

RESTRUCTURING ROMANIA'S RAILWAYS: THE FREIGHT BUSINESS

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Abstract: Railways remain a key element in Romania's transport infrastructure but many adjustments have been made since 1989 in the quest for profitability in the context of European integration as well as competition with other transport modes. After a brief contextual introduction the paper concentrates on railfreight; noting a fall in traffic since 1989, coupled with the need for qualitative improvements and higher labour productivity with the state-owned freight company (CFR Marfă) now open to competition from private operators who have gradually increased their share of the business. The paper concludes with reference to Marfă privatisation as a prerequisite for the long-term survival of the company as a major player in the business.

Key words: CFR Marfă, Private operators, Privatisation, Public infrastructure, Railways, Restructuring.

Introduction

The railways provided a lead in the development of a modern system of transport and communications in the nineteenth century and this continued to be the case through much of the twentieth century despite the complementary roles of road, air and water transport as well the growth in pipelines and telecommunications (Turnock 2001). Indeed during the communist period the prime importance of the railway system was one of key elements of differentiation in the transport systems of Eastern and Western Europe.

Since 1989 Romania has experienced a surge in the number of motor vehicles for both passenger and freight use and the road system is now being quite rapidly improved. Railway traffic is now declining absolutely as well as relatively and this applies to both passengers and freight. Very substantial resources are needed for qualitative improvements to the present network particularly along the 'Eurocorridors' which constitute a basic

network of key lines for long-distance traffic across the continent. After a relatively 'isolated' approach during the early transition years (when there was no properly-integrated transport policy), government is now setting out to enhance railway competitiveness through a better-quality infrastructure, despite strong competition for funding from other transport modes (Turnock 2003; 2006).

Financial problems inhibiting further development are all the more keenly felt because tariffs (especially passenger fares) did not keep up with inflation (especially in the 1990s) and state subventions were inadequate. There has been a sharp reduction in spending to maintain infrastructure and replace rolling stock (outdated and insufficient in both quantitative and qualitative terms); thus significantly reducing the level of railway transport both from a quality and safety point of view.

The Romanian railway infrastructure has consequently fallen below EU standards (ANDR 2000, p. 49). The situation is not unique to Romania because in the early 1990s a World Bank 'roundtable' in Vienna (discussing trends

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in the railway industry in the region generally) noted falling traffic, even in relation to GDP (especially for cement, coal and steel) and a deteriorating financial situation. Yet rail transport still offers advantages in terms of energy efficiency as well as substantial environmental benefits through relatively low pollution levels (a tenfold advantage over road transport) and substantial benefits in terms of safety. Also, with a network similar to that of the United States (despite a vastly smaller territory) Romania's railways penetrate economically poorer regions and continued to contribute to their regional development. <<http://www.cfr.ro>>. Indeed compared with most other European countries railway closures in Romania have so far been minimal and one of the many questions to be resolved concerns the extent to which the substantial inherited network (10,776kms. in 2010) can be maintained for economic and social needs.

Clearly the railways still have an important role in both Romania (as well as the wider European Union) and the challenge is all about placing the business on an efficient and sustainable basis. This paper explores the freight business as a microcosm of the wider problem. Ever since 1989 Romania has been working on closer integration with the wider European rail network with particular importance attached to selected main lines as part of a continental high-speed system known as TEN-T (Trans-European Transport Network) with common standards for freight and passenger working. A TINA (Transportation Infrastructure Needs Assessment) process was launched in 1995 in order to establish the transport needs of each transition states in multimodal terms related to ten Pan-European corridors with funding by national budgets amounting to 1.5% of GDP until 2015. There was also provision for modernised stations and an enhanced control and command system – assisted by fibre-optic telecommunications – known as European Train Control System (ETCS) to locate trains accurately and govern their speeds.

For Romania the corridors for high-speed running up to 160km/hour involve the lines from Bucharest to the frontiers at Calafat (near Craiova), Curtici near Arad (via both Braşov / Sighişoara and Drobeta-Turnu

Severin), Dorneşti (near Suceava), Episcopia Bihor (near Oradea), Giurgiu and Ungheni (near Iaşi). During the last communist years several new railway lines were under construction to secure improved connectivity in anticipation of rising traffic (Groza & Muntele 1998) but now that the focus is on qualitative improvements (albeit in the context of a sharp fall in traffic volume since 1989) it is unlikely that these projects will be completed. Most significant here is the shortened route from Bucharest to Transylvania via Piteşti and Râmnicu Vâlcea although there is a school of thought that sees this as a potential freight line that would reserve the difficult Bucharest-Braşov line (via Predeal summit) for high-speed passenger use (Peaha 1965). Another interesting question concerns the Iron Gates (between Drobeta-Turnu Severin and Orşova) where double-trackking – required by European standards – is impossible on the present alignment (flooded by the hydropower/navigation project): this raises the option of tunnelling through the mountains to the north (Buzuloiu 1990).

