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RE: European Union's Fourth Railway Package:
Opinions on Finland's statement about the market effects

1. Introduction

On 26.4.2013 Finland's Parliamentary Grand Standing Committee¹ adopted without discussions the statement² given by its Parliamentary Standing Committee on Transport

¹ http://www.eduskunta.fi/faktatmp/utatmp/akxtmp/suup_16_2013_p.shtml (17 § U 8 / 2013 vp)

² http://www.eduskunta.fi/faktatmp/utatmp/akxtmp/livl_10_2013_p.shtml

and Communications on 23.4.2013, about the market effects of EU's Fourth Railway Package. According to the statement the opening of passenger traffic to competition is an inevitable continuation of earlier related decisions. However we are of the opinion that the problems stated as being seen in the package seem to be used to support the current monopoly status of the incumbent state railway operator, VR.

For these reasons we want to present opinions that differ from Finland's official position. Our comments are in the same order as the statements of the Committee on Transport and Communications in its section "Problems in opening to competition"³. Quotations of the concluding section have been separated from our text in **bold Arial narrow font** and opinions in the other paragraphs in the normal Arial narrow font. Headlines are our own.

2. Central European features

"The Standing Committee concludes that the reform is designed primarily with a view of Central Europe's railway traffic and customer volumes. The Standing Committee believes it is essential that the Commission's proposed plans to open up the rail passenger market are further examined to take into account the effects on the Finnish rail system's operations as a whole, and as part of a broader solution for public transportation. With a possible opening up to competition it is necessary to secure the overall economic efficiency, rail traffic safety, availability of services, as well as the status of personnel."

"Because of its population level and population distribution Finland is divided into regions, where on the one hand passenger rail traffic is very profitable and conditions for the growth of passenger numbers exist, and where on the other hand passenger flows will remain very limited and the train operations are either permanently or marginally unprofitable. The State annually funds part of the unprofitable train departures and the current operator covers some of the marginally unprofitable losses with income from other operations. Some of this traffic is obligatory under the current exclusivity contract between the Ministry of Transport and Communications and the VR Group. This agreement expires on 31.12 2019. In addition, the current operator pays an annual track fee of approximately 45M euros, which is directed to track maintenance in the State's budget.

In expert consultations serious concern has been presented about what happens when rail passenger traffic opens to competition and the obligation to operate in sparsely populated areas as part of the current exclusivity contract expires. According to some experts, rail traffic especially in the sparsely populated areas of northern and eastern Finland is threatened with closure or its costs will rise when commercial traffic income or the exclusivity rights to run trains do not equalise the loss-making traffic. Competition will focus on very profitable routes, in which case the resulting profit (for the current operator) decreases when the profit is distributed among various operators. The remaining profits of individual operators will no longer support the running of less profitable routes to the current extent even if the operator desires that. This development can significantly increase the need for subsidies from the State in order to guarantee the current transport service level in the different regions.

In expert consultations it has been found in many other EU countries that synergies in international passenger traffic will reduce the need for publicly funded services, but because of its geographical location this kind of synergy does not exist for Finland. Also concerns have been raised about competitors from outside the EU being out of the reach of the EU's competition laws, which could lead to distortion of competition in the rail market."

Concerns about a Central Europe-centric rail package cannot be true, because its role

³ see footnote 2

model is Sweden⁴ (where rail's share of transportation mode is higher than in Finland, operators numerous, and the State operator SJ has remained a major player). Although similar critique in Finland's western neighbour is common (application of subsidiarity rules), that basic problem is not apparent⁵.

Supposed "serious concern" about opening to competition and termination of the obligation to operate in sparsely populated areas is also strange. The passenger service obligation provision was only just introduced, in 2009 as part of the exclusivity contract between the State and VR⁶, and the vast majority of services provided in sparsely populated areas are genuinely reliant on State subsidy. A commercial operator's profits may not be sufficient to balance the losses on such traffic, if at all (we understand this to be prohibited by the EU, as cross-subsidization).

