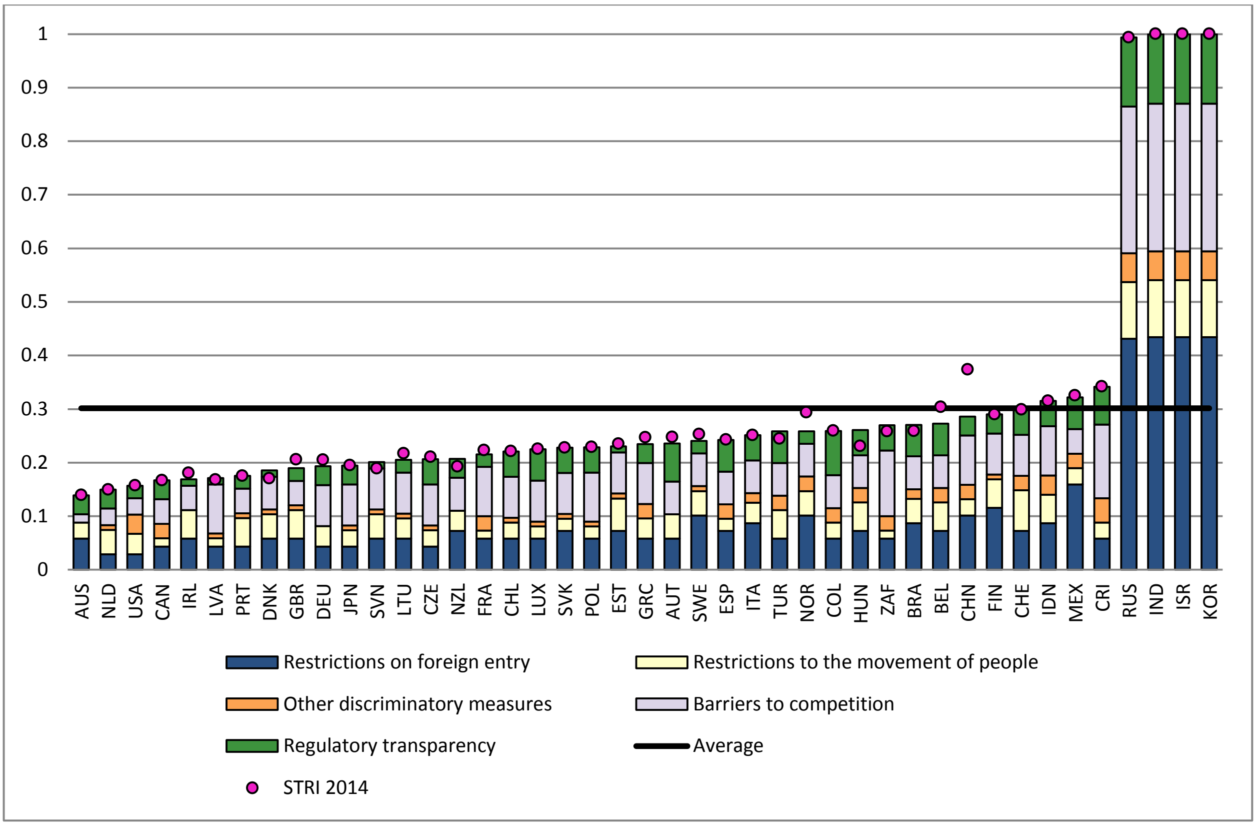
STRI Sector Brief: Rail freight transport services

This note presents the Services Trade Restrictiveness Indices (STRIs) for 34 OECD countries and Brazil, the People's Republic of China, Colombia, Costa Rica, India, Indonesia, Lithuania, the Russian Federation and South Africa for rail freight transport services in 2017.

The STRI in the rail sector covers freight rail transport (ISIC Rev 4 code 4912). Passenger rail transport is excluded. Rail transport is provided over a dedicated network where the market structure may take different forms, the two most common ones being: i) vertically integrated rail services firms owning and managing both the infrastructure and the operation of freight services; and ii) vertically separation between the infrastructure management and the operations. No matter the market structure, there are well-established best practice regulations that also take into account competition from other modes of transport, particularly road transport.

