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Content

- ◆ **Dr. László Mosóczy** – Tasks of the MÁV Group in the near future
- ◆ **Dr. János BERÉNYI** – New railway policy from the aspect of HUNGRAIL
- ◆ **Brian Simpson, MEP** – Value of Europe's Industrial & Transport Heritage
- ◆ **Gordon Rushton** – Bringing in the Money
- ◆ **Gordon Rushton** – Money Talks
- ◆ **Jean-Michel Gasc** – Approche de l'économie des chemins de fer touristiques français
- ◆ **Bruno Rebbelmund** – FEDECRAIL Youth Camp 2009 – Germany
- ◆ **Zsuzsanna Selmeczi** – FEDECRAIL Youth Camp 2010 – Hungary
- ◆ **Paul Véron** – UIC - The Worldwide Association Representing the Railway Sector
- ◆ **Paul Véron** – International Railway History Association



Hungarian
State Railways





Efficiency

Market orientation

Modernization

Tasks of the MÁV Group in the near future

Opportunity of the improvement

dr. László Mosóczi
Chief Operations Officer

Budapest
23.04.2010.

dr. László Mosóczi
23.04.2010.
1



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Efficiency

Market orientation

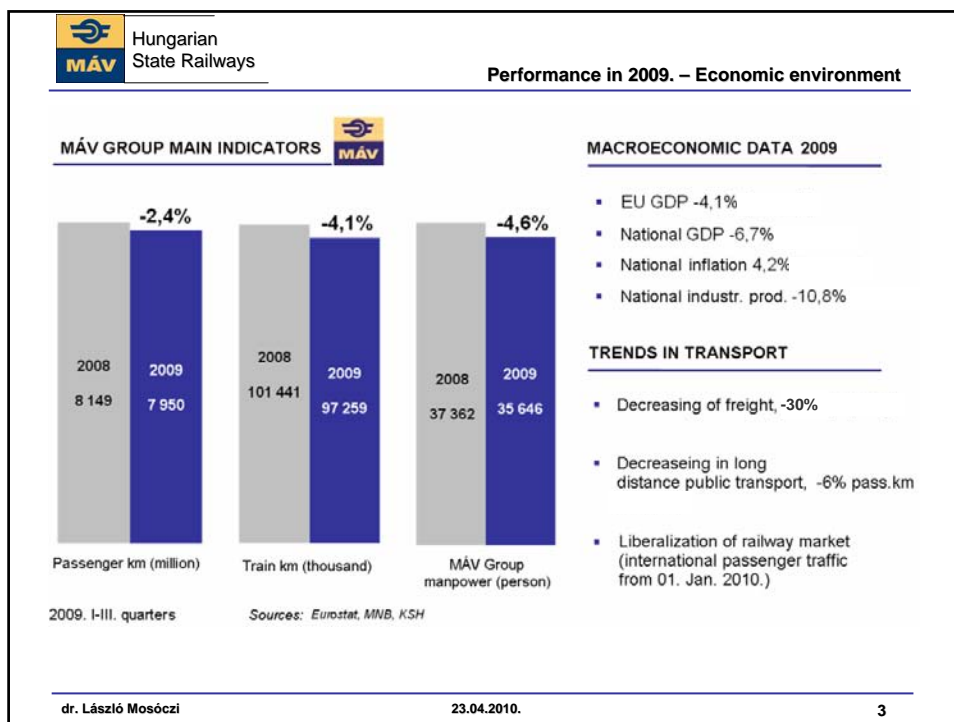
Modernization

Tasks of the MÁV Group in the near future

Opportunity of the improvement

1. **Achievements an strategic conception of MÁV Group in 2009.**
2. **Financing of MÁV Group**
3. **Process of the structural change of MÁV Group**

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23.04.2010.
2



Hungarian State Railways

Main business companies of MÁV Group, performance in 2009

MÁV **MÁV-START** **TRAKCÍÓ** **GÉPÉSZET**

Activity	Infrastructure and central services	Passenger	Traction	Vehicle maintenance
Staff	19 296	7 212	4 591	4 545
Income	178,3 bill. Ft	65 bill. Ft	89,2 bill. Ft	44,3 bill. Ft
State reimbursement	1,3 bill. Ft	164,5 bill. Ft	-	-
Operating profit	-28,9 bill. Ft *	66 M Ft	1,9 bill. Ft	40 M Ft
Financial profit	-15,3 bill. Ft	-63 M Ft	-2,2 bill. Ft	-3 M Ft
Loss or profit for the year	-44,5 bill. Ft *	3 M Ft	-0,3 bill. Ft	39 M Ft