We could also ask, how well Parliament is aware of the actual costs of passenger traffic. Suspicions arise from the response of officials of the Ministry of Transport and Communications, to enquiries on the costs of the inland night trains:

"That, how the Ministry responds to Kainuu's concerns or offers an alternative, is still under consideration. ... I have not yet had time to think about it, Tervala says. However, he adds that in relation to what the night train service costs the number of passengers is too low. - The starting point is that running a night train service is expensive. VR is a limited liability company and arranges transport wherever there is demand. If buyers are too few then there is no traffic, he continues.

The number of passengers needed for night trains from Oulu, to Helsinki via Kajaani or in general via the eastern route is not clear. ... We in the Ministry do not know the numbers, nor compose train schedules. But VR has calculated these, and does not see any sense in ensuring night train services for eastern Finland, Tervala says.

In January (2006) the Ministry of Transport and Communications made an agreement to procure this service from VR. It is valid until 2011. Tervala, claiming to be too busy did not want to meet to discuss more the agreement. ... Kainuu's night services will finish. End of story, Tervala sums up."⁷

The trains thus obligated do not even run in sparsely populated areas. There are 39 of these, 22 of which operate every day and 17 have limited running⁸. Of those running daily 16 trains run between Riihimäki - Lahti⁹, approximately 100 kilometers from Helsinki, Finland's capital city. Of the 17 others for one train (Helsinki - Kolari) some of its route (184 kilometres) is not part of the planned EU-wide comprehensive network¹⁰. The State has in any case promised to preserve Lapland's night trains¹¹ (hence the famous Kemijärvi night train¹² was transferred to the list of subsidized trains

⁴ <http://www.jarnvagsnyheter.se/2013/01/eu-vill-avreglera-t-grafik>

⁵ <http://www.jarnvagsnyheter.se/2013/03/eu-f-rslag-om-j-rnv-gar-strider-mot-princip>

⁶ http://www.rautatiematkustajat.fi/VR_osto.pdf

⁷ <http://www.rautatiematkustajat.fi/Valitus.pdf> (pages 1 and 2; see also footnote 11 and result of the appeal process

<http://www.rautatiematkustajat.fi/KHO20122012.PDF>)

⁸ <http://www.rautatiematkustajat.fi/LiVeTasml.VM2011.pdf>; <http://www.rautatiematkustajat.fi/Velvoiteliikennemuutokset2013.pdf>

⁹ http://commons.wikimedia.org/wiki/Category:Riihim%C3%A4ki%E2%80%93Lahti_railway

¹⁰ <http://www.loginfo.fi/kuljetuskaytavat>

¹¹ <http://www.raideryhma.fi/aie03/index.html> The same "as agreed" principle has not been applied to the inland night train connections (<http://www.kauppalehti.fi/5/i/yritykset/yritysuutiset/uutinen.jsp?oid=2009/11/27642>), which we consider to be contrary to the idea of equal treatment of citizens. Connections were abolished, despite the many appeals (campaigns and petitions, signatories of the more than 20,000) of customers and the business sector, and without investigating economic impacts of the closures on the regions.

¹² <http://www.transportweekly.com/pages/en/news/articles/39612/>; http://en.wikipedia.org/wiki/Kemij%C3%A4rvi_railway_station

despite its losses being only the claims of VR¹³).

There is "serious concern" hanging in the air because of the style of presentation. If those "concerned" were identified then outside parties would be able to assess whether the problem is genuine or not (VR's lobbying has also been observed in Finland's largest daily newspaper, *Helsingin Sanomat*¹⁴). It has lobbyists in Parliament also: Member of Parliament belonging to VR's institutions defends the company in the same journal with bizarre claims, but "forgets" to mention his own position of trust in relation to the company¹⁵. Minister Stubb's proposal to make Parliament's Standing Committee meetings public¹⁶ would be an improvement in this claimed-to-be open society.

