight operators.

- Innovation in the automotive industry is advancing: a significant increase in productivity is expected
- European modal share without significant changes – ambitious goals of increasing rail transport still remain unfulfilled
- The top 5 countries account for more than 50% of the transport performance, with Germany far ahead in first place with a quarter of the total performance
- Rail freight is on path of moderate growth: volatility is still high, dependent on economic environment

Tasks for rail freight operators

- Rail freight operators have to strengthen their own productivity significantly. Primary goal: evaluation of existing processes and efficiency by using modern information technologies
- The investment volume in IT-Projects is not decisive. A key success factor is the ability to implement these projects effectively

[...]

Rail freight is on a path of moderate growth: volatility is still high, dependent on economic environment

Development rail freight transport in Europe in comparison

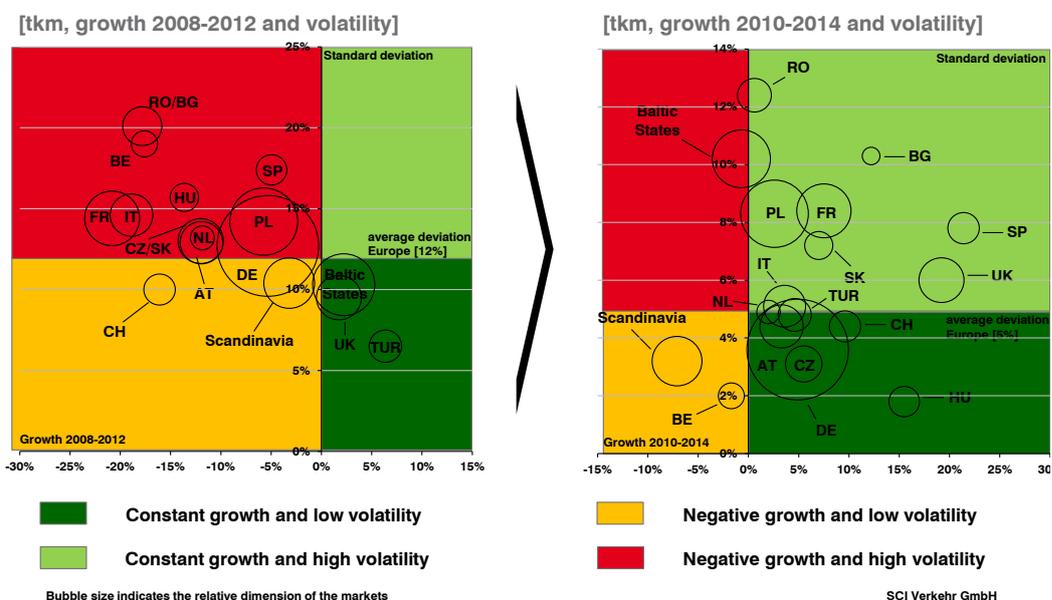


Figure 7: Development rail freight transport in Europe in comparison

[...]

Structural changes within the rail freight market also present additional problems for the operators. There is a demand for innovative tailor-made assets.

- Increasing integration of the national economies throughout Europe has led to a rise in cross-border connections, amounting to half of the total transport performance
- Rail Freight Corridors as the backbone for the European rail freight, largest volume is concentrated along three of them
- Barriers for rail freight in Europe: while 50% of rail freight transport are cross-border transport, many countries still have their own specific requirements
- Railway companies should operate under the changes, an adjustment on development of key industries is necessary

[...]

Increasing integration of the national economies throughout Europe has led to a rise in cross-border connections, amounting to half of the total transport performance

Share of the national and international rail freight transport in European countries in 2014 [% , bn. tkm]