STRI by policy area: Rail freight transport services (2017)



Note: The STRI indices take values between zero and one, one being the most restrictive. They are calculated on the basis of the STRI regulatory database which records measures on a Most Favoured Nations basis. Preferential trade agreements are not taken into account. Iceland is not included in the STRI for rail freight transport services as the country does not have a railway network.

The 2017 scores in the rail freight transport sector range between 0.14 and 1 with an average of 0.30. There are 36 countries below and seven countries above the average.

India, Israel and Korea are completely closed to trade and investment in rail freight transport services, while in the Russian Federation only some forms of cross-border trade are possible. The former two countries have state-owned vertically integrated monopolies, while in Korea, only the state-owned company *Korail* has been licensed to operate rail freight transport services. These features alone, coupled with international transit and access rights that are either prohibited or inexistent, essentially close the sector in these countries. The score in the Russian Federation is not exactly one as international transit is still possible; however, the government owned *Russian Railways* is the only company managing the railway infrastructure and providing locomotive traction services and, while other rail operators may use their own freight cars and locomotives, *Russian Railways* controls the provision of the service.

Restrictions on foreign entry also contribute to the STRI scores in this sector. Measures included under this category are mainly related to general regulations on board members, capital flows, limitations to acquisition and use of land by foreigners, and, in some cases, restrictions on access rights to the internal market. In addition to the countries mentioned above, only one country limits foreign participation to 49% of equity shares in railway companies and two countries subject foreign investment in the sector to screening and approved if bringing net economic benefits in the country.

Government ownership is recorded under *Barriers to competition* and is widespread in the rail sector. All major railway companies are privately owned in only seven countries. In 13 countries, where one of the main rail transport companies is state owned, the government can overrule the decisions of the rail regulator. Another commonly found restriction under this policy area, in the vertical separated market structures, is the restriction or outright prohibition to transfer and/or trade infrastructure capacity. Secondary capacity trading is likely to mitigate problems with efficient capacity allocation in the rail sector. Finally, in several countries, different types of rail agreements are exempt from national competition law.

Compared to 2014, represented by the pink dots in the chart, the STRI scores in 2017 have remained largely unchanged in 21 countries, while in 14 countries have a lower (less restrictive) score, and eight record higher STRI values (more restrictive). The most significant reduction in services trade restrictions is found in China, where the STRI result went down by seven basis points. This reflects the introduction of a new Catalogue for the Guidance of Foreign Investment Industries in 2015, which lifted foreign equity limits in the rail freight transport sector. The second largest reduction is recorded in Norway and reflects the introduction of pro-competitive regulations overseen by an independent regulator in 2017. Other policy reforms in the rail sector observed between 2014 and 2017 include: the establishment of an independent rail regulatory agency in Mexico; the adoption of regulations on access to the rail infrastructure and capacity allocation in Turkey; and the privatisation of one of the main rail freight operators in Belgium, *B Logistics*, previously owned by the state-owned Belgian national railway company, *SNCB*, and now only owned at 31% of its equity shares.

Furthermore, improvements in administrative procedures under the regulatory transparency area explain a large part of the improvement in the STRI index for several countries with a lower score. Other regulatory reforms also contributed to lower the STRI score in these 14 countries. Indonesia eliminated minimum capital requirements; Korea lifted a capital control measure; and France eased barriers to movement of people. Among the countries with a higher index in 2017, Russia introduced new restrictions on cross-border data flows; Hungary tightened regulations on the movement of people; and New Zealand introduced a residency requirement for at least one board member.

Transport and courier services are not only extensively traded they are also intermediate services at the core of recent developments in global value chains and just-in-time inventory management, with the related demand for door-to-door services. Reducing unnecessary restrictions and improving productivity in the various sub-sectors can be expected to have significant benefits in downstream industries as well as in the sub-sectors themselves.

More information

» Access all of the country notes, sector notes and interactive STRI tools on the OECD website at http://oe.cd/stri
» Read more about services trade policies and their impacts in this publication: Services Trade Policies and the Global Economy
» Contact the OECD Trade and Agriculture Directorate with your questions at stri.contact@oecd.org.

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