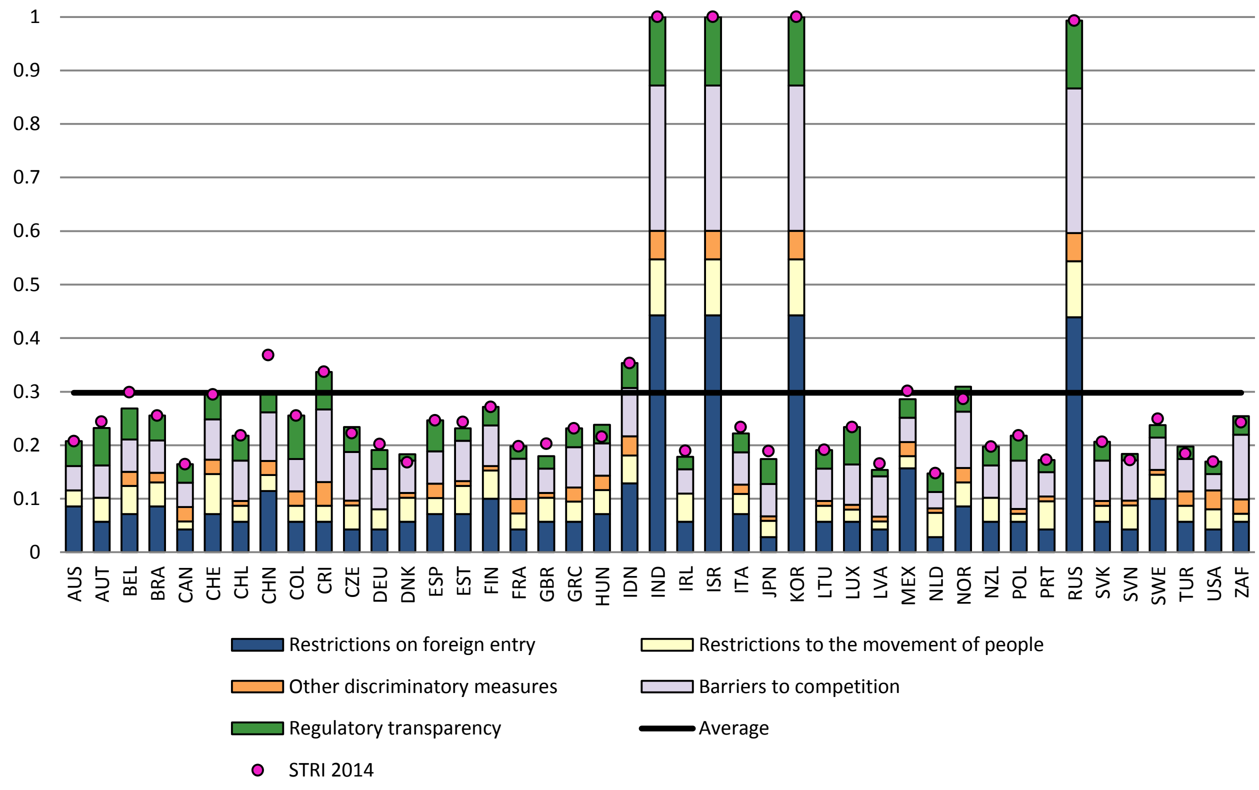
STRI Sector Brief: Rail freight transport services

This note presents the Services Trade Restrictiveness Indices (STRIs) for the 35 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 2016.

The STRI in the rail sector covers freight transport but excludes the passenger segment. 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.

STRI by policy area : rail freight transport services (2016)



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.

The 2016 scores in the rail freight transport sector range between 0.15 and 1 with an average of 0.30. The distribution according to restrictiveness is somewhat skewed towards the lower end, as there are 36 countries below and seven above the average. Iceland is not included in the STRI for rail services as the country does not have a railway network.

Sector-specific measures in rail transport services are concentrated mostly under the heading *Barriers to competition*, which records to what extent best practice pro-competitive regulation is in place. 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.

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 with completely closed markets, only one more country limits foreign participation to 49% of equity shares, and in three countries foreign investment is subject to screening and only 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 twelve of the countries where government owns one of the main rail transport companies, the government can also 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 the well-documented 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 2016 have remained largely unchanged in 23 countries, while in 12 countries have a lower (less restrictive) score, and 8 record higher values (more restrictive).

The most significant reduction in services trade restrictions is found in China, where the score went down by seven basis points. This reflects the introduction of a new Catalogue for the Guidance of Foreign Investment Industries lifting foreign equity limits in the rail freight transport sector. Other regulatory changes in the rail sector occurred between 2014 and 2016 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, improvement in administrative procedures under the *Regulatory transparency* heading, and in particular in the number of days required to complete all mandatory procedures to register a company, also contributed positively to the STRI, by lowering the score in nine countries. However, under this same heading, five countries have increased the number of days for processing visas and other administrative procedures, resulting in higher STRI scores. Finally, under *Restrictions to movement of people*, Hungary introduced quotas on services provides, which contributed to increase its STRI score.

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
» Contact the OECD Trade and Agriculture Directorate with your questions at stri.contact@oecd.org

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