* With the reimburse of the VAT (19,2 bill.)
Data: 2009. I-III. quarter

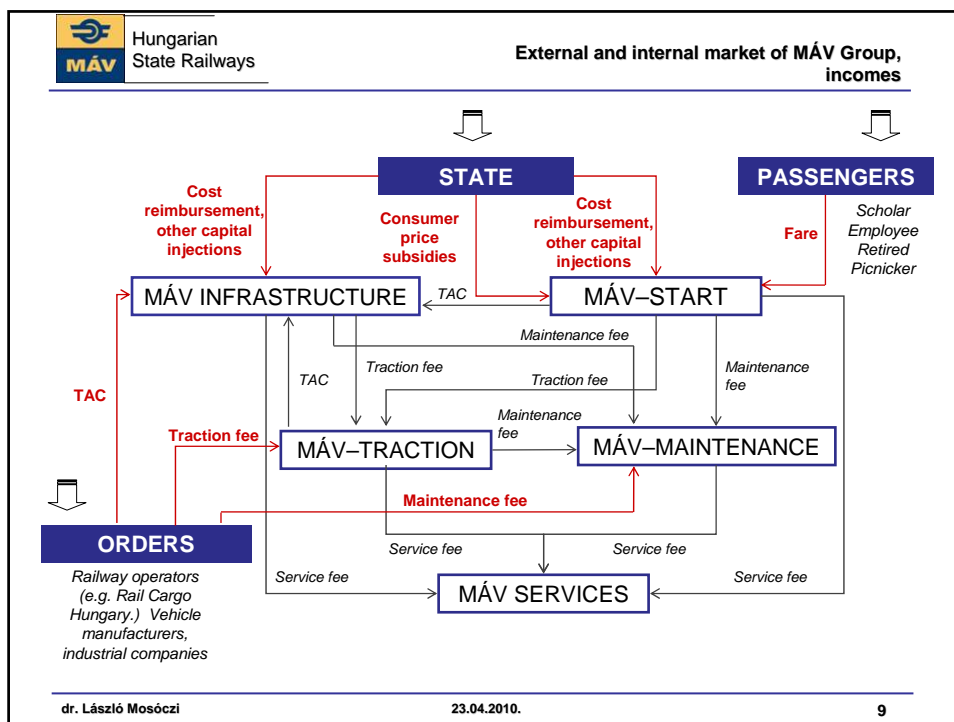
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	<p>Hungarian State Railways</p>	<p>Main aspect of the European rail market European answers</p>
<p>Challenges across Europe:</p> <ul style="list-style-type: none"> ▪ lack of adequate investment in rail infrastructure ▪ lack of fair intermodal competition ▪ dramatic decline of tonne-kilometres y/y (~ -30%) ▪ income decrease – fees increase <p style="text-align: center;">↓</p> <p style="text-align: center; color: red;">Threat of long term damage to the market!</p> <p>Strategic way:</p> <ul style="list-style-type: none"> ▪ Political actions for sustainable future of railways ▪ Revision of Eurovignette directive (source for railway, possibility of competition) ▪ Enforcement of balanced finance of infrastructure managers ▪ Help the accelerated renewal of aged assets (0% credit for long-term investments) ▪ Support national investments which was rescheduled due to the crisis ▪ Grant a moratorium concerning some EU legislation 		
<p>dr. László Mosóczi</p>		<p>23.04.2010.</p>
		<p>5</p>

	<p>Hungarian State Railways</p>	<p>Vision of the MÁV Group</p>
	<p>MISSION</p> <hr/> <p>VISION</p> <hr/> <p>ACTIVITIES</p> <hr/> <p>SKILLS, VALUES</p>	<ul style="list-style-type: none"> ▪ Cost effective satisfy of social transport and carrying demands ▪ Contributions to increasing of competitiveness of Hungary <hr/> <ul style="list-style-type: none"> ▪ Main character of the national transport sector ▪ Competitive, customer orientated public service company exploiting market potential ▪ Reliable, calculable employer ▪ Individual company group operated by long-term order and steady finance <hr/> <ul style="list-style-type: none"> ▪ Concentrating to the basic activities of the value chain (passenger, infrastructure) ▪ Process rationalisation of support activities ▪ Separating and restricting of management function <hr/> <ul style="list-style-type: none"> ▪ Vocation, professional commitment ▪ Age long experience in railway technique ▪ Management experience in restructuring
<p>dr. László Mosóczi</p>		<p>23.04.2010.</p>
		<p>6</p>

Hungarian State Railways		Strategic goals of MÁV Group in the period of 2010-2012.	
STRATEGIC GOALS		MAIN INDICATORS	
1 IMPROVE OF SERVICE LEVEL	<ul style="list-style-type: none"> Development of rail corridors and suburban area of Budapest Modernization of vehicles (locos, motor units) Reconstruction of stations, standardization Improve of marketing activities (ticket system, image, passenger information, platforms) 	Preserve of passenger km and train km performance Stable organization in mid-term Improve of operational effectiveness (spread of BPR project) Mid-term state order by public service contract (passenger, infrastructure)	
2 COMPETITIVE, ADAPTABLE ORGANIZATION	<ul style="list-style-type: none"> Central coordination Focusing on core business activities Rationalisation of support services Reorganization and restricting of the portfolio 		
3 OPTIMAL COMPANY SIZE	<ul style="list-style-type: none"> Process reengineering Outsourcing of non strategic activities Rationalization and sale of capacities Rationalization of staff 		
4 ASSURE OF FINANCE	<ul style="list-style-type: none"> Steady finance of operating availability of investment sources Handling of historic debt Exploring of external sources 		
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		7	

Hungarian State Railways		
<p><i>Efficiency</i></p>	<p><i>Market orientation</i></p>	<p><i>Modernization</i></p>
<p>Tasks of the MÁV Group in the near future Opportunity of the improvement</p> <p style="color: red;">Financing of MÁV Group</p>		
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8		



Hungarian State Railways **Finance at the present situation**

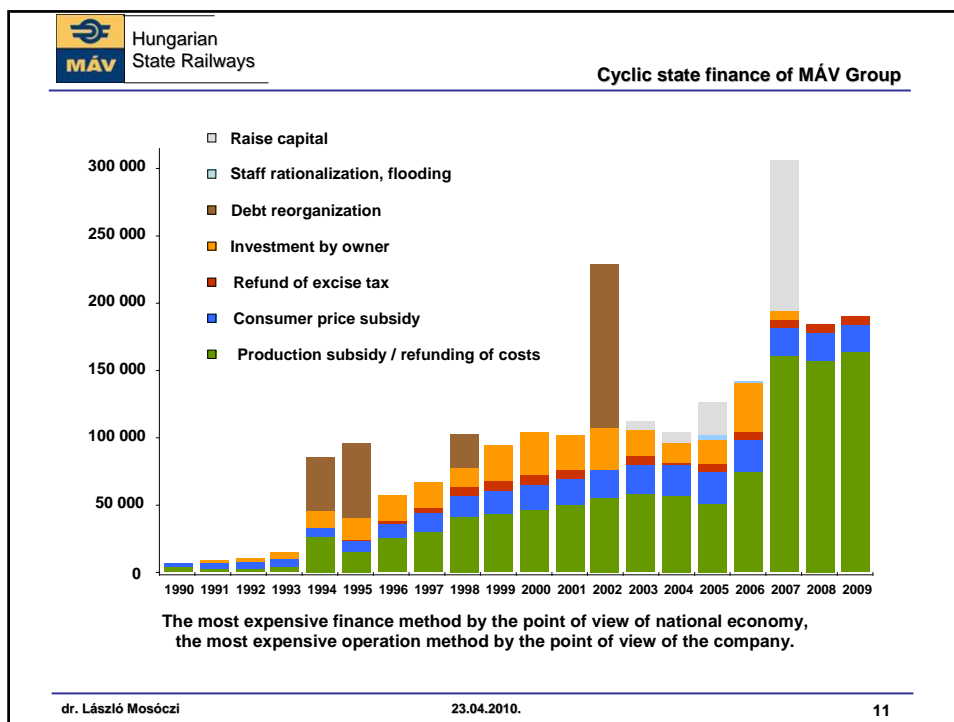
Situation of finance at MÁV Co. :