The "concern" about non-EU competitors, refers to Russian railway operators. Unfortunately, this highlights a general lack of initiative - the new route suggestions (which partly operate abroad) are only coming from abroad¹⁷. Rather, in Finland there should be concern about the universal apathy: even one extra stop to attract more passengers does not get to fruition on services operated at the operator's risk¹⁸ nor on State procured services either¹⁹.

3. Sufficiently long transition periods

"In the further refining of the service regulation it is necessary to secure a high degree of regulatory flexibility and sufficiently long transition periods. By broader direct purchase agreements than proposed the Standing Committee estimates it could be possible to guarantee regular passenger services otherwise at risk particularly in remote areas while avoiding a significant increase in the costs of State subsidised passenger traffic."

There is no basis for such necessities. Since 1987 VR has been able to envision multiple train operators using the network, without presenting any economic horror scenario²⁰. At this moment VR is undertaking a massive rolling stock procurement round using cash funds (without taking loans). Failure to prepare for competition and the economic effects, cannot therefore be the real cause (see "peripheral issue" also stated in the previous paragraph). There have been a number of studies on the benefits of tendering for procured public transport services but these have been completely ignored²¹.

¹³ http://www.eduskunta.fi/faktatmp/utatmp/akxtmp/kk_1086_2005_p.shtml

¹⁴ <http://www.hs.fi/paikirjoitukset/Raiteiden+kilpailu+ei+ole+onnen+oikorata/a1359177226200>

¹⁵ <http://www.hs.fi/paivanlehti/mielipide/Kilpailuttamisesta+saatava+lis%C3%A4arvo+tulee+arvioda/a1360384178266>

¹⁶ http://yle.fi/uutiset/stubb_no_difference_between_an_expert_and_a_lobbyist/6611028

¹⁷ http://www.gov.karelia.ru/News/2012/12/1229_11_f.html

¹⁸ <http://www.adressit.com/junaseisputikossa>

¹⁹ <http://www.ilka.fi/mielipide/yleis%C3%B6lt%C3%A4/juna-scis-kourassa-1.1327033>

²⁰ Valtionrautatiet 1962 – 1987 page 61 (Valtion painatuskeskus, Helsinki 1987)

²¹ for example http://www2.liikennevirasto.fi/julkaisut/pdf3/lts_2010-07_vaikutusselvitys_kilpailun_web.pdf (see "Summary" on page 5) and http://www.lvm.fi/c/document_library/get_file?folderId=964900&name=DLFE-10786.pdf&title=Julkaisuja (page 28)

The consequences of VR's shored-up position are already visible in rail-borne freight transport. The company has to its own delight priced itself out of the market for shipment of small consignments²² and at its most grotesque has transferred customers to its own trucking company and its subcontractors²³. This trend is against transport policy objectives of increasing the market share of railways. An unfortunate but realistic picture of the current situation is given in this recent travel report:

"Yesterday I participated in the vintage train event organised by Keitele Museum using old railcars, from Jyväskylä to Parikkala via Pieksämäki and Savonlinna, and return. The ride was pleasant and fun, but it also awakened in me feelings of melancholy. We drove past many rail spurs marked by stop boards. This sign is placed between the rails to indicate that the railway line is closed to traffic. Only a few years ago many of these factories, power plants, etc. have carried rail traffic. But no longer. Then there are even cases, such as Jyväskylä's Keljonlahti power plant, to which a spur line was built but it has never(!) carried any railway traffic. Many companies and power plants should continue to be of great interest to rail transport, but in recent years, VR has not even bothered to provide offers when asked, for up to 20 wagon loads (eg Otava saw), which would exceed the 10 wagon break-even point set by VR itself."²⁴

4. Passenger service levels and Finnish special features

"The Standing Committee emphasizes the need for equality for the Member States so that in further preparations and when reaching solutions they secure passenger service levels in the future and take sufficient account of the specific features and the traffic characteristics of different Member States. One must also take sufficient account of the competition from third countries."

