

Mediterranean Transport and Logistics in a Post-COVID 19 Era: Prospects and Opportunities

Rail Transport: Towards a New Normal

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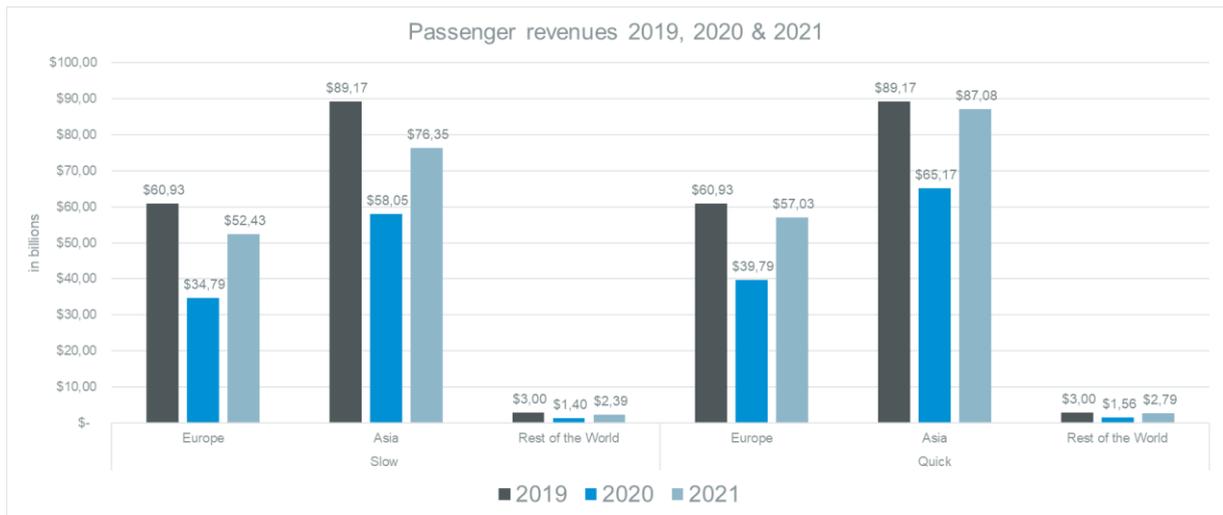
Introduction

In February 2020, UIC set up a task force to work with its members, experts and global rail transport associations with a view to sharing and providing information on the crisis caused by the coronavirus (Covid-19) and its consequences for the rail transport sector. Shortly afterwards, specific needs led the working group to produce several operational documents in multiple languages (www.uic.org/covid-19/):

- “Management of Covid-19: Guidance for Railway Stakeholders”, which outlines potential measures to support railway stakeholders and provide reliable information on specific challenges facing the industry.
- “Potential Measures to Restore Confidence in Rail Travel Following the Covid-19 Pandemic”, which lists the various measures that could be taken by railway stakeholders to increase a sense of safety among passengers.
- “RAILsilence: How the Rail Sector Fought Covid-19 During Lockdowns”, which describes the situation during the lockdown and the measures implemented by the rail sector during the fight against the epidemic.
- “RAILsilence: Back on Track”, which presents the measures taken by members to resume rail traffic.
- Other documents issued include: “Masks, Ventilation and Social Distancing”, “Thermographic Cameras”, “First Estimation of the Global Economic Impact of Covid-19 on Rail Transport” and “Contamination Rates on Trains”.

A Global Economic Assessment

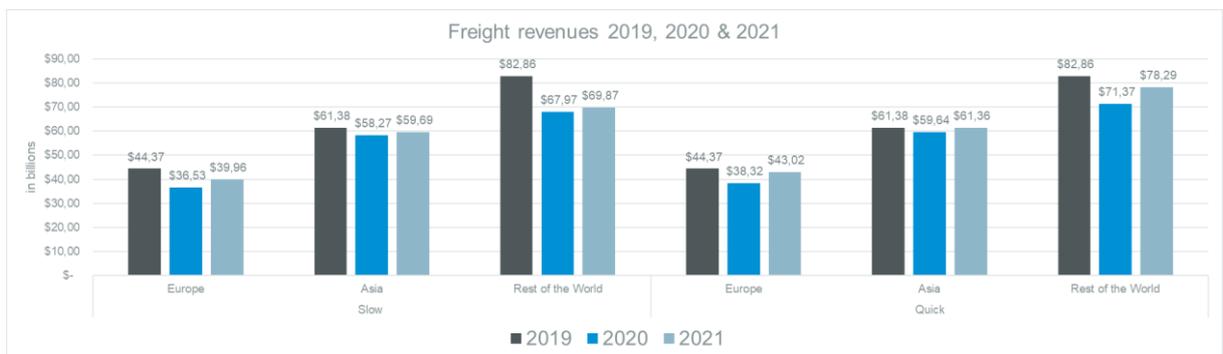
In our assessment of the economic impact on the rail industry carried out in mid-2020, at the end of the first wave, we concluded that demand for travel will mostly be delayed until 2021. Passenger demand in 2020 was expected to decline on average by around 30% compared to 2019, while the freight sector was expected to decline on average by up to 10%. Unfortunately, passenger confidence was expected to remain low.