- Finance system based on public service contracts
- The development and the finance of operation does not separate adequately
- Finance of performance and finance of social-political discount does not separate adequately
- State sources are below EU average
- The structure does not inspire gaining sources
- MÁV Zrt. is indebted, equity is decreasing continuously

Role of the state in railway transport:

- Blending of state and company management, blending of responsibilities
- Blending of the functions of state (owner, price regulator, authority, angel)

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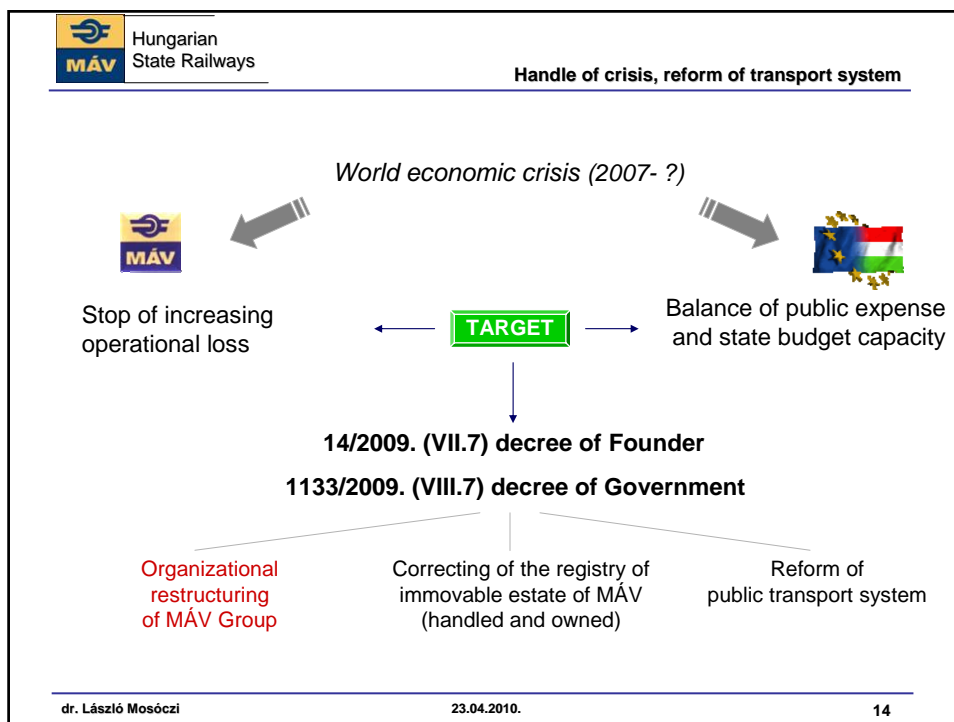
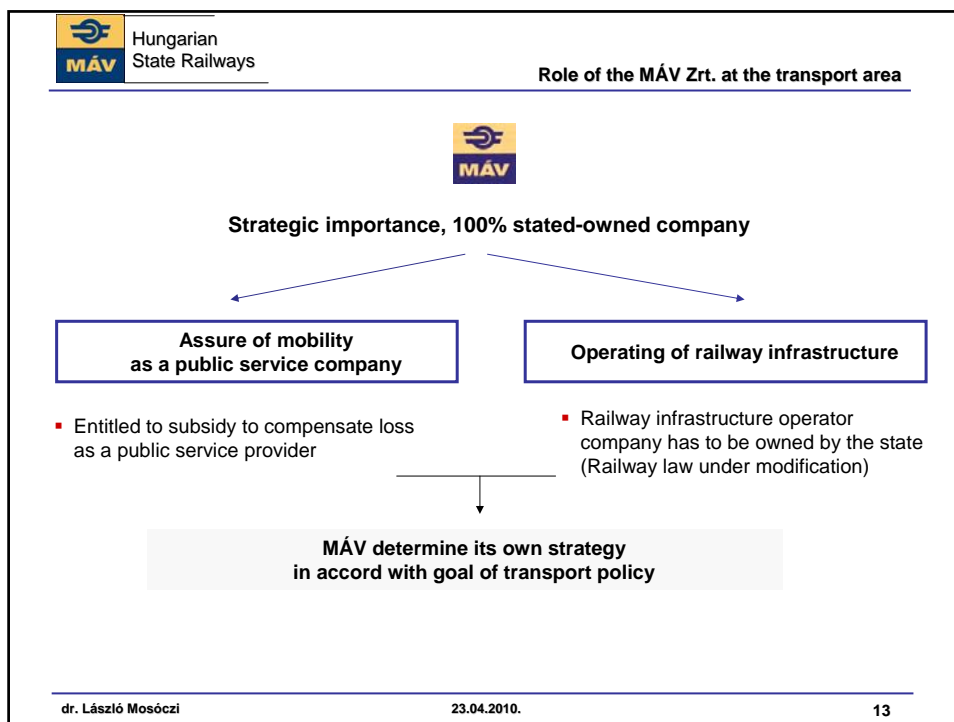
Hungarian State Railways


Efficiency *Market orientation* *Modernization*

Tasks of the MÁV Group in the near future
Opportunity of the improvement

Process of the structural change of MÁV Group

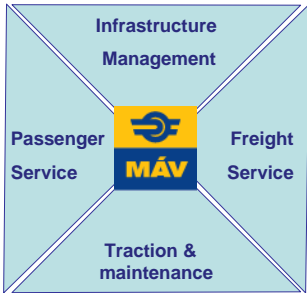
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MÁV and MÁV Group






2004 (EU)
Network Statement

2006 → MÁV Cargo Co.

2007 → MÁV-START Co.

2008 → MÁV-TRAKCIÓ Co.
MÁV-GÉPÉSZET Co.

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15



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Requirement of renewing

MÁV Group is not able to renewing in present situation.

