



## RailCom – News No 5

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### Editorial

Dear reader

RailCom's recent supervisory activities have been focused mainly on pricing and discounts applied at intermodal freight terminals. Around thirty federally subsidised intermodal freight terminals in various parts of Switzerland are subject to the non-discrimination principle on access provided to third parties. This rule also covers pricing and discounts offered for handling and ancillary services. RailCom reviewed the pricing and discount policies at federally subsidised intermodal freight terminals and commissioned a consulting firm to carry out a study of their cost structure. The aim was to provide sufficient data on the situation in Switzerland. More information on this topic is provided on the pages that follow.

As of 1 July 2020, providers of last-mile rail freight services are subject to non-discrimination rules. This constitutes a new development in railway legislation: for the first time, the Federal Council has decided to apply the non-discrimination principle to a freight transport service. Previously, this principle had applied only to access to railway infrastructure and to federally subsidised intermodal freight terminals and branch lines. RailCom has been tasked with ensuring compliance with this new decision. More information about the scope and content of the non-discrimination principle can be found on page 4 of this newsletter and in our [factsheet](#) (in German, French and Italian).



I hope that you enjoy reading this month's edition of our newsletter.

Patrizia Danioth Halter, Chair

## Pricing and discounts at federally subsidised intermodal freight terminals

In 2020/21, RailCom's supervisory activities have been mainly focussed on pricing and discount policies at intermodal freight terminals. Federal subsidies for construction, expansion and renovation of these terminals are regularly tied to the condition that third parties be provided with non-discriminatory access. Among other things, this non-discrimination principle applies to pricing and discount policies for handling and associated ancillary services.

### Non-discrimination rule for pricing and discounts

Pricing and discounts are considered as non-discriminatory when the same conditions apply to all clients and when all clients are treated in the same manner. Different prices for the same service are permissible if the price difference is justified from a technical standpoint, e.g. if the cost of transferring shunting resources to another delivery point justifies the difference in final price. There are forty-three intermodal freight terminals in Switzerland, of which thirty, managed by fifteen different companies, are federally subsidised and thus subject to the non-discrimination principle and RailCom supervision. Most of these federally subsidised terminals are bimodal (road and rail). There are two trimodal terminals (road, rail and waterway) in Birsfelden and Basel. Most terminals have a maximum annual handling capacity of 25,000 TEU<sup>1</sup> and a few can handle up to 80,000 TEU. Most of the fifteen companies subject to federal supervision apply standard prices and do not give discounts. The others offer volume-based discounts, which vary significantly. Some companies offer discounts starting from a monthly handling volume of twenty transport containers whereas others will only offer discounts starting from an annual handling volume of 10,000 transport containers. Some discount practices take into account handling volume, type of transport container and the number of hoisting manoeuvres for each transport container handled.

### RailCom supervisory priorities in 2020/21

Among the supervisory priorities set for the 2020/21 period, RailCom focused on pricing and discount policies at intermodal freight terminals. It drafted a set of guidelines (see [Factsheet](#)) and organised a [symposium](#) on this topic. RailCom also contacted the companies managing intermodal freight terminals to request information about their pricing and discount policies as well as reasonable explanations of those policies. Most of the companies demonstrated to RailCom that they were fully compliant with their legal obligation to avoid discriminatory pricing and discount practices. Additional information still needs to be obtained from some of the companies contacted. RailCom will take the necessary steps to follow up on any unanswered questions.

Since there was insufficient data on the cost structures of intermodal freight terminals in Switzerland, RailCom commissioned a study with the consulting firm INFRAS. INFRAS used anonymised datasets to model the cost structures of different types of terminals and conducted interviews with selected terminal managers to validate their calculations. RailCom had no access to the datasets or the interviews and Infras kept all data confidential. The figures presented in this study are cost estimates. In other words, no precise cost calculations were performed for individual terminals. Therefore, no conclusions about individual terminals can be drawn from the findings.

### Cost structures and cost per TEU and hoisting manoeuvre

Due to the different utilisation rates, the costs per TEU and hoisting manoeuvre vary depending on the type of intermodal freight terminal (Figure 1). The unweighted<sup>2</sup> average cost per TEU and hoisting manoeuvre for all types of terminal is around CHF 28. Personnel costs are the largest cost factor, accounting for an average of 45% of total costs. Personnel costs tend to decrease in direct proportion to increasing size and utilisation of the terminal. Operational overheads (and in particular fixed depreciation) are the second main cost factor, accounting for just over one third of total costs. Construction and expansion of terminals is a cost-intensive process and equipment must be amortised over a period of up to 25 years.