It is clear that this scenario will result in heavy losses in 2020 with respect to passenger operations, which will remain significantly elevated in the medium term.

The impact on the freight sector cannot be compared to the passenger sector because the activities differ and the lockdown during the Covid-19 crisis frequently gave rise to a shift from road to rail transport. In addition, while many borders were closed to passenger traffic, the borders remained open for freight. That said, manufacturing output has fallen in some countries, which has led to a decline in freight transport.

Losses in freight operations in the first half of 2020 were lower than those in the second half of 2020. Most countries, particularly China, but also European countries, experienced a shift from road to rail transport during the lockdown.



Economic Support Measures

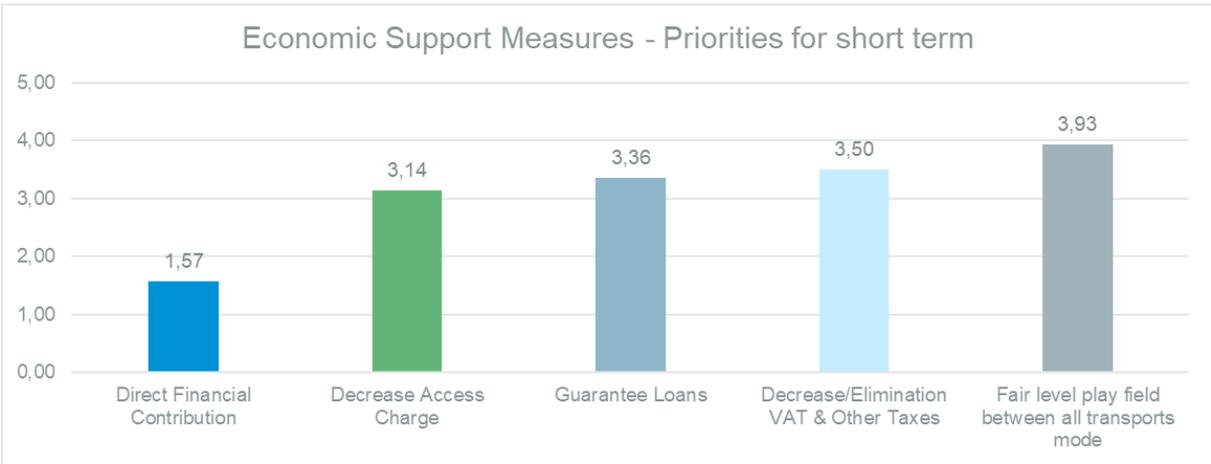
An initial estimate, carried out in mid-2020, of the global economic impact on the rail industry was around 125 billion dollars for 2020.

In mid-2020, UIC asked its members which of the following short- or medium-term support measures they would like:

- Direct financial assistance.
- Reduction in infrastructure access charges.
- Reduction in / elimination of VAT and other taxes.
- Secured loans.
- A level playing field for all modes of transport.

UIC members also mentioned measures such as short- to medium-term wage compensation during Covid-19 crises and long-term debt reduction.

Respondents were asked to rank the proposals from 1 to 6, where 1 was the economic measure they considered most important and 6 was the least important. Therefore, a value close to one indicated that the economic measure was highly desired by the respondents.



