



**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE**

Working Party No. 2 on Competition and Regulation

ROUNDTABLE ON STRUCTURAL REFORM IN THE RAIL INDUSTRY

---Turkey---

14 February 2005

The attached document is submitted by the delegation of Turkey to the Working Party N°2 of the Competition Committee FOR DISCUSSION under item IV of the agenda at its forthcoming meeting on 14 February 2005.

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1. The State Railway Company, General Directorate of the State Railway Administration of Turkey (TCDD) is a public enterprise related to the Ministry of Transport. TCDD has a monopoly over the rail infrastructure, rail transport services (freight and passenger), and also manufacturing railway equipment and, loading and unloading at several ports. Ownership and operations of TCDD are fully public. It is suffering the commonly encountered problems of inefficient subsidisation, high costs, poor management, and poor service. Therefore it has been felt as an urgent need that the rail industry should be subject to a reform and restructuring process in order to introduce competition into the industry. In this regard, in particular the process to align with the EU *acquis* in many policy areas including transportation will provide a significant stimulus and endorsement in reforming and restructuring the rail industry.

2. The following facts from 2005 Programme of the 8th Five-Year Development Plan are very dramatic with respect to the position of rail industry in Turkish transportation sector and even mere examination of them requires a reform as an urgent solution to enhance the position of the industry in Turkish economy:

- With respect to Turkish transportation market, the share of railways from the allocation of total investment for the transportation is 23% whereas that of the highways is 52% and maritime is 3% in 2004 Investment Programme. More than 90% of domestic passenger and freight transportation is still provided via highway transportation.¹ Although it is safer and more economic, railway transportation cannot get its share from total transportation.
- Moreover, the current structure of railways cannot respond to the demands of the developing economy. All sub-sectors of transportation should be complementary and combined transportation should be widespread. Within this framework, freight flow by containers starting from the ports should be transferred to the railways via transfer facilities, mainline transportation should be done through railways and highways should be preferred for transportation from port to the transfer facility or from production/distribution centre to the transfer facility.

3. Considering the above facts with regard to rail industry, 2005 Programme of the 8th Five-Year Development Plan contains the following comments:

- Railway management should be modernised in order to have a more competitive structure and its share in total transportation should be increased. Therefore, it is necessary to gain an understanding that is responsive to the market conditions and that aims efficient service and customer-oriented approach. To achieve these purposes, a legal infrastructure that provides financial and administrative independence for TCDD and that aims to enable a share to the private undertakings in railway transportation should be established. It is of great importance that General Directorate of the State Railway Administration of Turkey (TCDD) should be reorganised to have a structure targeting profit via annulment of some unproductive train services and start of an efficient transportation and marketing policy. To achieve a productive management for TCDD, the local administrations will be charged with suburban services management. Investments towards modernisation will be a priority to decrease the repair and maintenance costs to a great extent.

4. With respect to the organisation of TCDD, following remarks are included in Pre-accession Economic Programme 2004;

“Because organization of the TCDD is one of the areas of substantial reforms in the transportation sector, an Organization Action Plan has been formulated to span the period of 2003-2008 in the area

¹ According to 2004 data from Ministry of Transport, the share of railways is 3,8% for freight and 2,6% for passenger.

of railway transportation by TCDD. In line with this action plan, a Project of Organization of Turkish Railways Sector and TCDD has been prepared. The Project amounting to 4.7 million euro with the objectives of reconstructing the Turkish railway sector and reorganizing TCDD has been launched under Turkey-EU Financial Cooperation Programme and planned to be completed by the end of November 2006. The contract award procedures for the project have already been finalized and the project will be carried out by the German Railways. Draft versions of laws on the reconstruction of the railway sector under the project will be formulated at first, with due consideration given to the EU directives. The project will serve to the improvement of the institutional and financial structure of TCDD as well as to the economic development and environmental sustainability of the railway sector by ensuring its efficient operation.

Meanwhile, studies are in progress to obtain a loan of about 200 million dollars within the framework of the World Bank Country Assistance Strategy Crediting Programme for the organization of the Turkish State Railways. The Country Assistance Strategy Programme is planned to fund the signalization projects that will reduce the personnel costs, the investments needed to establish the information communication infrastructure and the source required for the requirements after the reconstruction.”

5. With a view to summarising the above mentioned explanations and the ongoing efforts with respect to the subject; as a first step towards introducing competition into the railway sector and bringing it line with the *acquis*, the Action Plan focuses on restructuring the state railway company, TCDD, unbundling ports and railways and opening the railway market to competition. As part of restructuring of TCDD, it is planned to be separated into infrastructure and operation. Whereas infrastructure establishment is planned to be under the Ministry of Transport and to be responsible for electrification, signalling, repair and maintenance; operational activities is planned to be carried out in a joint stock company to be established. However, as mentioned in the Pre-accession programme, the project aiming at reconstructing the railways and reorganising the TCDD is planned to be completed by the end of 2006. Thus, TCDD will have a more functional, efficient and modern structure. Moreover, the main statute of TCDD has already been revised to enable private sector to operate its own trains as a result of which the railway transportation will be developed by the dynamism of the private sector, competition will be increased and better service quality will be achieved. Moreover, it is expected by the European Commission from Turkey that subsidies paid to railway operations need to be defined in terms of a public sector obligation and covered by a public sector contract and legislative and institutional reforms are needed to restructure the entire rail sector in line with the *acquis communautaire*. In line with the demand of European Commission concerning legislative and institutional aspects, the restructuring efforts in Turkey takes into account the Council Directive 91/440/EEC of 29 July 1991 on the development of the Community's railways; Directive 2001/12/EC of the European Parliament and of the Council of 26 February 2001 amending Council Directive 91/440/EEC on the development of the Community's railways; Directive 2001/13/EC of the European Parliament and of the Council of 26 February 2001 amending Council Directive 95/18/EC on the licensing of railway undertakings; Directive 2001/14/EC of the European Parliament and of the Council of 26 February 2001 on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and safety certification.

6. As seen from the above explanations, the Turkish rail market is dominated by a state-controlled enterprise and far from being efficient to meet the needs of the Turkish economy as an infrastructure industry. And in parallel to the process of reforms followed on the way to the EU, there are promising steps in reforming and restructuring the industry and it is our expectation that following this reform process, the rail industry will gain an important place in the Turkish transportation sector, which is very important for the Turkish economy.