



Promotion of combined transport

Evaluation of investment support measures for transshipment terminals

Key points

The Swiss Federal Audit Office (SFAO) looked at the issue of transshipment terminals or hubs, the cornerstone of combined transport. The Confederation actively promotes the development of combined transport as part of its road-to-rail policy, which has offered investment aid since 1986 for the construction or expansion of terminals. This measure aims at improving the competitiveness of rail freight transport as opposed to road and meeting the objectives of intermodal transfer. Financial aid is awarded to the terminal's owner or operator in the form of interest-free loans or non-repayable subsidies. Either way, the applicants are required to finance at least 20% of the projects with their own means. The facility in question may be located in another country provided that all or some of the traffic transits through Switzerland.

Small and medium-sized terminals in Switzerland, larger facilities located abroad

There were 41 transshipment hubs in Switzerland in 2012. Since 1986 the Confederation has awarded financial aid to 39 facilities, of which 31 are in Switzerland. Capacity for some two million TEUs (twenty-foot equivalent units) was created between the years 1986 and 2011, of which 900,000 TEUs in the Busto Arsizio-Gallarate terminal in northern Italy. Of the 159 applications submitted to the Federal Office of Transport (FOT), 103 were accepted. The Confederation committed a total of CHF 400 million to supporting these projects; 92% of this was for the construction of new terminals or the expansion of existing facilities. The Busto Arsizio-Gallarate terminal alone received CHF 162 million in financial commitments between 1986 and 2012. This is the only very high-capacity facility subsidised by the Confederation. All facilities within Switzerland itself are small or medium-sized, and most of these have received financial support from the Confederation. The bulk of the terminals serving import and export traffic are located in the region between Basel, Zurich and Olten, with the greatest concentration of such hubs in the Basel area. However, the largest facility used by Swiss transport companies is located in Germany, at Weil-am-Rhein, which is not subsidised by the Confederation.

Targets for transalpine traffic but not for other types of traffic

Although a constitutional mandate has been issued and clear targets set for shifting transalpine freight traffic, such objectives have never been explicitly defined for non-transalpine traffic. The transalpine corridor has taken priority in implementing the Alpine Initiative. Meanwhile, the 2008 legislation on rail freight transport contains no political objectives or concrete strategic directions for clearly defining the goals for non-transalpine domestic and import/export traffic. And yet, the bulk of import/export traffic concerns the north/south trading axis between Switzerland and Northern Europe.

The SFAO's findings present a heterogeneous situation with little consistency throughout the system, despite the additional capacities created since 1986. The FOT has focused on the added value with regard to transalpine traffic, supporting since 1986 the construction, development and expansion of the Busto Arsizio-Gallarate facility. Most facilities in Switzerland have been subsidised, whether for construction of a new terminal or expansion and modernisation of an existing one. Several facilities received support for reasons of local politics and would never have been subsidised on purely financial grounds. With no overall strategy in place, the development of

terminals has been largely haphazard, catering more to the needs of regional politics than to actual logistical demand. The Wiler terminal, for example, is typical of a relatively unattractive location outside of an economic zone. Consequently, the landscape of terminals is largely uncoordinated, made up of small and medium-sized facilities geared to specific markets. The Basel region has eight hubs within a 35-km radius, all developed in an uncoordinated manner, particularly with respect to existing facilities across the border in Germany and France. In French-speaking Switzerland, the Chavornay terminal has been less successful than expected and, what's more, is located close to two other transshipment facilities: Renens, which has been modernised, and Daillens, where CFF Cargo has developed a new service offering.

Several facilities have low productivity, and the system as a whole does not help to make combined transport more attractive. Given the absence of objectives regarding measures for non-transalpine traffic, it is difficult to assess the appropriateness of this mode of financing. Nonetheless, the SFAO is of the opinion that such support has made no significant improvement to the productivity of combined traffic, particularly in the short and medium term, and the Confederation's support was designed as start-up financing and was in fact supposed to be withdrawn from 2014 on.

Low involvement by the Federal Office of Transport

The FOT has in the past taken a back seat in the definition of needs, believing it lacks the required legal standing. It sees private stakeholders as best placed to define the needs in terms of transshipment capacity. Likewise, the FOT does not address issues of land-use planning, considering this primarily a cantonal responsibility. Consequently, the FOT has not developed a concept for the establishment of terminals and the setting of priorities, as proposed in the findings of National Research Programme no. 41 published in 2001. Also, the FOT has not defined standards for the technical configuration of terminals or the business models of terminal operators. Experience with terminals and knowledge has been built up among non-government players, particularly engineering firms, university institutes, and also CFF Cargo. While CFF Cargo is a leading player in Switzerland, its strategy for combined transport has changed constantly over the past ten years, generating uncertainty among other stakeholders in the sector. Starting in 1999, CFF Cargo launched numerous projects to create a combined transport offering (e.g. *Pegasus*; Euro-hub in MuttENZ; Cargo Domino), before dropping these in favour of wagonload freight. Since 2011, CFF Cargo has proposed a new offering for combined transport, rail and transshipment in Switzerland.