Reasons of the conflict:

- Incomplete restructuring of MÁV Co., the present structure;
- Inherited operational methods;
- blending of management functions, decision competence are concentrated on higher and higher level;
- non adequate finance of the sector.

Requirement of renewing must focused on:

- Development of structure, reorganization, separating of infrastructure;
- Finance and financial stabilization;
- Development and modernization.

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16



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Toolkit of the renewing – Structure and organization

1. Development of structure, reorganization

- **state responsibilities** to assure of the condition of operable companies in long-term;
- **assure the blending of owner, manager, regulator and finance functions**;
- complex **determining of railway service size** in accordance with public road transport on the base of national transport policy;
- establish an **effective organization structure**;
- assure the operation and finance conditions of independent infrastructure company in the course of reorganization, **assign the required assets to the infrastructure company, detach the non-core assets**;
- blending of management and service functions at MÁV, cost effective operation, transparency, competitive prices and fees;
- separated handle of cumulative debts of the pass;
- rationalization and **assign of core portfolio elements** to the two company group;
- **adequacy to market demands, laws, rules.**

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17



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Toolkit of the renewing – Finance


2. Finance and financial stabilization


- **consolidation and capital raising**;
- reforming of finance structure, **finance of core activities by multi-annual public service contracts**, defining of realistic public service size, supply and quality;
- **assign of development loans to adequate company group** with the related assets;
- assure of **transparent pay-off** of companies with each other and the state, business operating;


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18

	Hungarian State Railways	Toolkit of the renewing – Development
3. Development and modernization		
<ul style="list-style-type: none"> ▪ timetable based infrastructure development policy; ▪ assure of required conditions and national fraction for infrastructure and traction developments, observe of obligatory maintenance; ▪ get ready for the investment possibilities of the period 2013-2020; ▪ coordinated developments in accordance with public service contracts, determined services and quality, development priorities; ▪ support of business developments; ▪ Involving private sector investments (e.g. stations); 		
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	Hungarian State Railways	External conditions
<ol style="list-style-type: none"> 1. Strong decision from the state for the reorganization of MÁV Group; 2. The size of subsidies must be determined at all times, the coordinated multi-annual public service contracts must be signed; 3. Government must force the prioritization of railway transport on the base of transport and economic policy; 4. The discrimination of railway transport must be eliminated, which not mean the discrimination of road transport; (Support of railway by the higher finance of railway infrastructure (lower network access fees).) 5. Operation of regional and other railway lines must be adapted to current situation, the size of railway public service have to be reconsidered. Regional public finance capability have to be implemented; 6. Integrated network development strategy and conception have to be made for international, national main and domestic regional lines; 7. The national structure of integrated public transport system have to be established. The integrated rhythmical timetable is the base of this system, coordinated role of railway and road transport. 		
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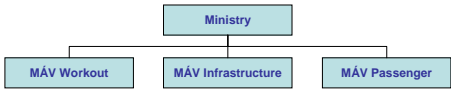
Hungarian State Railways

Restructuring program – The independent infrastructure company

Task: exploit of synergies on the two main area, and the establish of passenger and infrastructure company groups:

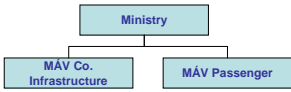
3 legs model

- Reform of MÁV Group, focus on core activities, workout.




2 legs model

- Establish of passenger company group, while MÁV Co. remain the infrastructure company.



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21



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MÁV at the end

Preconditions:

- reorganizing of owning structure,
- layout of the immovable estate of the state (handled and owned)
- finance possibilities of capital.

Goal indicators of the reform:

- EU-conformity (liberalization/ competition / finance),
- independent company groups, business operation,
- core infrastructure profile,
- multi-annual public service contracts with state and regions for passenger and infrastructure,
- multi-level responsibility and finance hierarchy,
- regional management and finance capability,
- external-internal service portfolio,
- suitability and capability for involving private sector investments.

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23.04.2010.
22



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Thank you for your attention!



New railway policy from the aspect of HUNGRAIL

Dr. János BERÉNYI
President and CEO
Hungarian Rail Association

FEDECRAIL
 23rd of April, 2010, Budapest



The HUNGRAIL Hungarian Rail Association

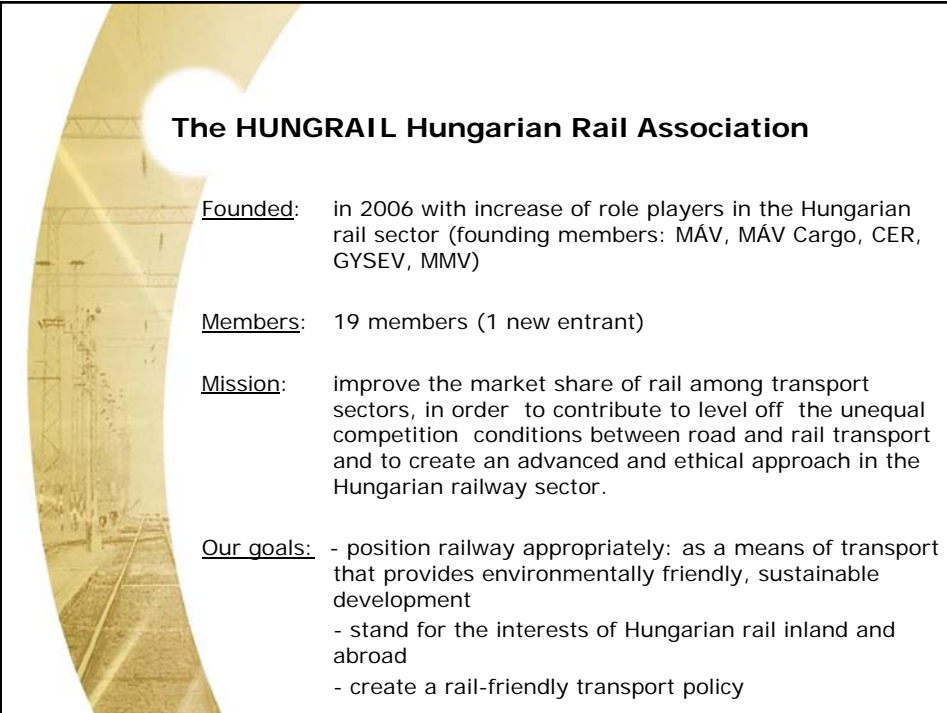
Founded: in 2006 with increase of role players in the Hungarian rail sector (founding members: MÁV, MÁV Cargo, CER, GYSEV, MMV)

Members: 19 members (1 new entrant)

Mission: improve the market share of rail among transport sectors, in order to contribute to level off the unequal competition conditions between road and rail transport and to create an advanced and ethical approach in the Hungarian railway sector.