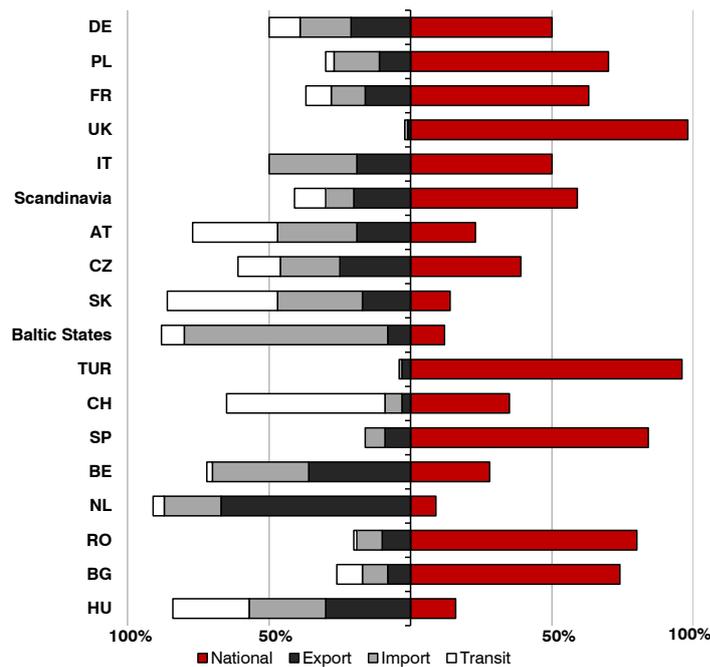


Figure 8: Share of the national and international rail freight transport in European countries in 2014

[...]

Coal industry in Europe: while the domestic production of coal is expected to decline, the demand will be covered by import

- Demand for coal will continue to decrease in the medium-term, but it will remain of essential importance for the rail transport in some countries. The reasons for this are to be found in the slight economic growth, decommissioning of coal plants, growth of renewable energies and higher energy efficiency

Major European coal production locations

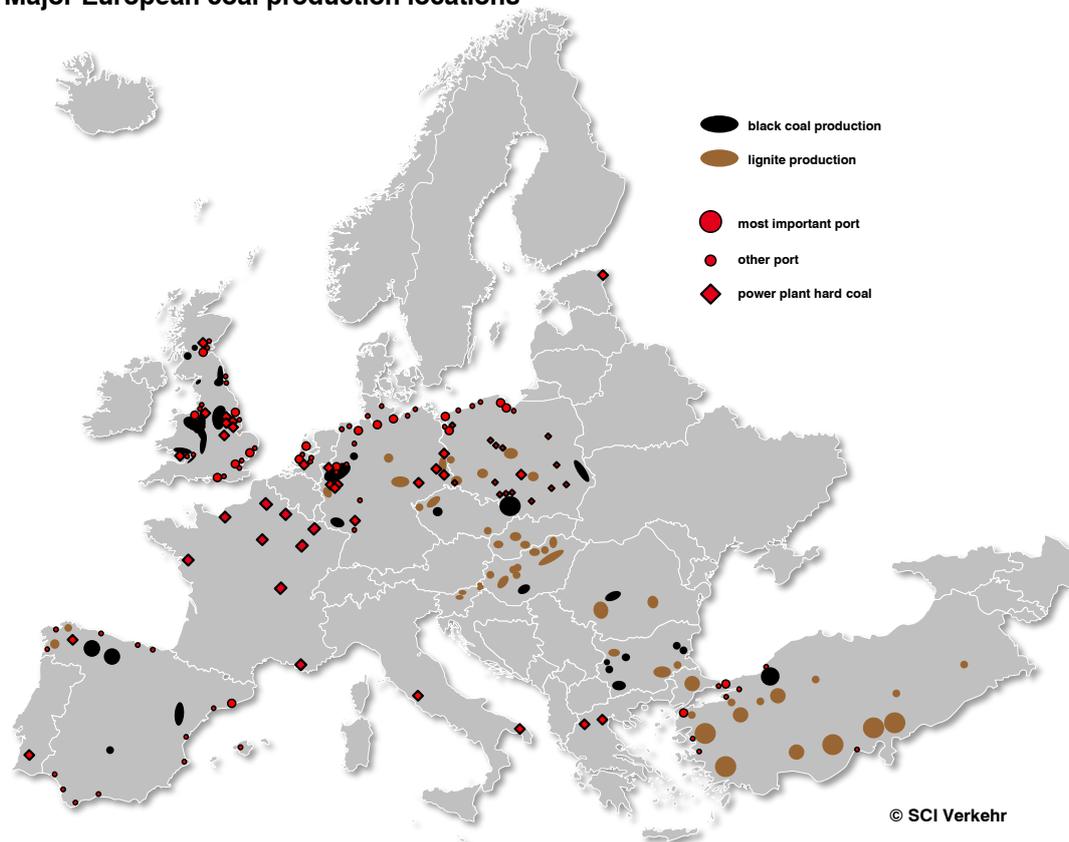
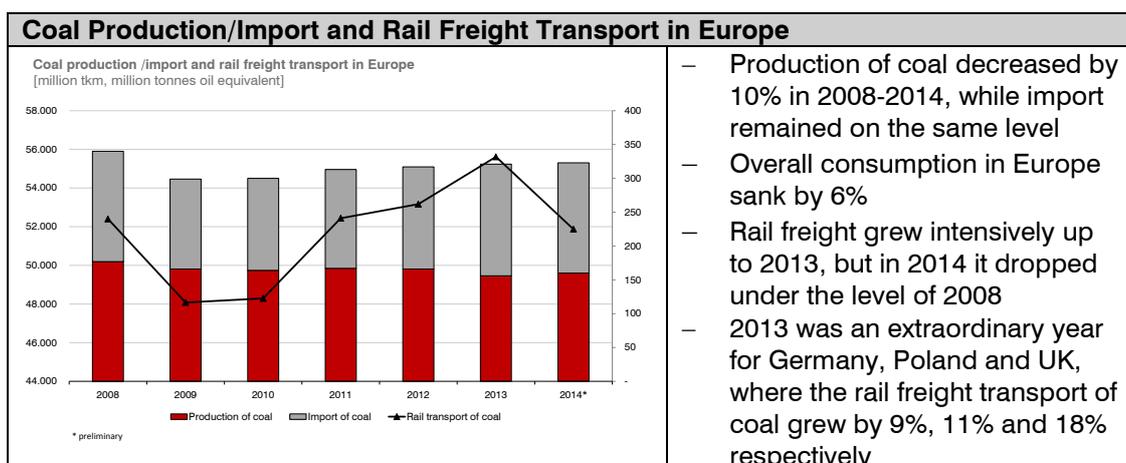