In terms of financial needs, the current multi-year programme for 2009--2013 makes some CHF 42 million available a year. Although this credit facility has been in place since 1986, neither the FOT nor the Federal Finance Administration has been able to furnish the basic information to determine financial needs. Furthermore, the credit available has generally been higher than the funds actually drawn down over the past ten years.

Transshipment alone generates low profitability

Investment costs and operating costs are high, particularly for medium-sized facilities. Transshipment alone generates very low margins, and only operators also offering other services and involved in other levels of the combined transport value chain (vertical integration) or in niche markets are able to generate a profit. Regarding transshipment, only higher volume flows can enable facilities to reach the productivity and profitability thresholds needed to develop a sustainable offering. Furthermore, the facility needs a good technical configuration and a realistic business model developed with its partners for the long term.

Risks facing the Confederation

In defining its approach, the FOT has assumed that the risks incurred are entrepreneurial in nature and therefore borne by the private investor, even for those projects more than half-funded by the Confederation. However, the SFAO believes that the Confederation also incurs certain risks, particularly that of facilities defaulting on loans or going out of business. If an offering is not attractive, customers are likely to want to switch from rail to road freight. Low productivity and poor profitability, competition between facilities, and lack of commitment from partners are risks affecting the entire system and therefore also the Confederation. This risk is all the more significant when the Confederation has financed 80% of a project. From a purely economic standpoint, the ability to take a rational decision is skewed when such a high level of financing is involved.

Late improvement of application review process

Since clarifying the award criteria in 2010, the FOT now examines funding applications in greater depth. Facilities subsidised before this change have become part of the landscape, however, and some terminals that are supposed to be fully productive and profitable by now are not. Also, applicants often refer to existing projects to further their case, believing they are entitled to receive the maximum subsidy. Among the selection criteria, the FOT places particular importance on transalpine traffic. As a result, many applicants do their utmost to claim their plans to develop transalpine links to the south. Often, however, these routes never actually materialise. The criterion of providing free access to the facilities is somewhat ambiguous: the FOT assumes that the information furnished by the applicant is correct and intervenes only in the case of a complaint, which has never actually happened. Furthermore, the FOT places the burden of responsibility on the applicant for the quality of the information provided (prospects of developing routes, partnerships envisaged, business plan, etc.). Also, the FOT makes limited reference to the technical configuration and business model, all the more so since it has not determined standards as a basis for reviewing applications.

Few applications, and factors limiting the number of projects realised

Although practically no terminals have been implemented in recent years without public support, the FOT has received fewer applications than hoped. Of the applications submitted, 48 were subsequently suspended. In almost all cases, it was the applicant who interrupted the process by failing to furnish the additional information requested by the FOT. The SFAO has identified several factors serving to explain this. First, the market is small and the number of players potentially interested in operating a terminal is limited. Moreover, the landscape of companies operating in Swiss and European combined transport is evolving – with some players disappearing and new ones emerging, as well as mergers and acquisitions – making it difficult to develop a long-term

partnership. On top of that, Switzerland has one dominant player in rail freight transport, CFF Cargo, a situation that generates a degree of uncertainty among partners and customers alike. Investment costs are high, as are the risks of operating a terminal, particularly the risk of inadequate demand. It takes several years to get a terminal up and running from idea to reality, and the possibility of facing delays from public opposition has to be factored in.

Encourage innovation promotion through better coordination of existing instruments

There are no real incentives to encourage more sustainable projects with a more attractive combined transport offering. While innovation is a criterion in application review, it is not a precondition for awarding financial aid. Here, too, the FOT prefers to intervene as little as possible, believing that private stakeholders are better placed to decide on the most interesting innovations to be developed. Regarding rolling stock, CFF Cargo has been commissioned by the FOT to develop new technologies, although with very little results to date. The SFAO believes that innovations should also be sought in other areas apart from rolling stock, such as the automation of transshipment facilities, networking of information or logistical processes. The Confederation also offers other forms of innovation support, largely underexploited, whether in terms of transport or logistics. With the Commission for Technology and Innovation (CTI), for example, a company could develop new processes in collaboration with the universities and universities of applied science. There has also been some concern regarding the very low number of applications submitted in the area of logistical processes and transport in recent years.

Potential for improvement

In the wake of various parliamentary motions adopted by the Federal Council, the future of rail freight transport is currently a topic of discussion, making this an ideal time to improve the situation of combined transport terminals in Switzerland. It is also necessary to define the role of the Confederation and the objectives for supporting an infrastructure that remains difficult to realise without public funding. The findings of the evaluation have shown a need for coordination and greater consistency among projects supported over time.

The SFAO has five recommendations. The first, strategic in nature, concerns the system as a whole and calls for the Confederation to be more proactive in defining needs and steering the measures taken. The second and third relate to the examination of specific projects. The fourth recommendation is to better define the financial conditions, while the fifth aims at encouraging innovation by coordinating the various instruments available from the Confederation.

The Federal Office for Spatial Development agrees with the first recommendation. The FOT largely agrees with the recommendations, with the exception of recommendation 4. It is in fact against a reduction of the credit available and against cutting the maximum rate of federal funding. Overall, the FOT holds the view that it lacks the legal tools to enforce planning in the domain of such terminals, a view not shared by the SFAO, especially in view of the magnitude of subsidies granted.

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