

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(77) 266 final

Brussels, 15 June 1977

Proposal
for a
COUNCIL REGULATION

laying down uniform costings principles
for railway undertakings

(submitted to the Council by the Commission)

COM(77) 266 final

EXPLANATORY MEMORANDUM

Section I

Legal bases, objectives and general principles

Legal bases

1. Under Article 8 (2) of Council Decision 75/327/EEC of 20 May 1975 on the improvement of the situation of railway undertakings and the harmonization of rules governing the financial relations between such undertakings and States, "Before 1 January 1978, the Council, acting on a proposal from the Commission, shall lay down uniform costing principles" for railway undertakings.

2. Paragraphs 3 and 4 of Article 8 of that Decision state that temporarily, "the railway undertakings must provide the State with the necessary data to enable a detailed assessment to be made of the financial results of each of the categories of activity".

"i) passenger transport :

- by rail (if possible subdivided into long and short distance or into high-speed and express on the one hand and other rail services on the other),
- by road
- by other means of transport;

ii) goods transport :

- full trains and wagons,
- packages and parcels,
- by road."

3. The aim of this proposal is to meet the requirements of these provisions in the context of the Council Resolution of 27 June 1974 (1) which made costing an important factor in commercial cooperation between railway undertakings and in comparing the financial performance of these undertakings.

Objectives

4. Through the use of costing, this proposal attempts to meet two principal objectives.

The first is to promote cooperation between railway undertakings in the context of the improvement of their financial situation. As a first step it is proposed to deal only with goods traffic of some importance. Cooperation and management in this sector could be improved by taking into account the costing principles set out in the proposal for

- costing from origin to destination,
- analysing the commercial advantages of accepting traffic, and, as far as international traffic is concerned,
- allocating revenue between the railways involved in the same traffic.

5. The second important objective is to provide a means of continuous monitoring of the financial results of the various categories of the railways' operations; and the Commission has already put forward a proposal for a Regulation (2) to meet the essence of the first requirement of Article 8 (2) of the Decision of 20 May 1975, "to achieve comparability between the accounting systems and annual accounts of all railway undertakings". Nevertheless, this proposal does not fully meet the provisions of paragraphs (3) and (4) of Article 8. For that reason the present proposal envisages additional measures in the field of relations between the railways and their supervisory authorities on the one hand and in the area of comparability between undertakings on the other.

(1) O.J. n° C 111 of 13 September 1974
(2) Doc. COM(77)76

General principle

6. To meet these objectives, it is proposed that, from 1 January 1979, the railway undertakings should use the principle of particular costing for two purposes, i.e. the determination of the costs of a specific goods traffic and the allocation of costs to categories of operations.

Particular costs means :

6.1. in the case of goods traffic:

- a) for new traffic, those variable and fixed costs, or those direct and common costs, attributable to this traffic;
- b) for existing traffic, the termination of which at current conditions is being considered, those costs which would no longer be incurred if this traffic were discontinued;

6.2. in the case of railway operations as a whole, for each category of operations, those variable and fixed costs, or those direct and common costs, attributable to this category of operation.

Section II

Principles for costing a specific goods traffic

7. It is proposed that the principle of particular costing should be applied to specific goods traffic. Since the more detailed analysis of costs resulting from this approach can only be justified for traffic of some importance, it is proposed to deal with specific goods traffic in full train loads.

8. The principle of particular costing should be applied in accordance with the following approach :

- particular costs should be calculated for the same period as the expected duration of the traffic being costed ;
- the costing should take account of foreseeable changes.

9. During this first stage it is proposed to leave the choice of detailed methods for working out the above costs to the railways themselves.

10. In order to maintain a degree of comparability, the cost factors to be taken into consideration in costing are listed in an annex to the proposal which will provide the railways with a scheme of presentation.

11. The costs calculated in this manner would provide to the commercial departments of the railways data for the terms and conditions of accepting new traffic or for maintaining existing traffic on current terms. These costs would also constitute an important element in fixing prices and, in international traffic, they could be used as an element to apportion revenue between the railway undertakings involved.

12. In order to reinforce commercial cooperation between railway undertakings and facilitate effective decision-making in a sector frequently in competition with other modes of transport it is proposed that on request the railway undertakings involved in carrying the same international goods traffic in full train loads should inform each other of their particular costs in respect of this traffic. A requirement to this effect would be in harmony with Article 11 § 1 of the Decision of 20 May 1975.