Reorganisation

The first step was the setting up of the autonomous national company SNCFR in 1991 with around a hundred subordinate economic units. But the financial situation was catastrophic as freight fell to 30% of the 1989 level and passengers to 50% during the early 1990s. During 1993-6 SNCFR lost 174mln RON due to falling traffic (linked with reduced commuting and industrial decline) and a switch to road services. Subventions reached 22% of income in 1994. This was in line with most European countries (falling into the 20-40% band) but with a difference in that CFR accumulated huge arrears.

Initially the company formulated the strategy for 1994-2000 adopted by its administrative 'consiliul' to halt the decline; leading to a general restructuring strategy later in the year to adjust to current traffic levels while improving technology and efficiency in concert with Europe. The basic rationale was initially supplied by a study in 1993 by Deutsche Eisenbahn Consulting, involving external action

in the form of legislation appropriate to competitive transport services in a market economy (allowing for flexibility and disposal of assets other than infrastructure which is national property) and internal action to identify sectors of activity, adopt commercial principles and enhance adaptability and efficiency on a phased basis for 1994 (sectors of activity), 1995 (commercial principles) and 1996 (adaptability and efficiency).

Long-term restructuring required reductions in labour, locomotives and rolling stock appropriate to current traffic levels, with fewer trains and closure of certain lines and stations. At the same time, qualitative improvements were needed to provide fast inter-city trains integrating with the European network with reduced energy consumption. Other aspects of the programme included wholesale adoption of light railcars for trains covering short and intermediate distances; modern installations of control and signalling, especially at such key stations as Braşov, Ploieşti Sud and Timișoara Nord; appropriate resources for maintenance; a system of digital telephones, electronic information and computerised ticketing based on a fibre-optic network started between Bucharest and Ploieşti in 1995 and extended to Braşov in 1996; modernised frontier stations; and facilities for combined transport including Black Sea ferryboats (Crăciun 1997).

Fare rises in 1997 achieved some financial stability to pave the way for foreign credits to help update the system. But a five-fold increase in rail fares would have been needed to break even and so, in the absence of heavy subsidies, losses were enormous and the CFR's overall debt soared to 250mln RON at the end of 1997. With an infrastructure subsidy of only 59,000RON in 1998, when 30mln was then needed for rehabilitation over a ten-year period, debts to the state budget continued to escalate to a total of 420mln with growing obsolescence and a workforce 129,000 larger than its activity merited. 1998 was a critical year because the government took a decision to stop further deterioration of the transport system and rehabilitate the infrastructure on the basis of European integration in matters of speed, flexibility, comfort, traffic safety and environmental protection (Floricele 1992; Floricele & Petrea 1993).

The railway restructuring and rehabilitation plan was costed at \$380mln and the government's contribution was balanced by a package negotiated during 1995–6 involving PHARE co-financing with World Bank and EBRD of a €300mln 'Restructuring Action Plan' including rehabilitation and modernisation of the railway network for full integration in Europe: restoration and improvement of track for higher speeds (including help from PHARE for rail purchases during 1996–7). Commercial reforms were belatedly introduced in 1997, allowing tariffs to be set under market conditions, while restructuring to remove crossed subsidies between freight and passenger traffic followed in 1998 and provided for competitive pricing of freight services. There is now an equitable market in transport with railway and road in balance, with allowance for flexibility and disposal of assets (other than infrastructure which is national property).

A New Company Structure

Infrastructure maintenance and development as a government responsibility, looked after by a CFR national company. The national railway authority drew up modernisation objectives in harmony with the vision of the UIC ('Union Internationale des Chemins de Fer') setting out the main strategic ideas (already outlined) for European activity and collaboration to 2015. The key points were: rehabilitation of infrastructure in the interests of safety/efficiency; interoperability at European standards; improved efficiency in maintenance with increased mechanisation, higher labour productivity and lower costs; proper quality systems; and new market trading procedures.

There was also to be encouragement of private railway operators with the contracting-out of maintenance of secondary lines to specialised companies like CCCF ('Centrala de Construcții Căi Ferate') of Bucharest – a major builder of transport infrastructures already contracting under the Public-Private Partnership system – and the Iași Railway Construction Company which undertakes rail, road and bridge work and was privatised by employee-management buyout in 1995. Leasing arrangements were first planned in 1996 for the

Timișoara-Stamora Moravița, Bucharest-Giurgiu and Constanța-Mangalia lines but did not succeed. 'Informatica Feroviară' (attached to SNCFR) started in 2001 and included XSELL: an electronic booking system based on the Bucharest pilot of 1993. Meanwhile the World Bank and the US Trade & Development Agency supported railway restructuring and financed a computer network to link the regional departments and provide an integrated railway information system (IRIS) to help solve network problems (e.g. rolling stock) based on a Bucharest-Brașov pilot: Alcatel Network Systems Romania won a bidding competition in 2001 for a \$10m contract from CFR for an integrated data-voice network. Reference should also be made to the Telecommunications Agency (ATCFR) serving the railway network with five fibre-optic rings. In this way the agency posed as a potentially powerful competitor in the ITC field by 2003.