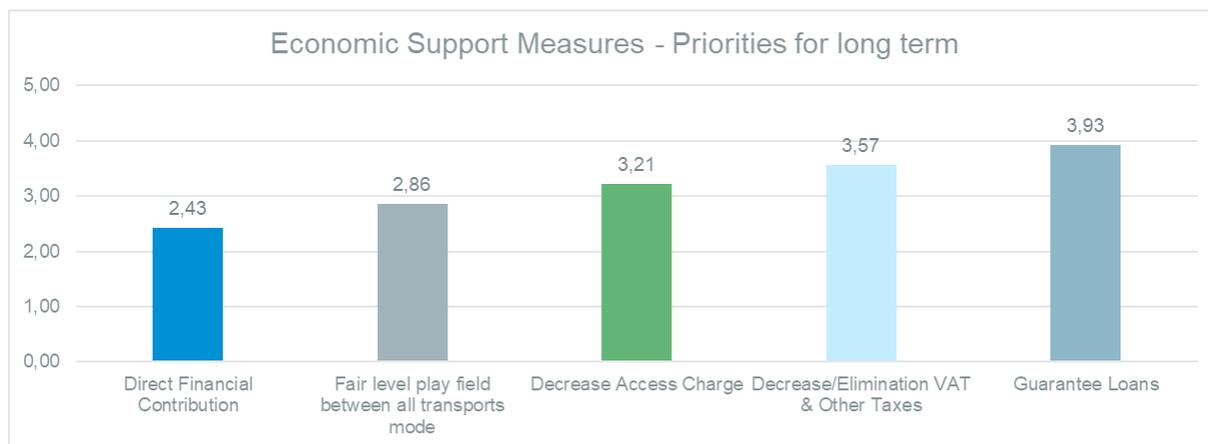
Priorities for short- or medium-term economic support measures.

Note: A value close to one indicates that the economic measure is highly desired by the respondent.

In the short and medium term, it is clear that the top priority involves the immediate recovery of economic losses.

All the other economic measures proposed received similar scores.

Long-term analysis revealed entirely different priorities compared to short-term analysis. While the most important measure remained direct financial assistance, the second priority changed. In the long term, a level playing field for all modes of transport replaced a reduction in infrastructure access changes, which fell to third place.



Priorities for long-term economic support measures.

Note: A value close to one indicates that the economic measure is highly desired by the respondent.

While financial measures have been implemented in other transport sectors in many parts of the world, similar measures are expected for the rail sector, which has clearly been severely affected by the crisis.

The priorities of different railway sector organizations may differ between world regions, depending on whether the scope of application is limited to infrastructure management or to train operations and rolling stock maintenance, or encompasses both.

It is worth noting that, in this post-lockdown phase, most members are facing serious cash flow issues and have expressed a preference for direct financial assistance over tax cuts and a level playing field between all modes of transport, which nevertheless remain long-term issues.

The rail sector is undergoing an unprecedented crisis that calls for economic measures from the government. Members expressed their preference for direct financial assistance, although several other options could be considered, such as lower infrastructure charges, a reduction in or elimination of VAT and other taxes, secured loans and a level playing field between all modes of transport.

The New Normal

What is the new normal? It refers to the stable situation that will be reached once the pandemic and its direct after-effects have been overcome. It is clear that, in countries where the crisis has lasted a long time, the after-effects will be felt for many months, or even years, in the form of an economic downturn.

The new normal will therefore take place after this period, along with all the long-term consequences. Indeed, trends that should have occurred over the long term have taken place earlier than expected because of the crisis.

Depending on the country, this new normal will begin sometime between 2021 and 2025.

In some countries, the new normal will resemble predictions made before the crisis, given the short duration and low impact of the crisis. This applies particularly to China, where more or less normal activities were resumed very quickly before the summer of 2020, and which therefore did not have time to make lasting changes in behaviour.

In other countries, especially in Europe and the Americas, the crisis has lasted longer and habits have changed, particularly with regard to the way of people work and travel.

The pre-crisis trends in Europe were:

- Moderate economic growth.
- Development of tourism.
- Liberalization in the world of rail transport.
- Balanced multimodal competition.
- Major technological progress.
- Important developments in ticket distribution activities promoted by UIC.
- Developments in intermodality.
- Increased environmental awareness.

The Covid-19 crisis curtailed some of these activities, in particular through:

- Widespread teleworking for positions in which this was an option.
- A certain amount of counterurbanization, with many people leaving cities to telework in quieter, less expensive locations such as towns and rural areas.
- Economic collapse in some sectors.
- Significant restrictions on tourism.
- A halt on new infrastructure construction work.
- A need for extensive financial resources.
- Development of “virtual mobility” through remote meetings.
- Less priority given to environmental issues.
- An impression that public transport modes are less safe than individual transport in terms of health.