Section III

Principles governing the allocation of costs to categories of operations

13. It is proposed that the principle of particular costing should be applied to the process of allocating costs to categories of operations.

14. Costs for allocation are costs shown in the Profit and Loss Account of the Accounting Plan mentioned in point 5 and broken down by type, less any compensation and aids received under Regulation Nos. 1191/69 (1), 1192/69 (2) and 1107/70 (3) which represent a reduction in costs.

(1) and (2) O.J. N° L 156 of 28 June 1969

(3) O.J. N° L 130 of 15 June 1970.

15. The aim in this field is to allocate costs as far as possible to the various categories of operations so as to leave a minimum of costs unallocated. In applying the principle of particular costing as already described, the allocation of costs should therefore be continued by using, at the choice of the railway undertakings, the two different principles of utilization and causality. This choice should enable each railway to take into account its specific structure.

16. A comparison between the particular costs for each category of operations obtained as described above and the revenues shown in the Profit and Loss Account in the Accounting Scheme referred to in point 5 would allow the financial result of each category of operations to be assessed.

In order to provide a better balance in the sub-categories of operations as between passenger and goods traffic than the break-down shown in Article 8.3 of the Decision of 20 May 1975, it is proposed to add the following sub-category :

"goods traffic carriage by other modes"

and to subdivide

"full trains and wagons".

Costs which it would not be possible to allocate to categories of operations should be taken into account when the total results of the undertakings are examined.

17. It is proposed that the railways should communicate to their respective supervisory authorities the outcome of their cost allocation to categories of operations. The communication of this data to the Commission would provide a further element in the comparative analysis of the railways.

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Section IV

Final provisions

18. The provisions of the proposal constitute the beginning of a long process in a difficult field, but they are an essential element in implementing the Decision of 20 May 1975 and advancing cooperation between the railways. In this light it is essential to study further developments of the principles defined and the possible extension of their scope of application. Consequently, it has been deemed necessary to establish an Advisory Committee to assist the Commission in its tasks of monitoring the application of the principles embodied in the Regulation and of studying ways of improving the measures proposed in this first stage.

In putting forward these thoughts the Commission has of course drawn extensively on the experience of the International Union of Railways (UIC). Moreover, during the preparatory stage of this proposal, the Commission took the opportunity provided by several meetings with representatives of the UIC's Group of Nine to make a detailed study of the most urgent problems and the lines along which action would be needed in order to resolve them. This proposal results largely from that study.

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Proposal for a Council Regulation
laying down uniform costing principles
for railway undertakings

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

having regard to the Treaty establishing the European Economic Community,
and in particular Article 75 thereof,

having regard to Council Decision 75/327/EEC of 20 May 1975 on the
improvement of the situation of railway undertakings and the harmonization
of rules governing financial relations between such undertakings and States(1),
and in particular Article 8 thereof,

having regard to the proposal from the Commission,

having regard to the opinion of the European Parliament,

having regard to the opinion of the Economic and Social Committee,

whereas the improvement of the situation of railway undertakings requires
the introduction of rules on financing and accounting based as far as pos-
sible on the principles applicable to industrial and commercial under-
takings whilst at the same time taking account of the special nature of
railways and in particular their cost and revenue structure,

whereas any such improvement requires the laying down of uniform costing
principles for railway undertakings;

whereas the establishment of uniform costing principles for railway under-
takings should lead to closer cooperation between the railways, and whereas
it should provide a useful tool for any form of integration of these under-
takings.

(1) O.J. n° L 152 of 12 June 1975, p.3

whereas specific goods traffic in full train loads constitutes a large and growing proportion of total goods traffic carried by the railways, and whereas it is appropriate to establish uniform costing principles for such traffic;

whereas the particular costs of a specific traffic may be used by the railways as a factor in price-setting and in deciding whether to accept the traffic under consideration, and whereas in international traffic these costs may provide an element for apportioning revenues between the undertakings involved in a given traffic;

whereas in international traffic it is appropriate that the railways involved in a given specific traffic should be able to compare the results of their costing by exchanging details of these costings;

whereas greater transparency of the financial operations of railway undertakings is required if the rules governing financial relations between them and the States are to be harmonized;

whereas for the purpose of keeping the States informed the necessary information for assessing financial performance by category of operations must be communicated to the States by the railway undertakings;

whereas communication of such information to the Commission would facilitate comparison of the operations of the railways at Community level;

whereas, in order to assist the Commission in its tasks of ensuring the application of uniform costing principles and of proposing measures to extend their scope after this first stage, an Advisory Committee should be set up;