Since 1998, the running of passenger and freight trains has been handled by separate companies ('Societatea Națională de Transport Feroviar de Călători/Marfă') which may be subsidised by government (as Călători certainly is to the tune of some 50% of its income) but must operate within budget and cannot hand over debts to the state as was previously the norm for national companies. This separation required a shareout of locomotives: Marfă took over 354 units (including 5,100Kw electrics, 22 3,400Kw electrics, 289 2,100hp diesel-electrics and 261 1,250hp diesel-hydraulics); while Călători were allocated 360 electrics and 487 diesels. Depots were also distributed: Călători took Arad, Brașov, Bucharest-Grivița, Cluj-Napoca, Medgidia, Petroșani, Satu Mare, Sibiu and Timișoara; while Marfă acquired Bucharest-Triaj, Caransebeș, Dej, Fetești, Oradea, Palas (Constanța) and Târgu Mureș. Marfă operations were regionalised with bases at Brașov, Cluj-Napoca, Constanța, Craiova, Galați, Iași and Timișoara as well as Bucharest; reflecting the main railway nodes (Tălângă 1994). These offices now look after a total of 112 main stations below which there are 626 domestic traffic points and 285 stations for international traffic.

There are also separate companies for Railway Management Services ('Societatea de Servicii de Management Feroviar') and Railway Assets Management ('Societatea de

Administrare Active Feroviare': SAAF). SAAF's surplus assets included 592,000 goods wagons, 1,800 coaches and 1,650 locomotives. Export of 100,000t of scrap was allowed in 1996 – with Bucharest regional administration managing to collect significant quantities at the lineside! – and auctions were conducted on the basis of a minimum price of \$95/t. The assets company also earned income from the sale of steam locomotives sought abroad for heritage purposes. All four companies were available for privatisation (free from historic debts that remain with SNCFR). There is also a Railway Authority (AFER) reporting to the Transport Ministry over such matters as inspection, the licensing of transport operators and accident investigation. Finally it was announced in 2003 that 24 other companies – concerned with wagon repairs, sleeper impregnation, railway structures – would be privatised (Anon 2002).

The freight business

Romania is a major generator of railfreight although the total declined sharply from 274.6mln.t in 1980 to 71.5 in 2000 (Turnock 2003). Decline was evident in all sectors but while coal and oil increased their share from 21.5% to 49.7% and manufactures (metals, machinery, chemicals, fertilizers and textiles) saw a slight relative decline (from 27.5% to 23.8%), there was a steeper relative decline for agricultural products and timber (14.4 to 9.3%) and most of all for ores and minerals (36.6 to 17.2%).

Marfă has tried to become more competitive, thanks to a stimulative tariff strategy, effective marketing for new business and improved quality. It has a good credit rating and a strategic importance for the economy with a favourable regulatory regime and declining track access charges. With an integrated IT system in operation to monitor wagon movements, some 0.22mln.t of freight was being carried daily in c.2000 with a wagon stock greatly reduced from the million vehicles reputedly in service in 1989. A good performance was claimed in terms of mln.t/kms of freight per locomotive (58.4: bettered only by the UK) and also per wagon (0.57: behind The Netherlands, Sweden and the UK).

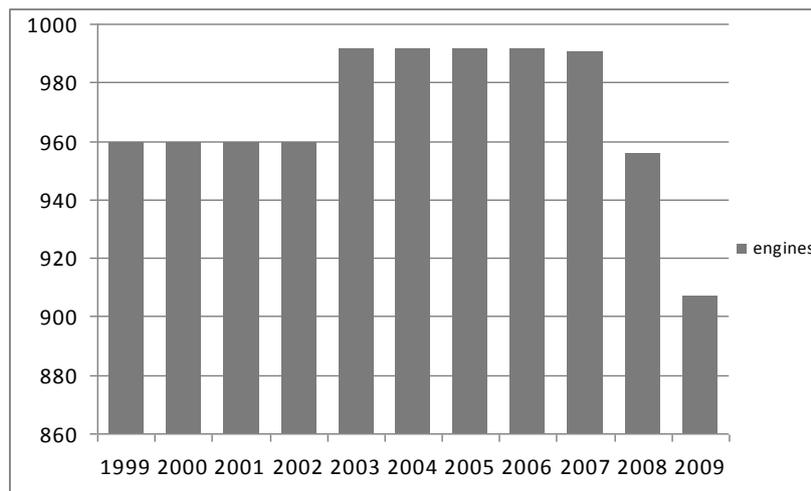


Figure 1. CFR Marfă's locomotive stock 1999-2009

Source: Guvernul României 2010

International accords were negotiated in respect of Hungarian cereals transported across Romania; also reciprocal tariffs and wagon use (plus similar arrangements with other neighbouring states as well as Austria and Germany). Of course the change of gauge at the CIS frontiers poses problems e.g. for Shell who import Russian/Ukrainian LPG destined for bottling stations at Constanța, Ploiești and Timișoara (also the Székesfehérvár gas station in Hungary): this requires transfer from broad gauge to standard gauge wagons at Halmeu-Porumbesti, north of Satu Mare.