Figure 13: Major European coal production locations



[...]

Railway Market for Coal	
-	Countries with a high coal share in railway transport performance: Poland, UK, Germany, Latvia, Czech Republic, Netherlands, Romania, Turkey
-	[...]

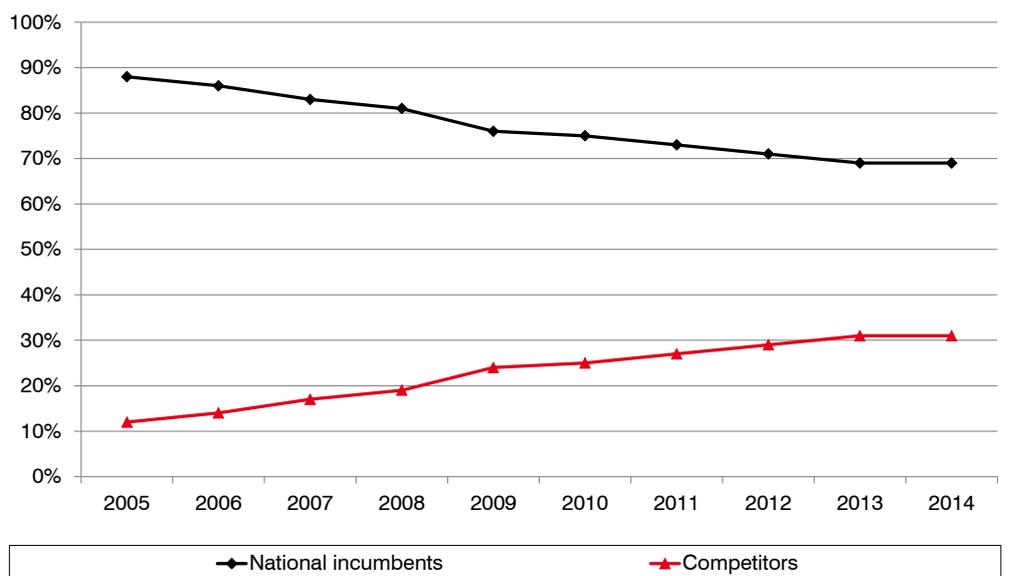
[...]

Rail freight companies are still achieving unsatisfactory economic results, which in turn lead to a lack in investments.

- The rail share of national incumbents decreased slightly and achieved XX%, competition is driven by the expansion of the state railway's foreign subsidiaries
- Some changes in the market and owner structure occurred in 2014-2015; logistic providers with growing interest in railway assets
- Some railway operators continue to generate negative financial results despite restructuring activities and cost-saving measures

[...]

Market shares: incumbents and competitors
Europe 2005-2014 [tkm]



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Figure 22: Development of rail freight market shares incumbents and competitors [2005-2014]

[...]

Some changes in the market and owner structure occurred in 2014-2015; logistic providers with growing interest in railway assets

An interesting trend is noticeable with the large logistic or shipping companies, which are trying to include railway in their supply chains: Swiss company MSC Rail, a part of the **shipping company MSC**, has received permission from the Portuguese competition authority to take over the freight rail operator **CP Carga**.

[...]