Our goals:

- position railway appropriately: as a means of transport that provides environmentally friendly, sustainable development
- stand for the interests of Hungarian rail inland and abroad
- create a rail-friendly transport policy



A vertical, semi-circular image on the left side of the slide shows a perspective view of railway tracks receding into the distance under a hazy sky.

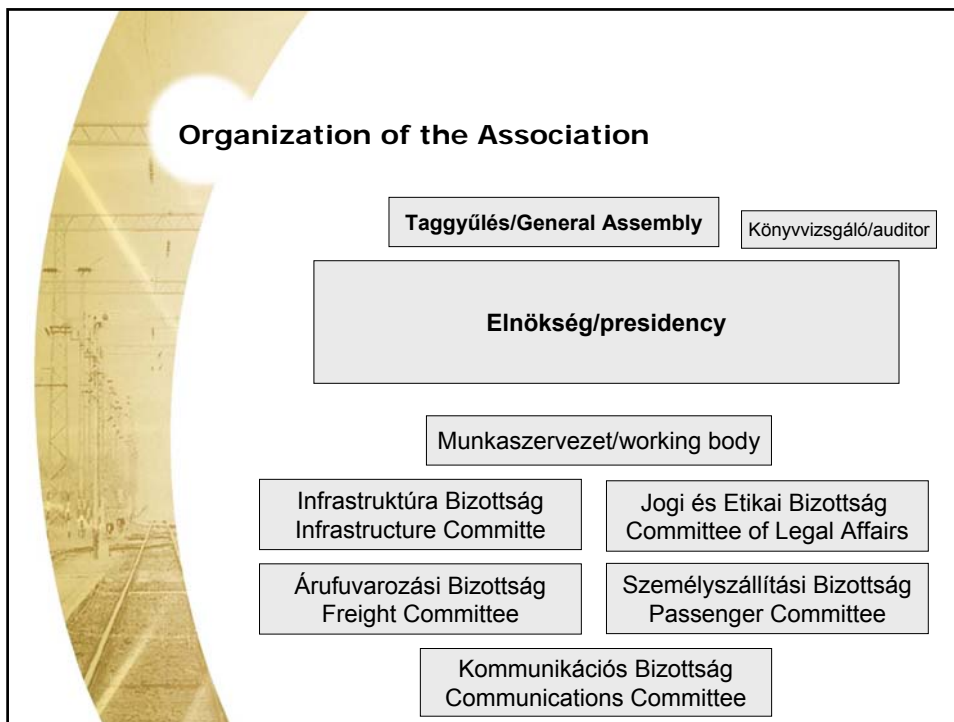
International role of HUNGRAIL

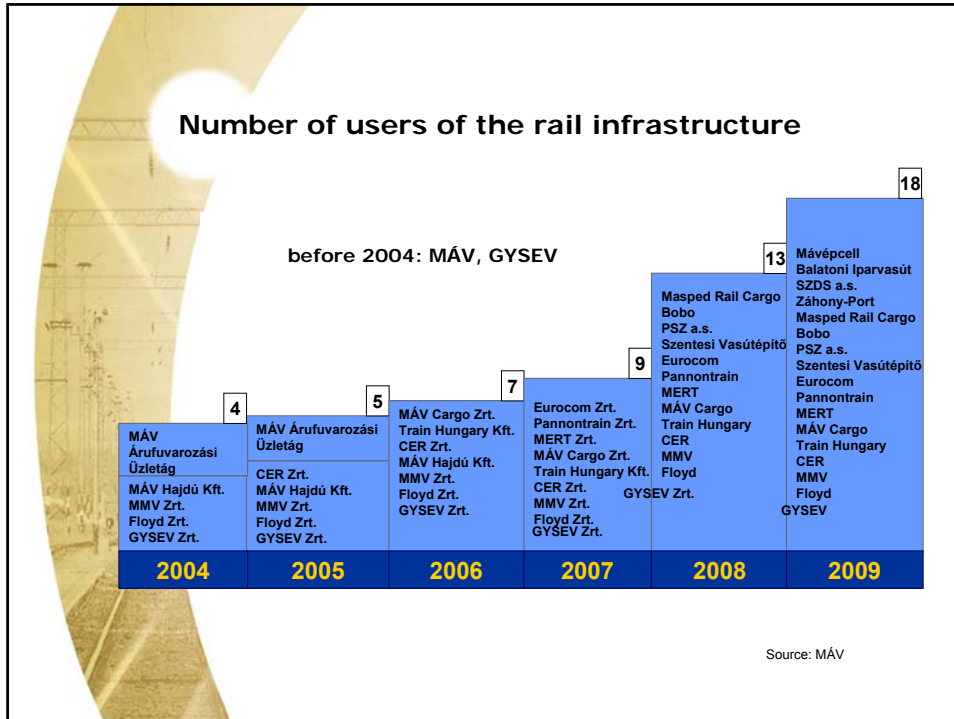
- CER (Community of European Railways and Infrastructure Companies)
- UIC (Union International des Chemins de Fer)
- G4
- ERA (European Railway Agency)

A vertical, semi-circular image on the left side of the slide shows a perspective view of railway tracks receding into the distance under a hazy sky.