But Marfă badly needs private capital and strategic alliances with foreign operators. It must further reduce its running and maintenance costs (as well as the number of freight yards) while pushing up speed from an 80km/h maximum to 120km/h in future. It set out to increase capacity to 2005 with updated trains (incorporating American and West European experience) with investment earmarked to upgrade a wagon pool with new vehicles. Meanwhile the locomotives are now 32.3 years old on average (Guvernul României 2010) consisting of the standard classes dating to the middle of the communist era. The more powerful 4,000hp diesel locomotives built in the late 1970s/early 1980s years have now been withdrawn (due to heavy fuel consumption and maintenance difficulties) (Bailey 2002, pp.96-7). And although Marfă took over 32 locomotives from the Călători in 2003 to

increase its fleet from 960 to 992; 541 are in need of repair and the company badly needs a new and more powerful diesel locomotive along the line of the Austrian 'Hercules' which has been trialled on several Romanian routes (Figure 1).

Freight Wagons

The wagon stock is quite diverse including flat wagons ('Rmms'), covered wagons ('Ggs') and long wagons with articulation ('Laads') – some for metal sheet ('Lst') and others with low sides ('KS'). Special wagons are available for oil ('Zas/Zaes'), cereals ('Uagps'), phosphate/self-discharge ('Tals'), refrigeration ('Ibbhs') and heavy loads ('Uaai'). But the average age of the wagon fleet has been calculated at some 28.6 years and much of it is now obsolete. Much surplus stock handed over to SAAF for disposal (including over 5,000 wagons in 2001 alone) and the total has steadily declined from 69.9th. units in 1999 to 55.3 in 2003 and 41.8 in 2009 (Figure 2) (Guvernul României 2010). Of the latter figure the active stock is only 15,044 while some 22,000 wagons are in need of repair. As regards new stock, Marfă has used bond issue money to upgrade some 2,000 wagons to strengthen its position on the European corridors. The work was auctioned among Romanian wagon repairers competing in 2003: Meva (Drobeta-Turnu Severin), Reva (Simeria), Revamar (Bucharest), Romvag

(Caracal), Rova (Roşiorii de Vede), Umerva (Ploieşti) and Vagmar (Craiova); with the hope of more in 2006.

Meanwhile Romvag secured a \$30mln agreement with Technirail (Belgium) in 1998 for the modernisation of up to 1,000 open and closed wagons in preparation for competition along the transport corridors, although the number dealt with did not exceed 750: 300 'Hbikklls', 250 'Rils', 100 'Shimmmns' and 100 'Gas' wagons. Also, 100 new 'Hbbillnss' wagons were purchased from Bombardier (Niesky) in 1999 and it was announced in 2002 that 58% of 40mln RON investment would finance 130 covered wagons with sliding doors under plans for capacity increase during 2001–5. 10-axle wagons for combined transport involved an original 60 built in Debrecen by a Hungarian consortium (Greenbrier-Profintrade-MAV) under a Bombardier licence for the Glogovat (Arad)-Wels service. They cost \$180,000 each (paid for by auctioning scrap) and had the chassis, buffers and brakes made in Arad. A further 100 were ordered in 2003 in connection with a proposed new service to Italy but all the new wagons were used initially for the Glogovat-Wels service. Repairs are handled by Marfă's subsidiary companies: 'Intretinereşi Reparaţi Vagoane: IRV' for wagons and "Intretinere şi Reparaţi Locomotive şi Utilaje: IRLU' for locomotives (Figure 2).

Freight Traffics

Marfă's traffic has been quite diverse although it has lost many private sector contracts to private railfreight companies (see below). It retains an important role in coal transport by virtue of its large stock of wagons (10,000 Eacs and 5,000 Fals) but combined transport is also a very significant part of the business as a shareholder of the Austrian-based 'Inter-Container' company. It maintains its own combined transport company Romania-Combi (Rocombi) which cooperates with similar companies in neighbouring countries (e.g. Hungarocombi) over container use. In 1999 Romania ratified the protocol on the European Agreement on Combined Transport, while SAAF set up the inter-modal transport service 'ICA Romania' with Inter-Container as well as Interfrigo (Basel). 160 flat wagons are available along with loading and discharge ramps at key centres across the country. Thus it is now possible to link various transport modes by a wide range of flexible services (handling some 18,000 containers in transit each year) with the country well-positioned on the east-west axis (Russia and Ukraine to Hungary, Austria and Italy) and also north-south (Germany, Latvia and Poland to Bulgaria and Greece) including traffic moving between Europe, the Middle East and Far East (Berindei & Dinescu 1995). Traffic is