Development of railway operators in Europe [2014]

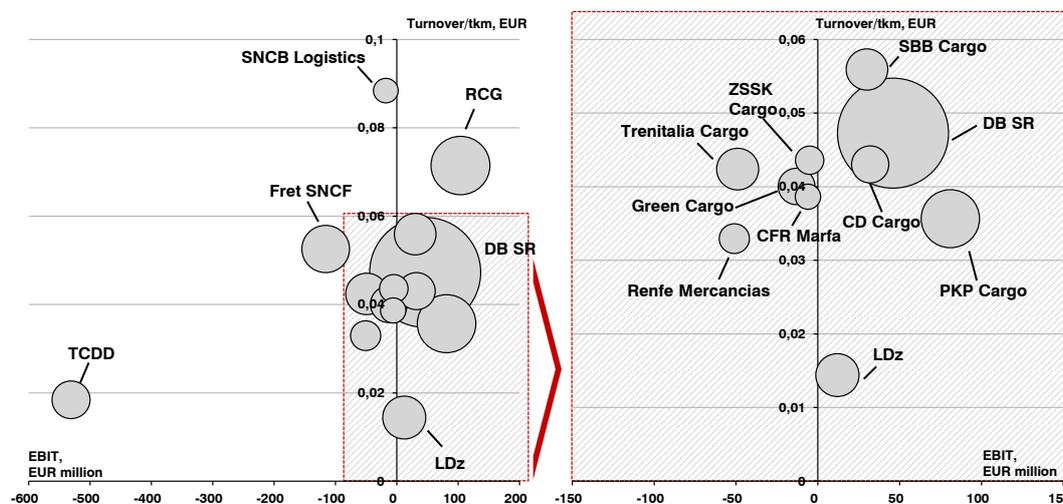


Figure 28: Benchmark railway freight operators [tkm, turnover, EBIT]

Several railway operators implemented major restructuring programmes:

Company	Programme
DB Schenker Rail	<ul style="list-style-type: none"> Action plan for Germany, has been implemented since 2012 (optimisation of the freight wagon management, maintenance operations, increase of energy and operational efficiency, increase of capacity utilisation) "Zukunft Bahn" (Future of rail operations), developed in 2015
Fret SNCF	<ul style="list-style-type: none"> [...]
SBB Cargo	<ul style="list-style-type: none"> [...]
RCA	<ul style="list-style-type: none"> [...]
PKP Cargo	<ul style="list-style-type: none"> [...]
SNCB Logistics	<ul style="list-style-type: none"> [...]
Trenitalia Cargo	<ul style="list-style-type: none"> [...]
Green Cargo	<ul style="list-style-type: none"> [...]

Volatility and instability are a prevalent issue. Rail freight companies have to take early warning systems seriously to react quickly if required.

Expectations for the next years remain unclear, rail freight will be confronted with an increasing number of challenges:

- The slowdown of the economy in China could affect hinterland transport; growing competition between German, Polish and ARA-ports
- The political crisis in Ukraine and the conflict with Russia are going to impact on the future growth of the East-West corridor, which is particularly vulnerable. Expected growth towards CIS-countries does not take place
- Tense situation within the EU due to migrant crisis, which also has an impact on rail freight (e.g. stop of rail freight operations through the Eurotunnel for several days, significant delays in Southern Europe due to the situation along the borders)
- Plunging oil prices could set off a chain reaction which negatively impacts many others industries

Tasks for rail freight operators

- Rail freight companies have to adjust to the possible drop in demand in the near future. Reaction patterns, customer portfolios, agreements and contracts have to be analysed to overcome and to emerge stronger from this crisis. Opportunities for the efficient renovation, strengthening of effectivity and the investment in a change process need to be evaluated. Investment opportunities for newcomers and consolidators should be reviewed.

[...]

- The railway performance grew by 1% in 2014. Up to 2019, the growth rate is expected to be moderate; development is highly susceptible to volatility in general
- For the period up to 2019, SCI Verkehr expects a compound annual growth rate (CAGR) of only about 1% p.a. for rail freight transport in Europe

[...]

3 Country markets

3.1 Romania

Romania: overview

	Rail infrastructure [km]	11,730
	Share of electrified tracks [%]	38%
	Modal share rail [%]	22%
	Market volume for rail freight transport [EUR million]	~550
	Transport volume [million t]	51
	Transport performance [billion tkm]	12.4
	Expected tkm growth [2014-2019 p.a.]	0.2%
	Share of international rail freight transport [% of tkm]	20%
	Incumbent's market share [% of tkm]	54%

The Romanian railway market is the third largest in the Eastern Europe. The importance of rail transport has drastically decreased since 2000 and rail freight performance is still decreasing. Competition on the market has developed very dynamically, but the landscape is highly concentrated on a few players. CFR Marfa went through an extensive restructuring process and to be prepared for privatization process in 2016.