<sup>1</sup> Twenty-foot equivalent unit (a standard transport container is twenty feet long)

<sup>2</sup> Regardless of the volume of containers handled at the given terminal

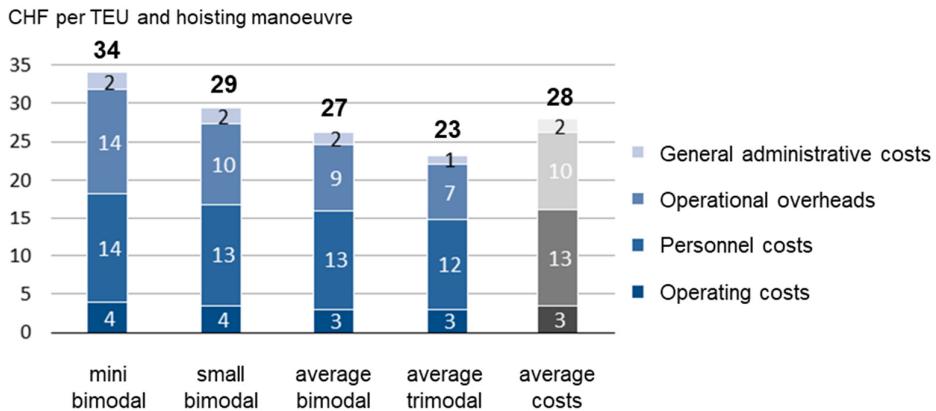


Figure 1: Estimated costs per TEU and hoisting manoeuvre by type of terminal type and average utilisation rate, taking into account federal subsidies. Chart: INFRAS.

### Price per transport container handled

The standard price per transport container handled is around CHF 50-55 regardless of the type of terminal. However, this standard price is seldom applied in practice, as it only relates to the handling of individual containers and most customers are charged significantly lower volume-based prices. Depending on the handling volume, the prices can fall below CHF 30.

It is difficult to compare the cost estimate per TEU and hoisting manoeuvre with the handling price applied at a specific intermodal freight terminal. At the very least, we need to take into account the composition of the loading units (generally 20', 40', 45' containers or trailers) as well as the ancillary services included. The services and associated costs vary markedly. For example, depending on the terminal and equipment used, handling involving one or two hoisting manoeuvres may or may not include intermediate storage.

In addition to handling services, companies that manage intermodal freight terminals generally earn income from ancillary services (mainly additional hoisting and positioning of containers, cooling, handling of hazardous materials), which are also subject to the non-discrimination rule. Any statements on profit margins must take into account not only handling services but also ancillary services. The study showed that not all companies are able to cover their costs on the basis of the prices currently charged for handling services. The companies explain that this is sometimes due to under-utilisation of terminals. The fact that some companies accept what at best may be considered an unprofitable business is partly due to the fact that prices are influenced not only by direct costs but also by the business model used at the terminals. The priority given to the handling price depends on whether the company in question offers a comprehensive service (entire logistics chain including transport service) or focuses only on freight handling services.

### Discounts

Keeping the non-discrimination principle in mind, discounts must be analysed in detail and set in relation to the cost savings that can actually be achieved. Due to the relatively high fixed costs, companies generally have an incentive to maximise the utilisation of their terminals. This can be partly achieved by offering volume discounts as an incentive to place large orders. Some companies justify volume discounts by saying that it is easier, more efficient and cost-effective for them to handle more homogeneous orders, such as block train traffic. Recurring and large orders create economies of scale and thus cost savings.

## Last-mile rail freight services

As of 1 July 2020, providers of last-mile rail freight services are subject to non-discrimination rules. This constitutes a new development in railway legislation: for the first time, the Federal Council has decided to apply the non-discrimination principle to a freight transport service. Previously, this principle had applied only to access to railway infrastructure and to federally subsidised intermodal freight terminals and branch lines. RailCom has been tasked with ensuring compliance with this new decision.

### Scope

The new rule is set out in Art. 6a of the Ordinance on the Carriage of Goods by Rail and Navigation Companies (GCarO) and applies to all companies that offer last-mile rail freight services. These are services provided to/from the railway infrastructure and branch lines or intermodal freight terminals. This mainly entails shunting and other ancillary services (e.g. technical inspections of rolling stock, checking of brakes or connecting locomotives). The non-discrimination principle does not apply to services provided within the railway infrastructure (Figure 2).