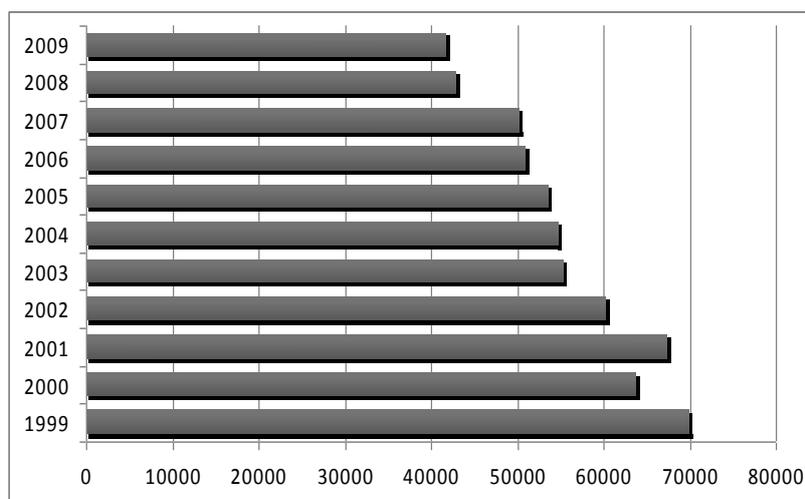


Figure 2. CFR Marfă's wagon stock 1999-2009

Source: Guvernul României 2010

concentrated at 32 terminals which are generally equipped to handle large containers using modern tractors and handling devices e.g. in Bucharest (at 16 Februarie – now București Noi, Progresul and Sud-Titan) as well as Constanța, Craiova, Oradea and a range of border stations (Dinescu 1995). Other facilities are available at such centres as Alba Iulia, Arad (Glogovat), Brașov, Buzău, Constanța Sud, Galați, Iași (Socola), Pitești (Bradul de Sus), Ploiești, Târgoviște and Tulcea. Containers are forwarded from rail depots through Marfă's 'Transauto' company.

Trains from Western Europe reach Curtici (Arad) for central, north and west Romania and Bucharest for the south and southeast. International Ro-La ('Rollende Landstrasse' or 'rolling road') container services operate between Regensburg-Pitești; Sopron-Bucharest by the Danubia Express started in 1997; Udine-Bucharest, and Sofia (Kaspicean)-Pitești, while Vienna-Halkali (Turkey) and Mainz-Alsancak (Turkey) trains transit Romania via Curtici-Giurgiu. In 2001 a service started operating from Glogovat to Wels (Austria) six days a week for long vehicles (i.e. trucks) operating between South Eastern Europe (Bulgaria, Romania and Turkey) and Western Europe at a fare of €525 per lorry: a very profitable business with 17 lorries on each single journey on average. Loading was originally at Szeged until the \$1.0mln investment at Glogovat was ready.

A similar service now operates to Italy, with the intention of running trains from Calafat, Constanța and Giurgiu after Corridor Four modernisation is complete; while a service to Wels began from Episcopia Bihor in 2004. Normal flat wagons (Rgs) were adapted for a Ro-La service from Bucharest (Progresul) to Kaspicean while the Danube bridge at Ruse was under repair. Usually the normal platform wagon is too high to accommodate trucks within the loading gauge but there were no clearance problems on the Bucharest-Giurgiu line while Bulgaria works to a more generous Soviet standard. However traffic ceased when the bridge was back to normal.

Shipping operations (handled by a subsidiary 'Ferry-Boat' company link Constanța with three Turkish ports – Derince (Istanbul) taking 23 hours, Samsun (40 hours)

and Mersin (100 hours) – and also to Poti and Batumi (48 hours) in Georgia. The Turkish routes date back to an accord between Romania and Turkey in 1982 – though ratified by the Romanian parliament only in 1993 – with a Romanian-Turkish Commission set up to implement the project in the following year (Anon 1995; Floricel 1994). The Samsun service started in 1995, followed by Mersin in 1997 at a thrice-monthly frequency. The Batumi train ferry (taking six days for a round trip) provides a 12,600km corridor between Atlantic at Rotterdam and China's Pacific coast at Lianyuan. Services started in 1998 but a snag arose over the use of broad gauge at Poti (not a problem for the competing Ukrainian ferries of course) until the EU spent €2.2mln to lay standard gauge in Poti (while a Romanian-Georgian j.v. company Euroasia – involving Marfă, Georgian Railways and Batumi Harbour – was created to handle the ferry connections, including the loading of standard-gauge wagons on to broad-gauge flats).

In 2000 the main traffics were grain moving eastwards to Georgia and non-ferrous ores, fuels and cotton westwards, with some transit traffic anticipated with the Czech Republic, Moldova and Poland. The services are operated by 'Eforie' and 'Mangalia' built at Constanța: 184.8m long and 12,800dwt/20,620grt. Each can carry 80 trucks or 85-100 wagons (or combinations of the two) on three decks on six-day cycles, with scope for triangular voyages from Constanța taking in Batumi and Samsun. Available shipping includes two former naval vessels of 12,500dwt which can each carry 80 trucks; although they have been out of use since 2009 due to a lack of funding for essential upgrading.