The post-Covid-19 environment will affect rail mobility in the following ways:

- Most pre-Covid-19 trends will be expedited.
- The balance between physical mobility and virtual mobility will shift in favour of the latter. Many companies have found that remote meetings are at least as effective as face-to-face meetings. This has been particularly true at UIC with respect to international meetings, in which the number of countries involved has grown significantly during the crisis. This has made it unnecessary for

participants to travel, thus saving both time and money. On the other hand, meetings have to be scheduled in accordance with each country's time zone, and there is no substitution for meeting in person when it comes to getting to know people, making technical visits and taking decisions. Moreover, some cultures (especially in Asia) prefer face-to-face meetings to online meetings.

- Public funds will shrink because of the soaring debts of countries during the crisis.
- It will take some time for passengers to return to train travel.
- Environmental awareness will increase, which favours rail travel with respect to air travel over medium distances. In particular, before the crisis, on three-hour rail journeys, as many people travelled by train as by air. The total travel time is actually four hours or more. This makes a strong case for bringing back night trains, which could replace overnight hotel stays if the quality is good enough. Some countries will reinforce this trend by not allowing air carriers to operate on routes in direct competition with high-speed trains.

Evolution of Mobility Demand

The factors described above will cause the demand for mobility to change quite substantially in the countries around the Mediterranean.

Business trips will decrease and be replaced by online meetings, a situation that will continue for some time.

Some countries will adopt laws to facilitate teleworking, which will have two opposing consequences:

- A reduction in the volume of suburban and regional daily trips.
- An increase in certain long-distance trips due to the relocation of people who have left their homes in cities to live in towns or rural areas. They might prefer to book hotel rooms once or twice a week so they can go to the office.

For companies, this rise in teleworking could lead to substantial savings in office rental, since companies could set up shared offices or hot desks for coworking.

Teleworking will also be the norm in university studies, remote exams, remote medical consultations, etc. Furthermore, growth of the circular economy will have an impact on passenger and freight transport.

In cities, traditional modes of transport will be partially replaced by so-called "soft" mobility, which will require different investments in infrastructure and new travel regulations.

Tourism will continue to increase, but more environmentally friendly modes of transport will be more common. Stigmatization of air travel (flight shaming, plane bashing and the Greta Effect) will continue to increase among all social classes.

It is precisely the right moment for governments to promote ambitious policies to develop more environmentally friendly modes of transport, in particular those that favour rail transport.

The Covid-19 crisis may present an opportunity for the rail sector, given that countries and supra-state organizations will provide vast funding to restart the economy.

This could involve new investments for high-speed lines, which are highly successful in Western Europe, and in Asia (China, Japan, South Korea), and represent a key factor in economic development. There are still vast areas not accessible by high-speed rail around the Mediterranean Basin. These investments could be earmarked for new high-speed lines (above 250 km/h) or for upgrading existing lines for speeds above 200 km/h.

Environmental Awareness

Most of the world's rail companies have pledged to reach carbon neutrality by 2050 by signing a pact proposed by UIC, which means that measures in this direction will be taken in the sector with vital support from national and regional authorities.

This also requires support for intermodality to promote the use of several modes of transport, in line with the specific features of each mode: ticketing, amenities in stations, redesign of the urban environment around "soft" transport.

Other Factors

Competition between rail companies following liberalization may have a positive impact on both transport prices and the quality of services offered to customers. This was particularly evident in Italy with the competition between NTV-Italo and FS-Trenitalia, which led to highly significant developments in the volume of high-speed train traffic that benefited both railway operators. The rail / air modal split between Milan and Rome thus increased from 36% in 2008 to 80% in 2018, while, at the same time, the share of air traffic decreased from 50% to 14%.

This recent crisis strongly affected new railway operators, as the volume of the global market did not allow several operators to compete for the same routes. They therefore reduced their development plans for the near future.

The expected reduction in mobility associated with new working habits will also force infrastructure managers to reduce the cost of accessing infrastructure. The role of the public authorities will therefore be to establish a new balance between subsidies and the infrastructure charges paid by railway operators.

Conclusion

Governments must provide the rail sector with strong support while promoting the safest, most sustainable mode of transport, which plays a major role in the future mobility system of most countries.

This is especially true for rail freight, which can play a crucial role in supporting a sustainable logistics value chain, but also applies to passenger operations, at a time when travel conditions and expectations are changing dramatically.

This support could be provided through investments in new infrastructure, but could also take the form of government policies that support and give rail transport a real social and economic advantage.