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INFORMATION MEMO

Common transport policy

Normalization of railway accounts

The Commission recently submitted to the Council a proposal for a regulation on common rules for the normalization of the accounts of railway undertakings. At the session of the Council (Transport Ministers) held on 13 and 14 December 1967 the Commission had undertaken to submit its proposal by 1 March 1968 and the Council had decided to adopt it before 1 January 1969.

Legal basis of the Commission's proposal

The Council Decision of 13 May 1965 on the harmonization of certain provisions affecting competition in transport by road, rail and inland waterway stipulated that "before 1 January 1969 the accounts of railway enterprises shall be normalized in accordance with common rules" and that "the financial adjustments which such normalization may entail shall be carried out by the Member States from the same date."

Purpose of normalization

The normalization of accounts is one of the steps needed to put the railways on an equal footing with other means of transport by eliminating the effects of certain kinds of government intervention. This intervention, which takes the form of obligations imposed on the railways or advantages accorded them by the authorities, is liable to falsify railway accounts and give results which would not have been obtained had the railways had the same freedom of action as other transport undertakings.

The proposed normalization of accounts therefore has two different aspects. First, it is an accountancy operation designed to reveal the charges resulting from the obligations and constraints which are imposed on the railways by the public authorities and do not affect other means of transport to the same extent and the advantages deriving from the privileges which are accorded the railways by the public authorities but are enjoyed to a lesser extent - if at all - by other means of transport.

Second, it is a matter of financial adjustment to offset charges against advantages, compensation being paid by the State if the obligations imposed outweigh the advantages, by the railways where the opposite is the case.

As understood in the Commission's proposal, then, the normalization of accounts does not mean normalization of accounting rules with a view to standardizing railway undertakings' accounting systems.

Undertakings covered by the regulation

In the initial stage the Commission's proposal concerns the six national rail networks in the Community. The Commission reserves the right to submit to the Council, within three years of the implementation of the regulation, the provisions needed to extend its application to other undertakings engaged in rail transport.

Obligations or advantages affected by normalization

The matters to be normalized are set out in annexes to the regulation proposed by the Commission, which also specify the principles to be followed in calculating the amount of compensation. The following categories of obligations and advantages are involved.

1. The obligation to employ staff in excess of requirements.
2. Additional wages or higher employers' social security contributions:
  - (a) State-enforced measures in favour of certain railway employees deserving of their country's gratitude;
  - (b) Allowances paid by the State for other transport undertakings;
  - (c) Allowances which must be paid by railway undertakings but not by other transport undertakings;
  - (d) Wage increases decided on by the Government of a Member State with retroactive effect.
3. Expenditure of a social nature incurred particularly in the form of health care and family allowances by railway undertakings and differing from expenditure that would be incurred if they were to contribute on the same terms as other transport undertakings.
4. Cost of retirement and other pensions borne by the railways on terms differing from those applied to other transport undertakings.
5. Responsibility for expenditure on equipment used jointly with other means of transport.
6. Delays in replacement and maintenance caused by the competent authorities.
7. Liabilities resulting from an obligation imposed by the State to maintain workshops or other establishments under conditions inconsistent with the efficient management of the railway.
- ~~8. Conditions imposed in respect of public contracts for construction work and supplies.~~
9. Reconstruction or replacement costs arising out of war damage borne by the railway instead of the State.
10. Differences in credit terms.
11. Financial liabilities resulting from the lack of normalization in the past.

### Limits of normalization

The normalization does not extend to infrastructure costs or to taxation. The disparities at present existing here between the arrangements applied to the three types of transport will be eliminated by what is envisaged for infrastructure-cost rates and the adjustment of general and specific taxation of transport. However, until conditions of competition in the two fields indicated above are brought into line, the Member States will be free to maintain or grant aids to railway undertakings to offset any burden they bear that is not borne by other transport undertakings pursuant to the regulation on aids to road, rail and inland-waterway transport undertakings covered by the Commission proposal of 18 July 1966. The list of categories to be normalized laid down in the proposal recently submitted is exhaustive so that there shall be no arbitrary additions to it or extension of its scope to cover similar cases. However, it is not impossible that new situations which distort equality of treatment between types of transport will arise in the future and thus call for legitimate additions to the list. The Commission will not fail to take the necessary action should this happen.

Nor does the proposal cover compensation granted in respect of public service obligations (the obligation to operate, the obligation to carry and an obligation in regard to rates), which were dealt with in a special proposal for a regulation applying to the three modes of transport submitted in May 1967.

### Procedure

Procedurally, it was thought proper to empower railway undertakings to make applications on their own initiative to the competent authorities in the Member States. To balance this, the authorities are entitled under certain conditions to add to or otherwise amend such applications.

Finally, in conformity with the provisions of the proposed regulation concerning aids to road, rail and inland-waterway transport undertakings, the Commission is kept informed of compensation granted under the regulation on the normalization of accounts. The Commission will also have power to collect any information it considers useful in ensuring that the provisions of this proposal are duly observed.

The normalization of the accounts of railway undertakings as envisaged by the Council Decision of 13 May 1965 does not relieve the member countries of the duty of eliminating existing causes of distortion as far as possible. The decision merely stipulates that where such distortions exist the application of the common rules should reveal them and ensure that they are compensated for.

### Effects on railway staff

The measures taken to give effect to the proposed regulation must not make existing social arrangements less favourable for railway staff or constitute an obstacle to or a brake on the improvement of their living and working conditions, which is one of the objectives of the EEC Treaty.

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