HAS ADOPTED THIS REGULATION :

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Section I
General Provisions

Article 1

The uniform costing principles for railway undertakings set out in this Regulation shall be applied for purposes of (i) determining the costs of specific goods traffic in full train loads and (ii) allocating costs by category of operations.

Article 2

This Regulation shall apply to the following railway undertakings :

- Société Nationale des chemins de fer belges (SNCF)/Nationale Maatschappij der Belgische Spoorwegen (NMBS)
- Danske Statsbaner (DSB)
- Deutsche Bundesbahn (DB)
- Société Nationale des chemins de fer français (SNCF)
- Coras Iompair Eireann (CIE)
- Azienda autonoma delle ferrovie dello Stato (FS)
- Société Nationale des chemins de fer luxembourgeois (CFL)
- Naamloze Vennootschap Nederlandse Spoorwegen (NS)
- British Railways Board (BRB)
- Northern Ireland Railways Company Ltd. (NIR).

Article 3

1. With effect from 1 January 1979, railway undertakings shall, for the two purposes specified in Article 1, apply the principle of particular costing.
2. Particular costing means costing by reference to:

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2.1. in the case of goods traffic:

- a) for a new traffic, those variable and fixed or direct and common costs attributable to such traffic;
- b) for an existing traffic the termination of which on current terms is being considered, those costs which would no longer be incurred if such traffic were discontinued;

2.2. in the case of railway operations as a whole:

for each category of operations, those variable and fixed or direct and common costs attributable to that category of operations.

Section II

Principles for costing a specific goods traffic

Article 4

Railway undertakings shall apply the principle of particular costing to specific goods traffic in full train loads. Specific traffic shall be taken to mean new traffic or traffic the termination of which on current terms is being considered. Railway undertakings shall apply such principle by reference to the relevant characteristics set out in Annex I.

Article 5

1. Railway undertakings shall calculate the particular costs referred to in Article 4 in accordance with the further principles set out below :

- costs shall be calculated for the same period as the expected duration of the traffic being costed ;
- the costing shall take account of foreseeable developments.

2. For the purpose of calculating particular costs the railway undertakings may use the methods of their own choice.

Article 6

1. Railway undertakings participating in a given specific international goods traffic in full train loads shall communicate their particular costs for this traffic to each other on request. "International goods traffic" means the carriage of goods out of or into the territory of a Member State or across the territory of one or more Member States.
2. Railway undertakings shall present their costings on the basis of the standard list shown in Annex II.

Section III

Principles governing the allocation of
costs by category of operations

Article 7

1. Railway undertakings shall apply the principle of particular costing for the purpose of allocating costs among the various categories of operations set out in paragraph 2. Costs shall be taken to mean the costs by type of the Profit and Loss Account of the Accounting Plan, as shown in Annex III to Council Regulation on the necessary measures to achieve comparability between the accounting systems and annual accounts of railway undertakings (1), less any compensation or aids received from the State which reduce costs. Railway undertakings shall use the table in Annex III to break down the compensations and aids received under Regulations Nos 1191/69 (2), 1192/69 (3) and 1107/70 (4) into items constituting a reduction in costs or an increase in revenue.
2. The categories of traffic shall be as follows:
 - a) for the carriage of passengers and baggage:
 - rail transport (subdivided in accordance with the needs of each undertaking)
 - road transport
 - carriage by other modes.

(1) Doc. COM(77)76
(2) (3) O.J. n° L 156 of 28 June 1969, p.1
(3) O.J. No L 156, 28.6.1969, p.8
(4) O.J. No L 130 of 15 June 1970, p.1

b) for goods traffic :

- full train loads
- full wagon loads and sets of wagons
- packages and parcels
- road transport
- carriage by other modes.

Article 8

1. For the purpose of allocating costs by category of operations, railway undertakings shall apply the principle of particular costing to each category. In so doing and in order to achieve maximum allocation of such costs, railway undertakings shall use one of the two following principles at their choice :

Utilization principle :

Allocation of costs in proportion to the use of resources made by each category of operations.

