

**Recent discussions regarding the 4<sup>th</sup> Railway Package have revealed a general misunderstanding about the effects of liberalisation and competition.**

**All known examples of market opening indicate improvements for employees**

- **The opening up of markets does not have a negative impact on employees' social conditions;** in all cases **financial and employment conditions were unchanged or improved.**
- In Europe private operators do (for core skilled trades) have broadly similar and, sometimes, slightly better, pay and employment conditions packages than incumbents as **positive remuneration packages are necessary to attract and motivate employees.**
  - o In liberalised countries the wage will usually have to be the same for the skilled workforce, In some cases financial conditions have even increased far above national developments in other sectors. In all liberalised markets skilled employees have retained their pay levels, and in most cases even benefited from higher pay and quicker improvements. Train driver wages in Denmark are +5% compared to the incumbent, in Germany wages are nearly identical<sup>1</sup>, in the Netherlands the difference is between +1,5% - 7,5%, in Poland new entrants pay up to + 20% base salary, Sweden and the United Kingdom have also developed positively with high wage growth rates.
- **More jobs in public transport in liberalised markets:**
  - o New entrants bring innovation and investment which increases patronage compared to the situation before competition. In most cases this has eventually led to further services increases and greater employment opportunities.
  - o Rail industry employment reports in Europe see a spiral of decline in non-liberalised markets as France (-21%), Italy (-28%), or partly liberalised as Portugal (-40%). The two most liberalised markets (the UK and Sweden) have seen an increase over the past few years of 23% and 45% respectively<sup>2</sup>.
- **Small is beautiful:** new entrants have focused, local organisations that offer more sustainable jobs, greater flexibility and reliability for employees.
  - o New entrants are the first to offer new part-time job models for employees which respond to individual lifestyles (e.g. family-friendlier opportunities with guaranteed working shift times and working places).
- **Innovative HR management models develop employee engagement, enable better understanding of a company's vision and encourage motivation so employees can contribute to business delivery and success.**
  - o EPTO members were the first to introduce multi-skill jobs, offering specialised training with positive effects on employee motivation, organisational efficiency and customer orientation.

<sup>1</sup> For non-federal local railways in Germany with another tradition of social conditions the maximum difference known for liberalised countries between the incumbent and the non-incumbents is only 6,25% less for employees of those railways.

<sup>2</sup> Eurofound report "Employment and industrial relations in the railways sector" (available at <http://www.eurofound.europa.eu/docs/eiro/tn1109030s/tn1109030s.pdf>)

- **Higher employee satisfaction in new entrant organisations.** Ensuring high employee satisfaction and employee engagement is a priority for new entrants; they monitor it regularly. In contrast, only smaller numbers of incumbent operators are known to conduct employee surveys.
  - o Comparisons of employee survey results show a **better score for the new entrants** than the historical incumbents.
  - o **Sickness and absenteeism rates** are an important indicator of employee satisfaction. **With new entrants the rates are significantly lower**, thanks to positive, sustainable and caring working environments<sup>3</sup>.
  - o Over the past decade, **EPTO members have successfully used employee surveys to engage employees, listen and deliver improvements.** Many members have franchise agreements that require them not only to survey staff, but also need three years' worth of data to demonstrate that they are addressing key areas and have an increasing trend of improvement.

### The key driver is not remuneration levels – it's productivity

- **Competitive advantage comes from efficiency.** New entrant companies are much more adept at deploying staff resources to maximise efficiency. Applying efficiency requires flexibility and negotiable employment conditions that are independent from those adopted by some inefficient state railway operators.
- **Incumbents suffer from lower productivity:** Practice shows that the historical incumbents work with far lower productivity, i.e. productive hours of their staff can for example be as low as 22% of the entire working time compared to 65% with new entrants.
- **Years of experience with innovative planning:** New entrants / private operators benefit from experience with innovative and efficient operations planning which creates more opportunities to grow business in the long-term.
- Where necessary, employers and trade unions have always **negotiated a suitable, agreeable individual framework.**
- According to UIC statistics labour cost represent 44% of SNCF's turnover compared with 29% at Deutsche Bahn.
- According to UIC statistics productivity shows for SNCF 2.983 km/year/employee and DB 3.695 km/year/employee.

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<sup>3</sup> For example, the overall absenteeism rate is 5.31% with a private operator in an example from Portugal compared with 10% at the incumbent.

## EPTO recommendations

**Keep social standards as a matter of subsidiarity; devolved decision-making ensures business can respond better to the needs of local market, economies and employees**

- **No binding social standards should be imposed at an EU, national or regional level** nor should employment conditions be regulated (understanding "employment conditions" as actual terms and conditions of employment of employees, such as salary rates, hours of duty, holidays, pensions etc.).
- **Flexibility to negotiate terms and conditions applicable to the concession and local market conditions is preferred.**

## **No transfer of obsolete social constraints**

- **Staff transferring on existing terms and conditions may limit innovation** in some areas. It will also be reflected in the bid resulting in additional cost to passengers and/or the taxpayer.
- This will inevitably increase rail operation costs and eventually lead to the transfer from rail lines to road services resulting in a decline in passenger numbers<sup>4</sup>. This is contrary to the objectives of the 4th Railway Package. **Rail's future requires efficiency of the operator and reactivity to the customers' needs.**

## **No requirement for new entrants to adopt rigid rules and social framework**

New entrants should not be forced to adopt rigid rules and social framework developed during decades inside public rail monopolies as this:

- **prevents opportunities** for new entrants to offer the expected regulated competition which is needed to encourage future service developments and improvements.
- **prevents the opportunity for incumbent public companies to develop more dynamic, efficient and reactive attitudes.**

## **Framework for transfer of employees should be reasonable**

**EPTO is not opposed to the transfer of employees** from the incumbent to the new operator, **subject to three conditions:**

- Transfer should **not be compulsory**;
- Transfer should happen on a **voluntary basis**: we cannot reasonably force someone to leave, as this would be disastrous for wider employee motivation among those transferring. It would create a negative base making it difficult to create a positive culture that engages employees in improving service quality, operational efficiency and productivity;
- The **number of employees transferred should ideally be restricted to those necessary** to provide the service mentioned in the awarded contract. If the new operator has been selected to operate with 60 people, while the incumbent needed 100 to provide the same level, then to ensure that the service can be provided most efficiently and to prevent damage to the public interest from the passing on of additional costs, only 60 employees should be transferred. However, it is recognised that Member States may have legislation which compels transfer of all staff affected by a transfer of business. In such cases the costs of making any necessary changes to employment levels should also not preclude the delivery of the most efficient service at the best quality and delivery levels for the customer and thereby prevent the passing on of additional costs to the public. Good business creates jobs; an authoritative and rigid social framework doesn't encourage business development, service quality and customer orientation.
- **Flexibility to negotiate terms and conditions applicable to the concession and local market conditions is preferred.** EPTO members have considerable experience in transferring employees on existing terms and conditions, but this can limit innovation and will be reflected in the price of the bids.

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<sup>4</sup> French transport users association FNAUT study 2013