Development of basic parameters in Romania (indexation) [2000-2014]

Development of freight transport performance, modal share and GDP in Romania in 2000-2014 (indexation)*

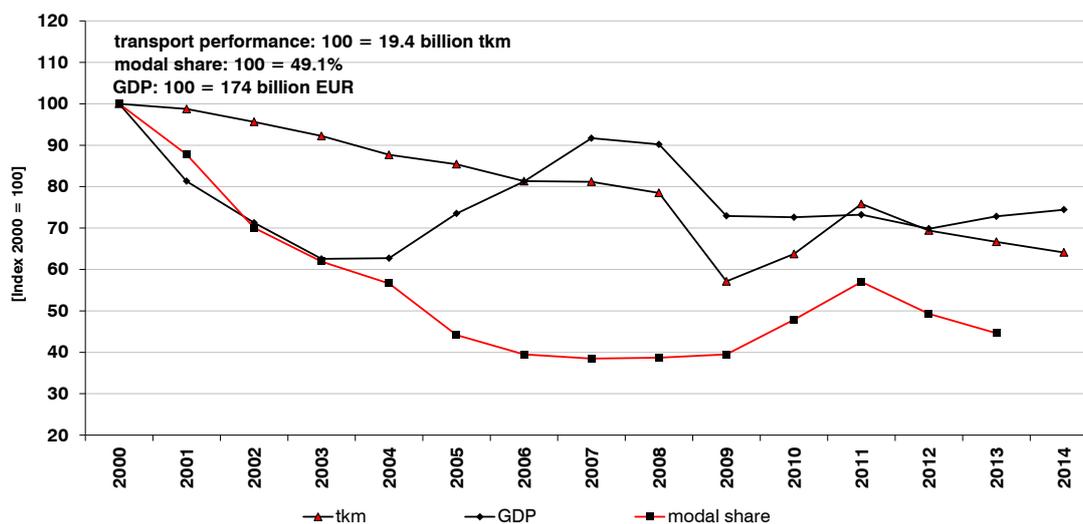


Figure 79: Development of basic parameters in Romania [2000-2014]

* GDP: [EUR billion], modal share rail: [%], freight transport performance: [billion tonne-kilometres]

The development of basic parameters in Romania can be defined as follows: [...]

Outlook: Romania

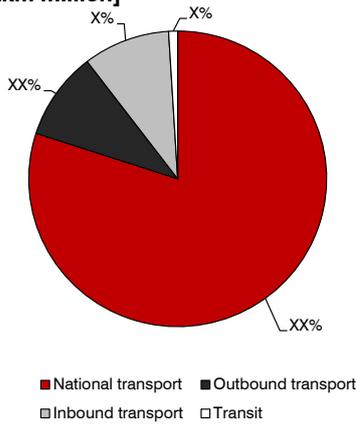
SCI Verkehr expects a rail transport performance growth of 0.2% p.a. up to 2019 and the following issues for the future development of the railway transport sector in Romania:

[...]

Transport destination structure 2014

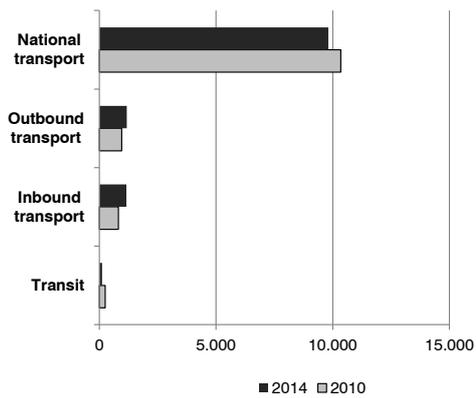
Transport destination development 2014

Transport per destination in Romania [2014, tkm million]



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Transport development for selected years per destination [tkm million]



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Figure 80: Transport destination structure and transport destination development in Romania