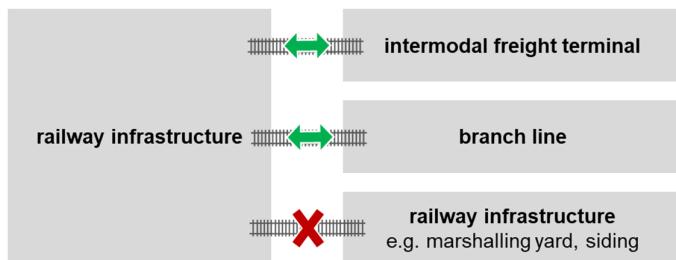


Fig. 2: Scope of Art. 6a GCarO. Chart: RailCom.

### Non-discrimination

Service providers are required to provide their services to third parties on a non-discriminatory basis. They must organise themselves in such a way as to be able to handle requests from third parties and make offers to them. If several requests overlap, suitable steps must be taken to coordinate incoming requests and maximise capacity (e.g. offering alternative times). There must be no discriminatory pricing conditions, whether the activities are carried out on behalf of clients or for one's own purposes. In terms of allocation of resources, all third parties must be treated equally under the same conditions. Any difference in treatment must be objectively justified. An objective reason for pricing differences may be, for example, if shunting work for different customers is more time-consuming due to the composition of the train.

### Publication

In order for clients to know which services are available and under what conditions, companies are required to publish the basic terms of service provision, the planning and allocation of resources and pricing calculations. To facilitate this, RailCom provides an optional [template](#) (in German, French and Italian), which has been provided to improve transparency and standardise the layouts.

### RailCom supervision

RailCom is actively committed to its supervisory mandate, i.e. it verifies whether the companies concerned are indeed complying with the provisions set out in Art. 6a GCarO. Initially, RailCom informed all freight RUs of their legal obligations. The next step will be to inform other service providers, in particular branch line operators.

RailCom also welcomes enquiries or reports at any time if a company suspects discrimination or is uncertain about a given situation. The RailCom website provides a [factsheet](#) (in German, French and Italian) explaining the legal requirements. If you have any questions, we are here to help.

## Brief overview of other topics

### New staff member joins RailCom Secretariat

In April 2021, Ken Ziegler joined the RailCom Secretariat. As a sales and marketing specialist, he will be in charge of market surveillance of intermodal freight terminals, branch lines and last-mile rail freight services. He will also represent RailCom in international bodies, particularly those dealing with the rail freight corridors.

Before being hired at RailCom, Mr Ziegler worked in various capacities for the SBB Cargo Division, among other things as head of Regional Sales Switzerland. Prior to that, he worked on the market side of intermodal transport in Switzerland for many years. Mr Ziegler studied business administration in St Gallen and trained in logistics and supply chain management.



### One intermodal freight terminal now exempt from non-discrimination principle

RailCom supervises federally subsidised intermodal freight terminals. According to the Federal Act on the Carriage of Goods by Rail and Navigation Companies (GCarA), all companies that have received federal subsidies to purchase their equipment are subject to the non-discrimination principle. Following an application filed by a company managing an intermodal freight terminal, RailCom confirmed that the non-discrimination principle no longer applies in that case. The company in question had received federal funding in the form of an interest-free loan nearly twenty years ago. These funds were used to purchase a mobile crane. A ten-year repayment schedule had been agreed upon, which matched the life and amortisation of the mobile crane. The company paid back this loan in full and filed an application for exemption, arguing that the mobile crane had been replaced after reaching the end of its usable life cycle and that the purchase of the new crane had been entirely self-financed by the company.

In a declaratory ruling dated 4 March 2021, RailCom confirmed that the company is no longer subject to the non-discrimination principle. The company is now free to set its own pricing and discount policies for its customers as it sees fit.

### IRG Rail Market Monitoring Report

Railway regulators from over thirty different European countries have joined together to form the Independent Regulators' Group – Rail (IRG-Rail). The annual Market Monitoring Report is one of IRG-Rail's main publications. RailCom compiles the Swiss data for this report.

The recently published [9th Market Monitoring Report](#) provides information about the railway network and track access charges as well as on freight and passenger transport markets in European countries. This report also examines the impact of COVID-19 on freight and passenger traffic in the first half of 2020.