Role of HUNGRAIL

- Uniform „face” of the Hungarian rail sector
- „Bridge” between the sector and decision making
- Inputs from EU playing field to Hungarian ministerial level





The Hungarian rail network – today's situation

- Proportion of double track lines: 15,5 % (EU-average: 41,2%)
- Proportion of the electrified lines: 34% (EU-average: 46,4%)
- Speed reduction: in 50% of the network
- Lack of investments of 2000 billion HUF (EUR 7,5 billion) in maintenance, reconstruction, development in the last 20 years

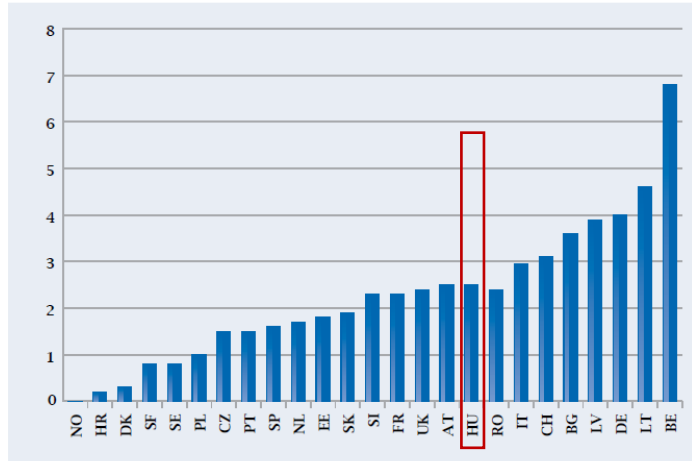
Quality of the rail infrastructure

Its quality is seriously under the ideal level:

- Lack of required axle load (22,5 tons)
- Overrun, old technology of signalling system
- Out of date technology at stations
- Bottle-necks at marshalling yards, state borders
- Lack of access to industrial tracks
- Budapest – based network

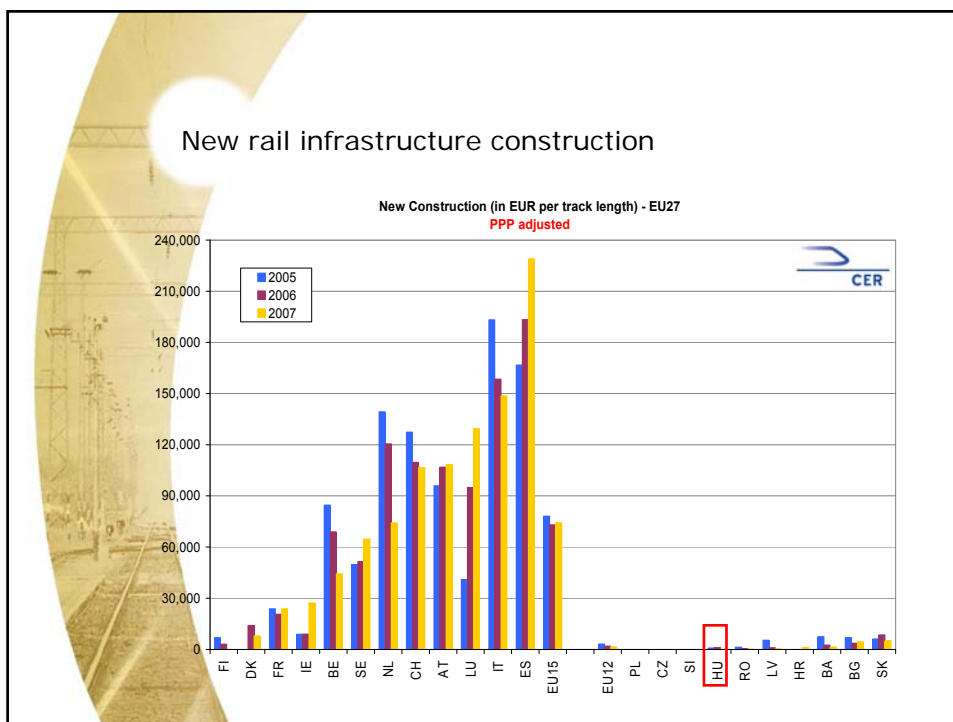
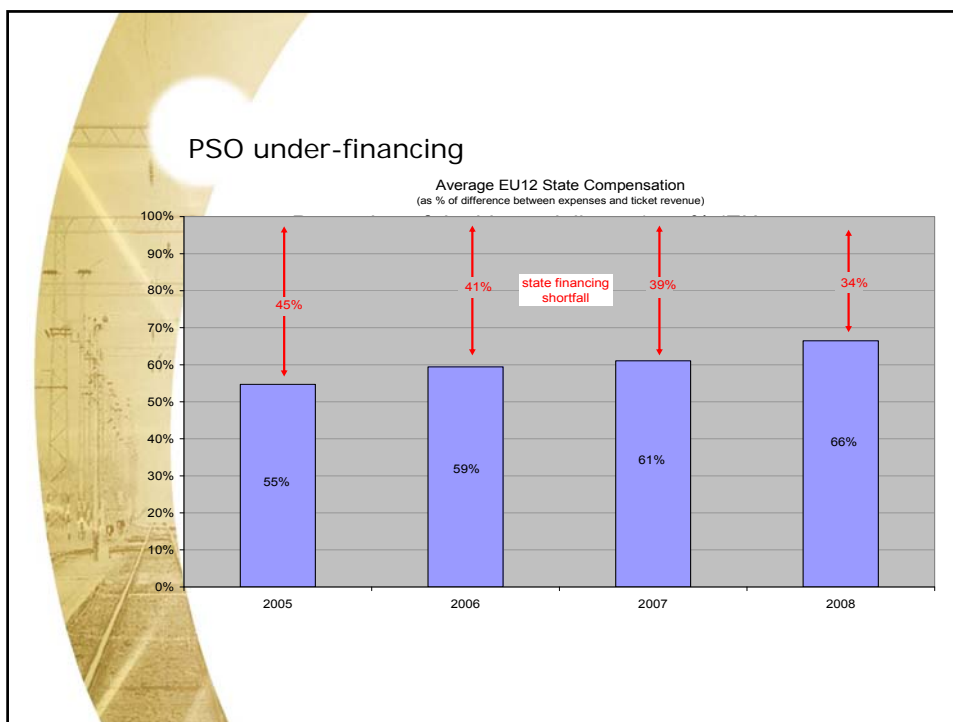
Track Access Charges