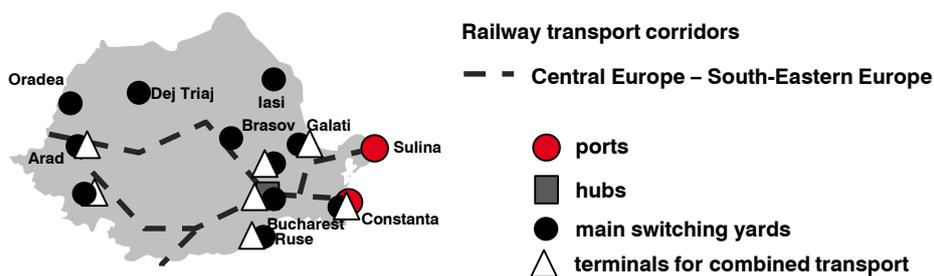
- With a share of 80% in Romania's transport performance in 2014, national transport was the most important area in 2014. However, national transport has slightly decreased in comparison to 2010
- International transport has a low share due to weak economic development and unsatisfactory infrastructural conditions

Transport routes/rail freight infrastructure

The railway infrastructure in the region is in an unsatisfactory condition. It has been neglected over the past 20 years and has become obsolete compared to Western European standards. Investment budgets and maintenance funds were often insufficient.

In Romania, about 8,000 km of railways are due for capital repairs. Romania already carried out several modernisation projects (the focus was on the rehabilitation of Corridor IV: Bucharest – Campina, Bucharest – Constanta and Campina - Predeal) with financing from non-reimbursable European funds, through the Sectoral Operational Program – Transport (SOP-T) 2007-2013. The total budget of this program was estimated at EUR 5.7 billion.

[...]



Schematic figure

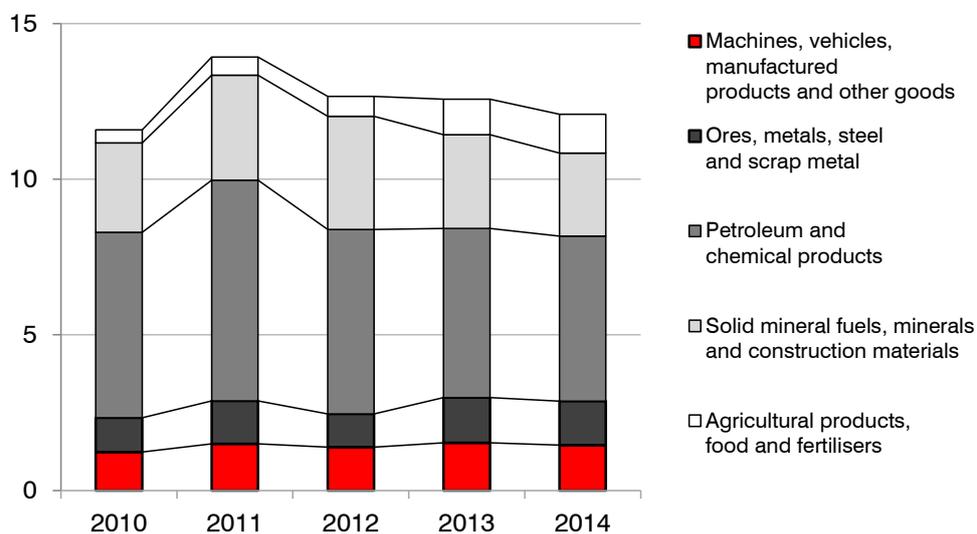
Figure 81: Transport routes/rail freight infrastructure in Romania

Corridor	Comment
Central Europe – South-Eastern Europe	<ul style="list-style-type: none"> – From Germany to Turkey via Romania – Actively developing corridor, but still missing numerous links, since most of the multimodal connections between Hungary, Bulgaria, Romania and Greece remain to be built or substantially upgraded – Transport volumes from Germany to South-Eastern Europe are still not large enough, but an increasing number of offers from railway operators on the corridor

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Transport goods structure [billion tkm and in%]

Share of rail freight transport goods; change of transport performance in Romania 2010-2014 [bn. tkm]