Further potential arises from present thinking that traffic can feed into the ferries from routes originating on the Baltic/North Sea coast at (say) Riga, Szczecin or Rotterdam for destinations in the Middle East or the Pacific theatre via Lianyuan. This has increased German interest in cooperating in Romanian railway development e.g. Krupp's interest in logistical support for the Bucharest-Constanța modernisation. France established a partnership with Romania in 1998 to explore ways of developing transit traffic from France

to South East Europe and the Middle East (Anon 1999) – including the possibility of reviving through passenger services between Bucharest and Paris using the new generation rolling stock – while the national railway companies in Poland, Romania, Slovakia and Ukraine have agreed to cooperate on upgrading the 2,163km Gdańsk-Constanța route via Tarnów, Košice, Beregovo and Oradea (initially pioneered by Kraków-Constanța passenger trains introduced for a short period in the mid-1990s). Standard gauge and electrification throughout will bring the Bucharest-Warsaw journey time down from 26 to 20 hours. EU ISPA support was needed for the central section (Tarnów-Teiuș); partly scheduled in connection with the Eurocorridors which includes electrification between Cluj-Napoca and Oradea. There is also scope for trains carrying lorries within Romania and in 2010 tests were carried on the Bucharest-Craiova-Târgu Jiului route with a journey time of 15.5 hours: three trains daily could take 100 lorries off the road.

The private sector

Restructuring of CFR during the 1990s included provision for competition by private sector operators as part of the EU accession process. Most of the secondary routes and branch lines were opened up to offers from private passenger train operators although only a handful of bids were received: mainly in respect of services in the Brașov and Ploiești areas. In this connection Regiotrans was founded in 2005 in Brașov. On the other hand there has been a strong interest in private sector freight operations with 23 companies involved (Guvernul României 2010). Meanwhile private freight operators number 23 (MTI 2010) of which only a few can be mentioned in detail:

Grup Transport Feroviar (GTF) (initially Compania de Transport Feroviar) appeared in 1998 as the first private operator in the railway sector with transport licence 001. Based in Ploiești, the company has over 500 wagons and 100 locomotives. It is also relevant to mention Sefer (based at Ploiești-Brazi) at this point because it is a component

of GTF transporting oil products to Baia Mare, Bucharest, Constanța, Galați, Iași and Timișoara. Sefer arises from the privatisation of the Brazi refinery and there are four other companies concerned with the repair of locomotives as well as construction and maintenance of railway infrastructure.

Grup Feroviar Roman (GFR) otherwise known as Grampet. Owned by Gruia Stoica and Vasile Didila, it started in 2001 offering a quality service at low cost using wagons from Remar (Pașcani) as well as older stock overhauled by Reva in Simeria. It has a partially-modernised locomotive fleet comprising the three standard types (Plate 1).



Photo 1. A Bo-Bo type electric locomotive in the GFR livery hauls tank wagons in the vicinity of the famous Salignybridge across the Danube between Fetești and Cernavodă

Source: www.gfr.ro

Transferoviar Grup SA (TFG) According to company web site (<http://www.transferoviar.ro/>), this company was founded in 2003 to work freight between Cluj-Napoca and Ploiești (120,000t/month) as well as shunting at the CUG and Remar 16 Februarie works in Cluj and repair/maintenance work.

Rompetrologistics started in 2002 with over 250 tank wagons and nine locomotives handling oil and gas (100,000t monthly in the first year) and mining/construction materials. It achieved a substantial reduction in costs for the Petromidia and Vega refineries.

Other companies include four in Bucharest: CCCF Filiala Ferotrans Chitila, Rail International, Servtrans and Unifertrans. Others are based in the provinces including Bacău (Taf), Cluj-Napoca (Via Terra Spedition: a group

of companies offering freight transport services by rail and sea; also tourist traffic), Constanța (Romania Euroest), Galați (Cerealcom), Medgidia (Lafarge-Romcim; operating their own cement trains to Constanța using uprated diesel locomotives) and Sibiu (Transferoviara) while Iași has a company dealing with frontier gauge transfers. There are of course many interests tied up with private sidings such as the system at the Galați steelworks with 250kms and 100 locomotives for handling incoming/outgoing movements and transfers within the complex. A contract was negotiated with Integral Consulting (Bucharest) over the installation of radio remote control in some 1,250hp diesel-hydraulics. At the other end of the scale is a company like Adrian Ochisor's Imperial company in Botoșani that purchased a locomotive and three kilometers of track for the local industrial zone in 1995. Unfortunately this first privately-owned locomotive burnt-out in a fire in 1996 and after another locomotive was acquired the whole operation had to be sold in 1998 to the Romanian Development Bank under pressure of debt. Finally reference may be made to some other companies with quite specialised functions e.g. Servtrans Invest which started in 2002 to carry out shunting operations on building sites linked with the Bucharest-Campina section of Corridor Four.