In our opinion decision-makers do not know the real wishes of passengers. For example, in the new "Transport Politic Club"²⁵ there is not any representation of passengers. Parliament did not call representatives of our association to be heard, even though its chairman advised the Committee on Transport by e-mail a couple of times within the timetable for hearings on the Package (nearest to consumers' views were those of the expert from the Competition and Consumer Authority). It seems that despite it being lauded as simply a bureaucracy, cooperation between the EU and our umbrella organisation European Passengers' Federation (EPF) functions much better than in Finland²⁶.

Finland's special features and traffic characteristics are not analyzed in any way. For example, the differing (broader) track gauge to Central Europe is in practice the same in Estonia, Latvia and Lithuania, and on the other hand is narrower than in Ireland, Spain and Portugal. In its turn the timetables of Switzerland's narrow-gauge railways are coordinated with those of its standard-gauge railways regardless of the owner (federal government or others)²⁷. Snow and single-track railways are both prevalent throughout the world. The unreliability supposedly caused by these indeterminate

²² for example <http://www.ilkka.fi/uutiset/maakunta/viimeinen-viinajuna-lahti-koskenkorvalta-1.1293145> and <http://www.hs.fi/paivanlehti/22082012/talous/Sahapomo+haukkui+VRn+hintapolitiikan/a1345522735400>

²³ <http://www.volvotrucks.com/trucks/finland-market/fi-fi/newsmedia/pressreleases/Pages/pressreleases.aspx?pubID=11978>

²⁴ <http://aamulehdenblogit.ning.com/profiles/blogs/suljetut-radat-romutetut-vaunut>

²⁵ http://www.hare.vn.fi/mKokoonpanonSelailu.asp?h_iID=18667&tVNo=6&sTyp=Selaus

²⁶ http://ec.europa.eu/transport/themes/its/events/doc/2013-04-16-workshop/workshop_16_april_2013_-_enablers_mmtips_agenda_final.pdf

²⁷ <http://www.swissworld.org/en/economy/transport/rail/>

special features are also noted by Helsinki Region Transport (HSL) when planning services and ordering passenger traffic from VR²⁸.

We comment on competition from elsewhere, in chapter 2 Central European features.

5. Gradual opening up to competition

"The Standing Committee emphasizes the need for a gradual opening up to competition in such a way that its impact on the market, the quantity and quality of services in different areas as well as the need for direct support by the State of unprofitable services will remain manageable. The Standing Committee is in favour of first starting passenger traffic competition on sections currently without traffic and where train services are funded by the State. The Standing Committee emphasizes that the status of personnel currently working in the rail sector should be clarified and solved between the labour market parties according to the existing law before opening it to competition."

Freight-only lines are for passenger trains likely to be financial loss-makers in Finland (lines²⁹ marked with an * are the most probable exceptions):

- Juurikorpi - Hamina
- Kokemäki – Rauma
- Raahe – Tuomioja
- Nurmes – Kontiomäki
- Kontiomäki - Ämmänsaari
- Huutokoski – Savonlinna
- Siilinjärvi – Viinijärvi
- Hyvinkää – Karjaa*
- Jyväskylä – Äänekoski - Saarijärvi – Haapajärvi*
- Turku – Naantali / Uusikaupunki*
- Heinola – Lahti – Loviisa*
- Seinäjoki – Kaskinen*

Instead of lines we should speak of connections without passenger traffic, if the intentions are to be sincere. For example, the connection Pieksämäki - Savonlinna is not permissible to other operators in the opinion of officials because VR operates on the section Pieksämäki – Huutokoski³⁰. In reality VR has informed its being less stringent on this connection, but these things should not be dependent on the goodwill of a monopoly train operator. Therefore other operators should be permitted, even though some sections are operated by VR, for example:

- Joensuu – Kuopio (VR: Joensuu – Viinijärvi, Siilinjärvi – Kuopio)
- Oulu – Raahe (VR: Oulu – Tuomioja)
- Pori – Rauma (VR: Pori – Kokemäki)
- Hanko – Lahti (VR: Hanko – Karjaa, Hyvinkää – Riihimäki – Lahti)
- Tampere – Lempäälä / Siuro / Ylöjärvi / Orivesi³¹
- Turku – Salo / Loimaa³²

²⁸ <http://www.talouselama.fi/uutiset/hsl+vaatii+vrn+pilkkomista/a2182782>; <http://www.hsl.fi/EN/Pages/default.aspx>

²⁹ http://www2.liikennevirasto.fi/julkaisut/pdf3/lv_2011-03_finnish_railway_web.pdf (maps on pages 26 - 28)

³⁰ http://www.esavo.fi/resources/public/media/liikenne_selvitys2011.pdf; <http://vrleaks.files.wordpress.com/2012/04/savonlinna-pieksa3a4mc3a4ki-selvitys.pdf> (page 8)

³¹ commuter traffic vs. long-haul traffic operated by VR

³² commuter traffic vs. long-haul traffic operated by VR

For example, on the Joensuu - Kuopio connection at each end is a city and university campus (students are frequent users of public transport). The impediment is that the route is approximately 20 kilometres longer than by road, therefore the train journey will probably take as much time as by car or bus. However, the more comfortable service by train should be taken into account to see the potential.

If and when trains in Finland are run on entrepreneurial risk or the financial support of track-side local authorities, this should not be against the interests of the State. Therefore, the unexpected connections, such as Rauma - Pori should be permitted, and on the other hand loopholes should be closed if the State is to protect the operator during the transition period (for example, the route Helsinki - Mäntyluoto should be denied as a clear attempt to circumvent the monopoly on the route Helsinki – Pori). Because the connections act at least partially as feeder traffic for VR's trains and rationally traffic almost always requires compatible schedules in the Swiss model, the arrangement is unlikely to infringe on VR's interests in the transitional period.

The line-specific viewpoint also prevents re-evaluation of procured trains. For example, the "free" section Nurmes - Kontiomäki is a financial loss-maker as opposed to Joensuu (- Nurmes - Kontiomäki) - Oulu³³ where travel time over the unused gap is a little over an hour. When comparing the passenger volumes on the sections Kajaani - Oulu and Joensuu - Nurmes³⁴, closing the gap would probably lead to more equal and higher volumes of passengers on the whole route, as is now the case on the section Kajaani – Oulu, and thus the financial viability of these services would improve if the number of train services would be, say, two per day.

As the labour market parties succeeded at a similar time to safeguard the status of personnel in the bus industry it is probably a realistic goal in the rail industry too.³⁵

6. Shortage of appropriate rolling stock

"The Standing Committee notes that adequate rolling stock, as well as equal accessibility of the necessary maintenance and repair services to all operators is in practice a prerequisite for effective competition in domestic rail transportation. One must find workable solutions that respect constitutionally guaranteed property rights and enable new operators access to rolling stock, adequate compensation to the current rolling stock owner and, ultimately, avoid additional costs to customers because of duplicate and unnecessary rolling stock and maintenance investments. In expert consultations a national train rolling stock company was presented as an alternative."

"In opening the sector to competition for new operators one of the most significant practical problems foreseen is the shortage of appropriate rolling stock. The Commission's regulatory proposal would require Member States to ensure that rolling stock is available on efficient and non-discriminatory terms. At this

³³ http://en.wikipedia.org/wiki/Oulu%E2%80%93Kontiom%C3%A4ki_railway

³⁴ <http://www.rautatiematkustajat.fi/Matkustajia.pdf>

³⁵ www.alt.fi/document.php/1/962/valtakunnallinen_lonka-sopimus_2013/bd85d33c87584e41eb5cc3f12c980986

moment rolling stock is owned by VR, as are the necessary repair and maintenance facilities and related systems."