Source: EU Statistics, SCI Verkehr GmbH

Figure 82: Transport goods structure in Romania

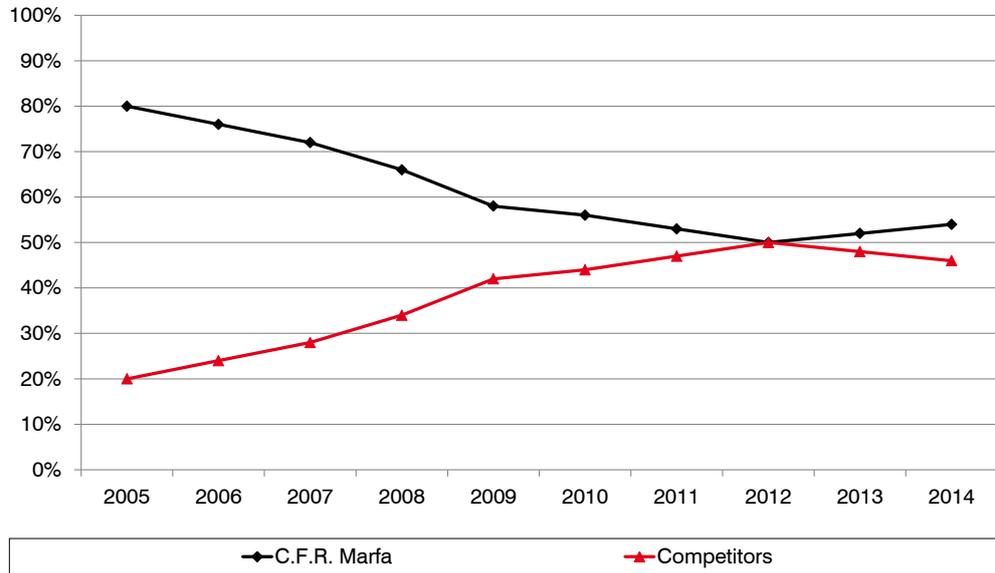
The goods carried by rail are mostly crude oil and refined oil products, followed by solid mineral fuels such as coal, lignite and coke.

Industry	Analysis
Oil	- [...]
Construction	- [...]
Automotive	- [...]
Intermodal	- [...]

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Rail freight transport operators [2014]

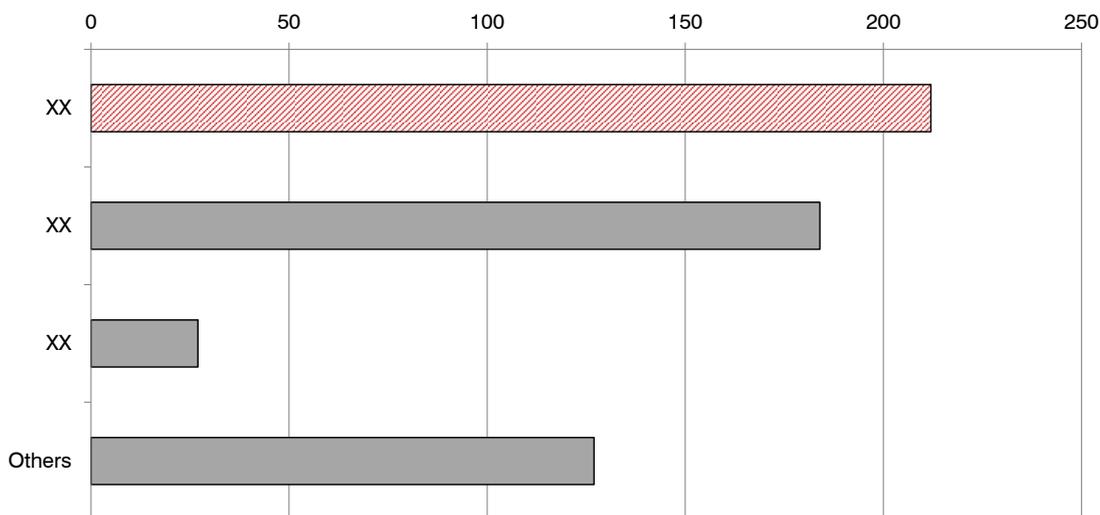
Market shares: incumbents and competitors
Romania 2005-2014 [tkm]



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Figure 83: Rail Freight transport operators in Romania

Top rail freight operators by rail freight turnover (partly estimated)
Romania 2014 [EUR million]



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Figure 84: Top rail freight operators by rail freight turnover in Romania [2014]