The Saga of 'Marfă' privatisation

Soon after the company was created there was a possibility of privatisation at a time when the Năstase government was selling state holdings in communication companies and banks. But there were evidently no attractive offers for what was (at the time) a profitable company with good prospects. However Marfă lost many of its contracts with private companies since the competition could offer lower prices and a dramatic overall change occurred during 2001-9. In 2001 private railfreight operators carried only 0.85mln.t compared with 71.7mln for Marfă but in 2009 the figures were 21.1 and 29.5 (58.2% for Marfă and 41.8% for the private companies) (Figure 3). In other words the private companies increased their traffic 24.9 times while Marfă

experienced a decline of 58.9%. Indeed if distance is taken into account and calculations are made in terms of t/kms the private companies' share was 51.4% in 2009 against Marfă's 48.6. In terms of market share for freight across all transport modes, Marfă has experienced a steady decline from 19.7% in 2001 to 7.8% in 2009 while the private railfreight operators have seen their share increase progressively from 0.2% in 2001 to 5.6% in 2009. The decline in Marfă's fortunes has been particularly acute since the recession started, for not only has income/revenue fallen but losses have been sustained since 2008; with the situation aggravated by substantial public sector wage increases granted during that year (Figure 4). It was announced by the government that at the end of the third quarter of 2010 that Marfă was the state company with the fourth highest debts to the state budget (356.3mln RON), while three other railway companies were also included in the 'top ten': CFR with 896.6 mln RON (second highest after the national coal company); Electrificare CFR with 454.7mln (third) and Telecomunicații CFR with 195.8mln (seventh). Marfă's failure to compete is underlined by the fact that employees number three-four times those of the private sector on a t/km. basis (50 employees per train compared with 12) while wagon numbers are three-five times greater.

It seems that a good opportunity for privatisation arose in 2007 at the time of freight market liberalisation, but there may have been no overwhelming pressure at this time of strong economic growth while potential buyers such as ÖBB or Deutsche Bahn may have been concerned about the high employment level at the time. However it is certainly essential that privatisation should take place now so that a new management team can start to win back lost traffic. On this point there seems to be no difference of opinion between the present transport minister Anca Boagiu and her immediate predecessors Radu Berceanu and Ludovic Orban. The government wants to see a transformation not only in the administrative set-up (including absorption of the three subsidiary companies already referred to) but also in operations by way of increased wagon

speed and enhanced commercial activity with greater use of information technology. There also needs to be greater efficiency in the supply of fuel to locomotives (as well as a much smaller total stock) and wagon repairs by mobile teams visiting the places where problems are reported. The ferries are to be placed under of Ministry for National Defence. Not least among the pressures for privatisation is the concern of the International Monetary Fund (IMF) whose intervention was sought in 2009 and again in 2010 in connection with financial pressures arising out of the recession. Naturally the IMF is keen to see privatisation of state-owned companies where this would reduce government obligations to provide further

financial support and/or attract funding to reduce the deficit In this context Marfă could be linked with other companies such as the Post Office (Poșta Română) and Savings Bank (CEC).

While Hungary's MAV Cargo fetched €400mln from Rail Cargo Austria (through bidding in which Marfă also participated) there are estimates that put Marfă's value at €1.0bln having in mind Romania's route length of railways, the railway modal share and opportunities for the development of traffic to Moldova and Russia (Lupulescu 2010a). Indeed, Romania offers the sixth largest market in Europe for railfreight and the second largest in Eastern Europe after Poland.