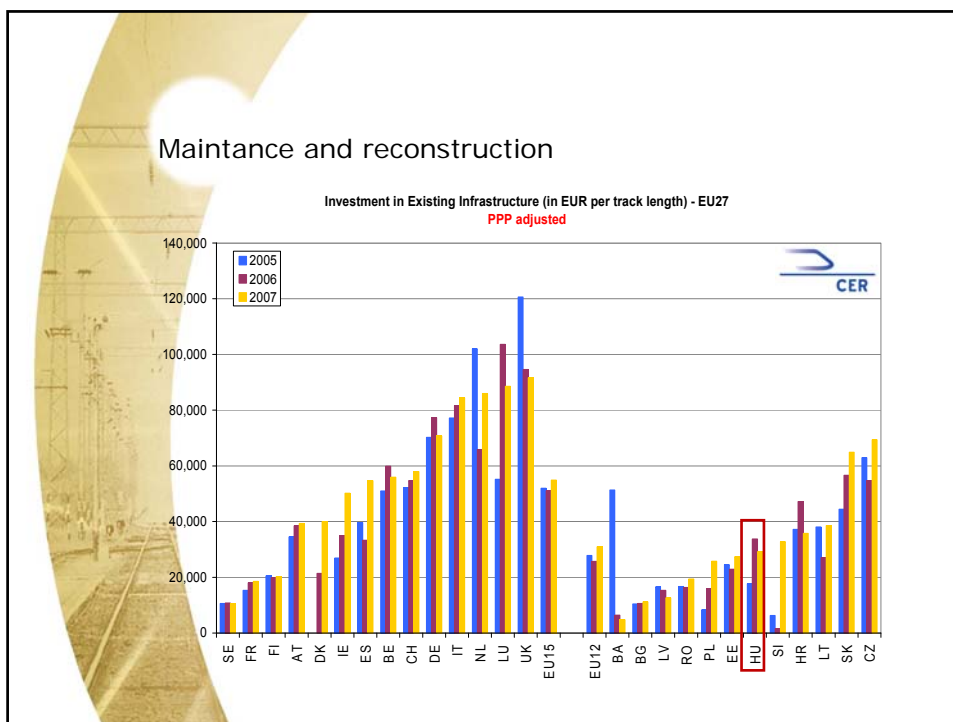
Typical access charges for inter city passenger trains per train-km (€) in 2008



Country	Typical access charges (€/train-km)
NO	0.2
HR	0.3
DK	0.4
SF	0.5
SE	0.6
PL	0.7
CZ	0.8
PT	0.9
SP	1.0
NL	1.1
EE	1.2
SK	1.3
SI	1.4
FR	1.5
UK	1.6
AT	1.7
HU	1.8
RO	1.9
IT	2.0
CH	2.1
BG	2.2
LV	2.3
DE	2.4
LT	2.5
BE	2.6

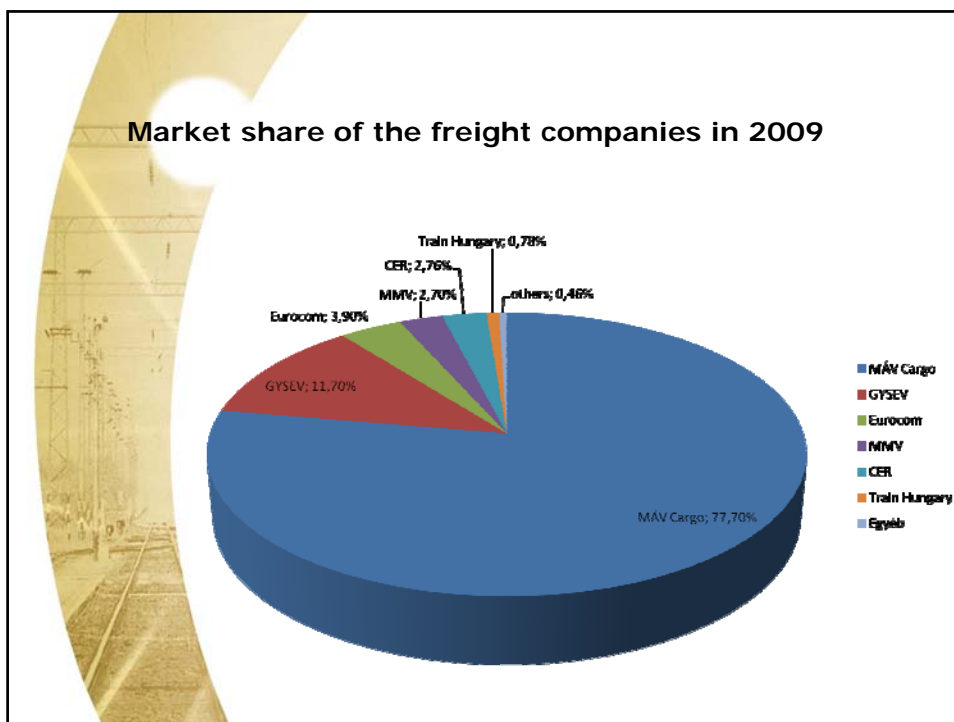
Source: ITF (2008)





Comparison of conditions of rail-road competition

	vasút/rail	Közút/road
hálózat hossza /length of the network	7.900 km	31.000 km
díjköteles hányad /charged ratio	100%	2,3% (700km)
Infrastruktúrahasználat költsége/cost of infrastructure usage	<u>3,50 Ft / tkm</u>	<u>0,20 Ft / tkm</u> (a fizetős utakon)
jövedéki adó beszámításával /incl. tax	3,50 Ft / tkm	1,20 Ft / tkm