Passenger traffic on the section Pieksämäki - Savonlinna is prevented because of the refusal of VR to sell its surplus rolling stock³⁶. In addition, reliable sources tell of VR destroying rolling stock to prevent its use by competitors³⁷. The State watches these actions from the sideline. Simply creating a rolling stock company will not prevent this unjustified destruction. A bill recently presented in Parliament to secure rolling stock for reuse³⁸ was unfortunately defeated despite a positive reception³⁹ and this was not mentioned at all in Finland's statement (according to the Standing Committee on Constitution property rights could be respected without major problems⁴⁰).

7. Capacity problems as obstacles of competition

"Finally, the Standing Committee notes that the greatest obstacle to the rail infrastructure permitting effective competition is Finland's widespread use of single-tracked railway routes. On many sections the train paths are in practice already in full use. Increasing the attractiveness of rail requires the development of new train services and opening new stations and halts according to growing regional needs. Increasing the current number of train services will also require increasing the operational reliability and efficiency of train control so that train paths on the network are maximised. The Standing Committee estimates that increasing competition will inevitably also set growing requirements for infrastructure maintenance and network development."

Claiming that single-track sections cause problems may be justified to some extent, but exact and public analysis of bottlenecks they may cause to the network is missing. Reduction in freight carried from its maximum of more than 43M tonnes in 2006, to just under 35M tonnes in 2011⁴¹ can surely be seen on the rail network. On the other hand, for example the high-speed Kerava - Lahti cut-off line opened in 2006⁴² but passenger traffic has increased only in the Helsinki region. Therefore, this also points to the unjust protection of the status of VR.

8. Summary

It is noteworthy that in Finland's opinions the point of view of the passengers is almost totally sidelined, even if it is mentioned at times. Completely unstated are for example: could reform lower prices, increase service levels on current routes, create new routes, improve on-train services (for example catering), cause pressure to speed up connecting times, and improve reliability and increase punctuality. Because no effort

³⁶ <http://proxiontrain.wordpress.com/2013/02/11/maaraavan-markkina-aseman-vaarinkaytto/>;
<http://vaunut.org/keskustelut/index.php?topic=4605.0>

³⁷ <http://kalevikamarainen.puheenvuoro.uusisuomi.fi/135207-mot-vr-tuhoaa-kayttokelpoista-rautatiekalustoa>

³⁸ http://www.eduskunta.fi/faktatmp/utatmp/akxtmp/la_105_2010_p.shtml

³⁹ http://www.eduskunta.fi/faktatmp/utatmp/akxtmp/ptk_120_2010_ke_p_4.shtml

⁴⁰ <http://217.71.145.20/TRIPviewer/show.asp?tunniste=PeVL+19/1994&base=erml&palvelin=www.eduskunta.fi&f=W.P>

⁴¹ http://www2.liikennevirasto.fi/julkaisut/pdf3/lti_2012-04_suomen_rautatietilasto_web.pdf (pages 38 and 39)

⁴² <http://www.railwaygazette.com/news/single-view/view/direct-line-will-reshape-the-finnish-network.html>

has been made to present concrete alternatives or solutions to the claimed problems, it appears Finland strongly supports the monopoly status of its current operator, VR.

For these reasons, we hope that the European Commission, European Parliament and Council of the European Union take a critical view of Finland's opinions on the EU's IV rail package. We have composed an English-language version of our letter, in which the citations of Parliament are our own translations. We understand Finland's statements will be translated into all EU languages, from which the official translations will become available later. In addition, we have used the English language sources, whenever it has been possible.

It will be our pleasure to provide additional information.

Kemijärvi, 31st May 2013

Kind regards,

Finnish Rail Passengers' Association

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