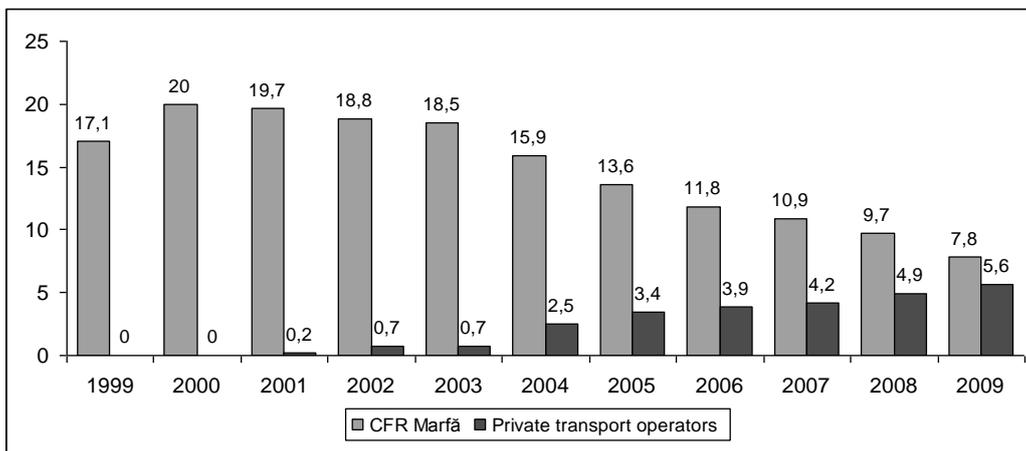


Figure 3. The market shares of CFR Marfă and private railfreight operators

Source: Guvernul României 2010

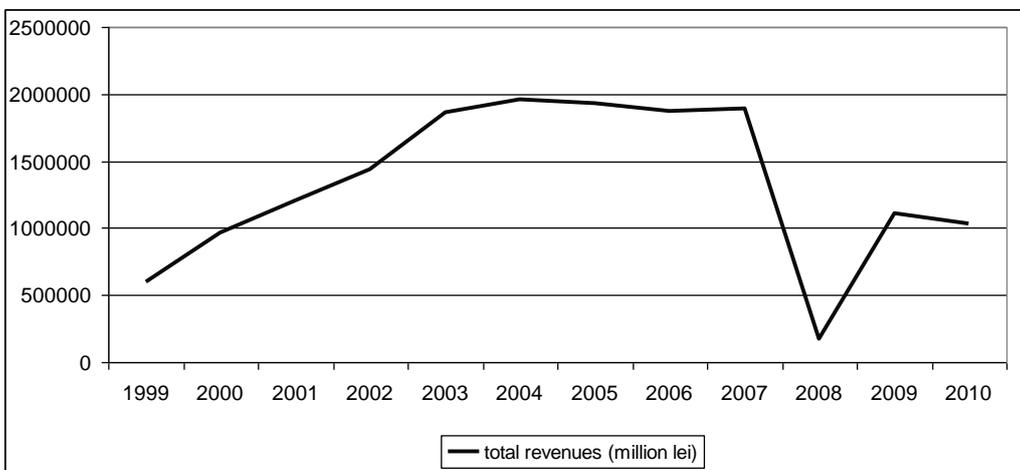


Figure 4. The evolution of revenues and profits for CFR Marfă (1999-2010)

Source: Guvernul României 2010

Clearly there will have to be some further reduction in employment although it is important to mention that Marfă started its independent existence in 1998 with 30,467 employees and the figure was reduced to 19,318 in 2005 and 10,980 in 2010, with a further reduction of 3,400-4,600 envisaged (Figure 5) (Guvernul României 2010). Of course it will be important to ensure that the privatised company does not have a monopoly over intermodal transport and that access to freight terminals is unrestricted. Privatisation now seems likely during 2011 after the groundwork has been laid (Lupulescu 2010b, 2010c). Further delay could have a negative influence on the government's objectives since the market value of the company could drop further, while the rolling stock and locomotive fleets would age more and the operation licenses (e.g. for Ro-La wagons) could expire.

At the same time there is concern that the proceeds of privatisation should go into the development of the railway infrastructure (in contrast to the situation over fuel tax and infrastructure access charges); although the more important issues would appear to lie with the total amount spent on transport in Romania (for whereas the Czech Republic allocates between four and five percent of its budget to transport the figure in Romania is below three).

A related question is the balance between investment in road and rail which is currently skewed towards the former: according to a study carried out by the A.T. Kearney management advisory company, even

though the European Union encourages member states to support environmental friendly transport modes, Romania currently prefers to develop the road system. Only eight percent of the total funding for road and railway infrastructure in 2005 went to the railways: the lowest share for all the countries covered by the survey and only a quarter of the average! The government is prepared to harmonise legislation related to investment and taxation for all transport modes of transport (especially road and rail freight) but this is a separate issue from investment in infrastructure.

Conclusion

The paper has outlined the complex nature of railway restructuring in Romania and in particular the changing nature of the railfreight business. While the railway share of all freight movement is falling the national railfreight company (CFR Marfă) is struggling to compete with new private companies which offer lower rates based on specialised profiles and higher labour productivity. Marfă has had the face the stress of economic recession since 2008 and it is now clearly essential that the company should be privatised in order to facilitate further investment that will secure the company's role as the dominant player in the market with national and international roles in contrast to the 'niche' operations of the other companies.

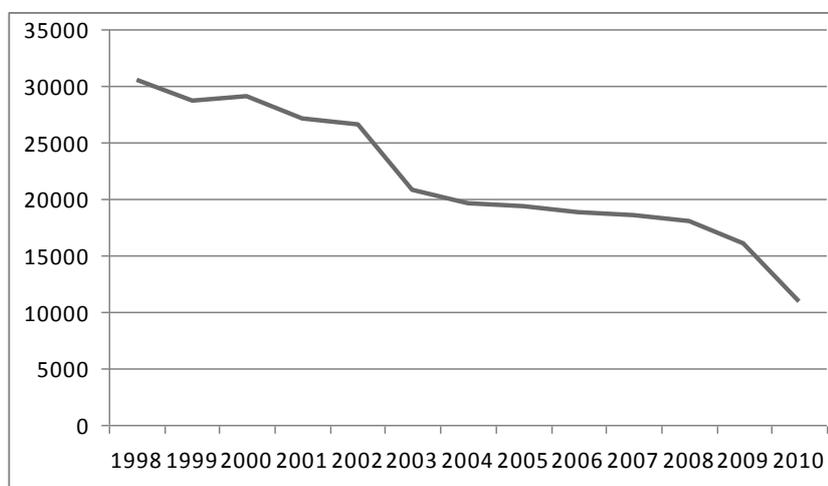


Figure 5. The employment trend for CFR Marfă (1998 – 2010)

Source: Guvernul României 2010

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