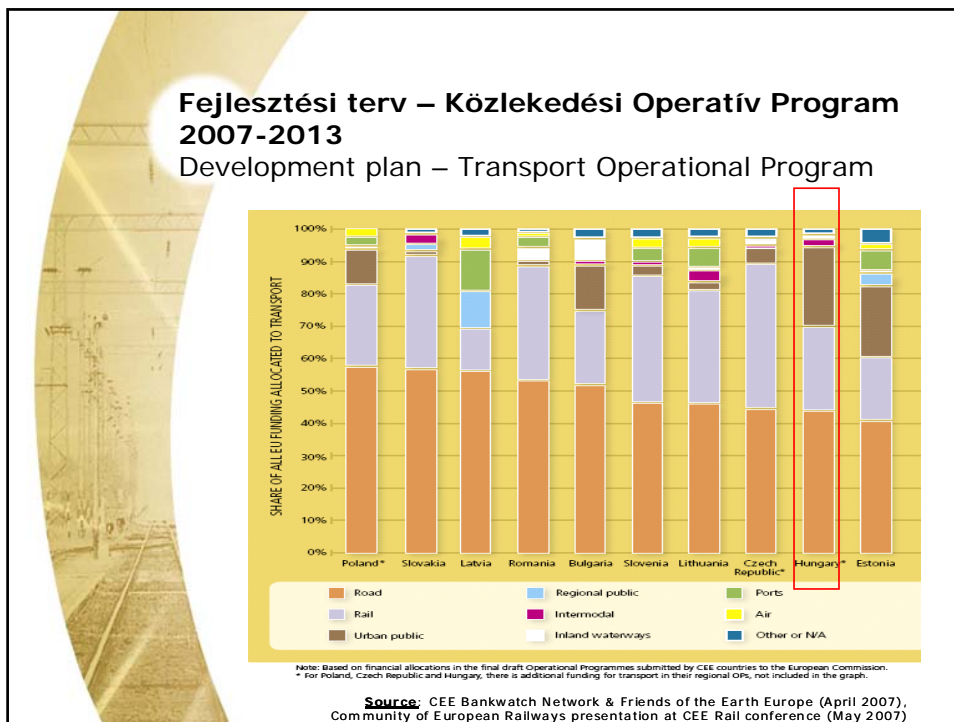


External costs

euro/1000 ukm, átkm

	Személyszállítás/passenger			Áruszállítás/freight		
	Vasút rail	Közút road	Vasút/közút Rail/road	Vasút rail	Közút road	vasút/közút Rail/road
Baleset/accidents	0,9	3,1	29%	0,1	6,8	1,4%
Zaj/noise	3,9	1,3	300%	3,5	5,8	60,3%
Levegőszennyezés/air poll	4,9	20,0	24,5%	4,0	32,0	12,5%
Éghajlatváltozás/climate change	5,3	8,9	59,6%	4,7	15,0	31,3%
A természeti táj megváltoztatása/environment	0,7	0,8	87,5%	0,5	2,2	22,7%
Torlódások/congestion	3,8	4,3	88,4%	5,0	8,7	57,5%
Összesen/total:	19,5	38,5	50,6%	17,8	70,5	25,2%

Forrás: INFRAS és IWW közös tanulmány, 2000



New commissioners, new plans?




Climate change is one of the biggest challenges of this century. A lot of work lies ahead of us over the next five years. But my ambition is to see, in five years time, a Europe that is the most climate friendly region in the world. As the EU's first Climate Action Commissioner, I see myself as having a two-fold mission. First, to implement the [Climate and Energy package](#) that was adopted last year, but which now requires follow-up. I want to ensure that as we invest in a sustainable future, we choose solutions that at the same time can benefit climate, energy security and job creation – in other words, improve the quality of life for everyone. I want to show that by investing in climate friendly and energy efficient technologies, we gain economically. The dedicated Climate team that has prepared the legislation over the past years will put all its know-how in an enhanced structure within a soon to be created Directorate-General for Climate Action, in following the implementation of the package and preparing secondary legislation and new policy instruments. We will intensify efforts on several fronts - just to mention the EU Emissions Trading System, CO2 reduction from cars and vans, a future Climate and Transport Package... We will mainstream climate into relevant policies and programmes: Research and Innovation, Agriculture, Rural Development, Structural Funds, Energy, Transport, Industry, Trade, Development and Environment. I am looking forward to working with my fellow Commissioners to ensure that the Europe of tomorrow is more sustainable than the Europe of today. Second, building on the outcome of the Copenhagen UN climate conference in December 2009, I will continue my efforts to reach an [ambitious international climate agreement](#). The EU has played a tremendously important role in paving the way for changes in the way we view climate change. I am determined to continue to raise awareness and to deliver solutions. I want to pursue the negotiations with the aim of reaching the 30% emissions reduction target as soon as possible. How Europe chooses to tackle the climate challenge over the next years will largely define our strategic role in the world. Let's work together on this, and continue being a first mover, not a follower!

Connie Hedegaard

Transport is – and must be – for people. As commissioner responsible for transport, my guiding principle over the next five years will be to **promote transport services that truly benefit Europeans**. Free movement is one of the greatest freedoms for the citizens of Europe, and good transport is essential to this. Europeans already enjoy modern transport of high quality. But ever-progressing economic integration raises many challenges for the future. With globalised supply chains, fewer and more efficient production sites, and just-in-time deliveries, Europe's economic growth potential also assumes further growth of its transport activities. As I pursue my work, I will promote these many benefits, proposing further market opening where this is in the general European interest. At the same time, I will combat the harmful effects of transport activities, and promote policies and legislation that bring greater safety and security, ensure "de-carbonisation", overall sustainability, and a coherent economic, social and environmental approach to all modes of transport. I will promote clear enforceable passengers' rights, putting my emphasis on areas of genuine cross-border European priority, with unquestionable added-value of collective European action

Siim Kallas

Expectations I.

- Fair competition with active transport policy, equality among sectors
- Internalisation of external costs of road, applying principles: „user pays and polluter pays“
- Implementation of distance based road charges
- Competitive rail track access charges


Expectations II.

- Developing public transport - based on rail transport priority
- Appropriate legal circumstance is needed for this:
 - New passenger transport law
 - Modified railway law
- Multi annual contract with passenger railway companies
 - Improvement of transparency, calculability and service quality
- Multi annual contract agreement with infrastructure management companies
 - Improvement of calculability, predictable developments and reliability

Expectations III.

- More electrified railway lines
- Track developments (corridors, elimination of bottle necks, replacement of missing infrastructure elements)
- Highly important area of intervention: Budapest suburban railway– cooperation with the stakeholders
- Reconstruction of railway stations - Transforming those into commercial centers
- Future logistic and industrial center with rail and road access

Competitiveness of rail?



**Repülés vagy vulkánkitörés?
(egynapi széndioxid kibocsátás)**

Category	CO2 Emissions (tonnes)
European airports (one day)	344,109
European airports (one year)	15,000
Swedish electricity production (one day)	206,465

Széndioxid-megtermelés 10%-os éves ipari repüléskapacitás mellett
Forrás: <http://www.informatikaibeaust.hu/>



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