Causality principle :

Allocation of costs between categories of operations in proportions showing that certain costs could be avoided in the absence of certain categories. In applying this principle railway undertakings may not regard one category of operations as the main cause of such particular costs but shall apply the causality principle to all the categories of operations concerned.

2. Costs which it is not possible to allocate to any one category of operations shall be taken into account when the results of the undertaking as a whole are examined.

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Article 9

Within ten months of the end of the financial year under consideration, all railway undertakings shall communicate to their supervisory authority and to the Commission particulars of the allocation of costs by category of operations carried out in accordance with the provisions of Article 8.

Section IV

Final provisions

Article 10

1. There is hereby attached to the Commission an Advisory Committee to assist the latter in studying the application of the principles set out in this Regulation.
2. The Committee shall give its opinion on any question relating to the implementation of this Regulation and shall study measures designed to improve its provisions.
3. The Committee shall have as its Chairman a representative of the Commission and shall consist of two representatives designated by each Member State. The Members of the Committee may obtain the assistance of experts designated by them. The Committee shall be convened by the Commission which shall provide the necessary secretarial services.

Article 11

Annexes I to III form integral parts of this Regulation.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels

For the Council
The President

ANNEX I

Analysis of transport operations

Relevant characteristics:

- nature and volume of traffic conveyed; regular or of seasonal or exceptional nature,
- route followed by the traffic and by any wagons returning empty,
- method of transport used (full train loads),
- class of service,
- weight of consignment and average load of wagon or wagons,
- category, type and characteristics of wagon or wagons used (railway or privately-owned; covered, open, flat; tare weight, length),
- turn-round time of wagons,
- journey and returned empty coefficient of wagons,
- shunting of loaded traffic and, where applicable, of empty return wagons, (on departure, on arrival, during journey),
- administration,
- duration of traffic.

Characteristics of trains conveying traffic:

- numbers and categories of trains,
 - method of traction and class of traction unit used,
 - running distance,
 - distances run by traction units (including assisted journeys and distances run light),
 - gross trailing tonnage of trains (authorized and actual average),
 - rostered hours of staff (driving, accompanying),
 - administration
- for the various sections of line used.

ANNEX I (continued)

Characteristics of routes used :

- gradients,
 - speed limits and average running speeds,
 - traffic mix and congestion, route capacity,
 - axle loadings.
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ANNEX II

Standard list of factors to be taken into
consideration in calculating particular costs for goods traffic

1. Administration
 2. Other overheads
 3. Social insurance
 4. Taxes and dues
 5. Miscellaneous expenditure and indemnities
 6. Terminal services
 7. Shunting
 8. Other station expenditure
 9. Train manning
 10. General depot services and preparation of tractive stock
 11. Driving
 12. Materials used by tractive stock
 13. Maintenance of tractive stock
 14. Maintenance of goods wagons
 15. Maintenance of other rolling stock
 16. Depreciation or replacement and hire of rolling stock
 17. Maintenance and depreciation or replacement of permanent way
 18. Maintenance and depreciation or replacement of engineering works
 19. Maintenance and depreciation or replacement of fixed installations for electric traction
 20. Maintenance and depreciation or replacement of safety and telecommunication installations
 21. Maintenance and depreciation or replacement of buildings
 22. Maintenance and depreciation or replacement of other installations
 23. Financial charges.
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ANNEX III

Breakdown of compensation and aids from the State under
Regulations N°s 1191/69 (1), 1192/69 (2) and 1107/70 (3)
as reductions in costs or increases in revenue

Compensation and aids constituting
a reduction in costs

Regulation n° 1192/69 on the normal-
ization of accounts

Regulation n° 1107/70 :

- expenditure on infrastructure in
respect of which other transport
undertakings incur no liabilities ;
- expenditure incurred in the research
and development of transport systems
and technologies more economic for
the community in general.

Compensation and aids constituting
an increase in revenue

Regulation n° 1191/69 concerning
public service obligations

Regulation n° 1107/70 :

- tariff obligations not covered
by Regulation n° 1191/69

(1) and (2) O.J. n° L 156 of 28th June 1969

(3) O.J. n° L 130 of 15th June 1970.