Company / Market Position	Market Share Rail Freight Transport 2014 [tkm, %]*
<p>The Romanian government officially announced first plans to privatise CFR Marfa in 2007 as an obligation placed on the Government of Romania by the international lenders of the country: the International Monetary Fund (IMF), the World Bank and the EU. In 2013, an attempt to privatise CFR Marfa failed, when the local privately-held railway operator and main competitor of CFR Marfa, Grup Feroviar Roman, failed to pay the price of EUR 202 million. Following the failed attempt as well as the completion of a restructuring process of CFR Marfa, new plans for a privatisation were unveiled at the beginning of 2015. According to new plans, the Romanian Government attempts to sell CFR Marfa by the end of 2016. The floating of the company on the stock exchange is also being considered by the Transport Ministry.</p> <p>[...]</p> <p>(For detailed information see annexe CFR Marfa factsheet)</p>	~54.0
<p>Grup Feroviar Roman (GFR) is Romania's largest private rail freight operator. As a Grampet Group company GFR has the capacity to provide truly integrated transport services.</p> <p>(For detailed information see annexe GFR factsheet)</p>	~XX.0
<p>DB Schenker Rail is present in the market with DB Schenker Rail Romania SRL (formerly Logistic Services Danubius). Holding company and safety licenses for the entire Romanian rail network, DB Schenker Rail Romania operates services with about 50 locomotives and over 2,500 wagons, among others: for clients from the cement, agriculture and automotive industry.</p> <p>[...]</p>	~XX.0
<p>Servtrans is a private company, which began operation in 2002 as a part of the IRS group with shunting services between Bucharest and Campina.</p> <p>[...]</p>	~X.0
<p>Cargo Trans Vagon is part of the TTS Group, a global enterprise for the marine and offshore industries.</p> <p>[...]</p>	~X.0
<p>Rail Cargo Austria was the first foreign operator which announced the operation of rail services in Romania. The company received a license in 2010 and started operation between Romania and Austria a year later.</p> <p>[...]</p>	~X.0
<p>VFLI Romania S.R.L. was established in 2003 and started its operation with shunting services for Lafarge, a manufacturer of construction materials. In 2010, the company was renamed Captrain Romania and received a license in 2011.</p> <p>[...]</p>	~X.0

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Rail freight rolling stock

Type	Number	Incumbents		Competitors/Leasing	
		Share [%]	Average Age [years]	Share [%]	Average Age [years]
E-Locomotives	XX	68%	XX	32%	XX
D-Locomotives	XX	64%	XX	36%	XX
Freight wagons	XX	75%	XX	25%	XX

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[...]

CFR Marfa SA (CFR)		Romania			
Dinicu Golescu street, no. 38, sector 1 Bucharest Romania T: (+40) 21 225 1112 F: (+40) 21 225 1113 office@marfa.cfr.ro www.cfrmarfa.cfr.ro		Business activities: <ul style="list-style-type: none"> • Rail freight transport <ul style="list-style-type: none"> – Block train services – Single-wagon services • Road freight transport/logistics 	Operates rail freight transport in: RO Share in the domestic market (tkm): RO: 54%		
Management:		Dan Valentin Belcea (Director General)			
Form of company:		Joint-stock company			
Shareholder:		100% state-owned			
Figures Performance and Company Figures (end of business year December)					
Volume 2014 (million t)	Performance 2014 (million tkm)	Employees 2014	Turnover 2014 (EUR million)	Net profit 2014 (EUR million)	
28	5,330	6,400	206	-6	
Organisation and Positioning <p>CFR Marfa is the state-owned Romanian freight railway and the largest operator in Romania. The company's main activity is the transportation of coal, cement, chemical products, grain and oil in domestic and international transport. CFR has lost large parts of its market share, which in 2003 amounted to 90% and declined to 48% in 2014. CFR Marfa suffers from a low productivity, old rolling stock and an the poor condition of infrastructure which hinders the connection to the European market.</p> <p>The Romanian government officially announced the privatization of the company in 2007, but this has not yet been completed. The privatization of CFR Marfa was one of the obligations placed on the Romanian government by the international lenders to the country. In 2013, the privatization process failed when bidder Grup Feroviar Roman was unable to provide the necessary funds for the transaction. In 2015, another attempt was announced for 2016.</p> <p>CFR Marfa has a fleet of around 870 locomotives and 37,000 freight wagons, but because of their poor technical state the company can only use about 60% of the wagons.</p>					
Current Business Development <ul style="list-style-type: none"> – In 2014, the cost reduction measures seemed successful as the overall result was slightly positive after six years of losses. – The privatisation of CFR Marfa in mid-2013 was unsuccessful. Grup Feroviar Roman won the second privatisation tender for CFR Marfa, offering EUR 202 million for the stake and promising to make EUR 204 million of further investments in the company. This price was not paid by the deadline established, according to the official explanation. – The company underwent intense restructuring by cutting personnel, selling outdated wagons and stopping deliveries to indebted clients. In 2014, 2,300 employees were laid-off and 2,500 freight wagons sold. – In 2014, the locomotive maintenance unit IRLU S.A announced bankruptcy. 					
Growth Opportunities/Outlook <ul style="list-style-type: none"> – According to new plans, the Romanian government, following the unsuccessful privatisation in 2013, will first restructure the freight carrier and restart the privatization process. The IPO was announced for 2016, where 51% of the share will be auctioned off. – In 2015, the company won an important contract for the transport of 18 million tons of coal over three years for Turceni, Craiova II and Isalnita power plants. 					

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