Financial Results Media Conference: Hupac is investing in the expansion of combined transport

Opening of the Gotthard base tunnel - an opportunity for modal shift

Zurich, 28.4.2015 In 2014 Hupac transported 660,109 road shipments by rail. While the business in transalpine transports stagnated, attractive growth rates were achieved on the east-west route. Hupac is investing in the new Company Shuttle business unit and in company-owned rolling stock to continue expanding its market leadership position. Future challenges include the CHF/EUR exchange rate, improving the quality of the rail system and increasing the productivity of the railway infrastructure. The opening of the Gotthard base tunnel is viewed as an opportunity to boost modal shift.

Positive results in a difficult market

In the 2014 financial year Hupac expanded its market position slightly with a 0.5% increase in volume. While the volume in transalpine transports stagnated (down marginally by -0.1%), the volume in non-transalpine traffic increased by 3.4%.

Hupac Ltd.’s profit for the year rose by 15.0% to CHF 7.5 million. This was also made possible by the contribution of the associated companies whose results improved further compared to the prior year. The company’s turnover declined slightly (-0.7%), as did the cash flow (-18.5%). Investments in fixed assets totalled CHF 16.7 million, up 72.2% from the prior year level.

Hupac will face new challenges throughout this year. The euro’s loss of value relative to the Swiss franc and falling petroleum prices are encouraging road transports through Switzerland. “The effects of both the EUR/CHF exchange rate and lower diesel prices result in a considerable relative cost increase for railway transports compared to the road”, said Hans-Jörg Bertschi, Chairman of the Board of Hupac Ltd. during the financial results media conference of Hupac Ltd. in Zurich. Since the competitors on the road are able to respond very quickly to changes in the competitive environment, customers may turn away from combined transports, which would cause a shift back to the road.

Strategy to improve the quality of railway freight transports

The operational quality measured by on-time performance of the trains has deteriorated considerably in 2014. On average 70% of the trains circulated according to the timetable, representing a loss of 10 percentage points from the previous year. The reasons for this included resource-related difficulties experienced by the railway companies, infrastructure problems, such as construction work, technical defects and some isolated capacity bottlenecks, in addition to storm damage and strikes.

The quality has continued to decline this year and now averages 66%. “If the railway system is not taking steps to counteract this trend, we will cut ourselves off from the market and rapidly lose the ability to compete with road transports “, according to Hupac’s Managing Director Bernhard Kunz. Profitability, in particular, as well as customer satisfaction suffers the most. Every freight train standing on a siding, waiting to continue, is a waste of the productivity potential of the resources in use, including personnel, engines, wagons, trucks and terminals. The related cost burden on the system overall reduces the ability of railway freight transports to compete. Hupac advocates the development of a European strategy to improve the quality of freight transports by train. “Determine the magnitude, clearly identify the reasons, take counteraction, control the overall system via KPIs and benchmarks – this is how all of us together will get a grip on the situation“, said Kunz.

Gotthard base tunnel as an opportunity for modal shift

The new AlpTransit with Gotthard base tunnel (2017), Ceneri base tunnel (2020) and 4-meter corridor (2020) is designed for longer, heavier and higher trains and offers significant savings potentials for production costs, for example by a decrease in transit time and the elimination of multiple traction. “Moving ahead with modal shift on our own, meaning without subsidies, is a major collective challenge” emphasized Bertschi. Hupac is working closely with its partners in taking steps to increase productivity in the areas of freight wagons, engines, terminal operation and personnel, to compensate for the envisaged cancellation in operating subsidies by 2024. “As far as our investment projects are concerned, AlpTransit is already a reality”, said Bertschi.

The new flat track through the Gotthard tunnel will result in higher productivity rates for combined transports. Freight trains up to 750 meters in length and weighing 2000 tons can operate between northern Europe and Italy starting in 2020, corresponding to a 30% productivity gain compared to today. However, first simulation of the cost structures, taking into account the track access pricing reform scheduled for 2017, indicate that the goal of achieving economic viability per 2024 will be impossible to achieve from today's perspective." Therefore, the opening of the Gotthard base tunnel must be accompanied by other steps to strengthen the ability of rail transports to compete.

The planned track access charge system with the introduction of a tear and wear factor is a step in the right direction in terms of the cost by cause principle. For freight trains up to 1600 tons travelling via the Gotthard, the price decreases slightly, but 2000-ton trains are significantly more expensive due to the use of a second engine. “What is missing are incentives to increase the productivity of the tracks - a scarce commodity - with long and heavy trains”, according to Bertschi. The track access charge reform should not result in the railways and operators shying away from increased utilization risk and continuing to apply the current train parameters. "So the envisaged increase in efficiency of the base tunnel and the 4-meter corridor is lost."

In accordance with the systems of neighboring countries Hupac recommends the introduction of a productivity factor with constant stable track access charges for trains over 1300 gross tons: Each additional ton is a benefit for the railway system, the market and the modal shift.

In addition, Hupac suggests that freight transports should only be held responsible for the costs necessary to effectively operate freight trains. The Swiss rail network is complex and cost-intensive primarily because of the requirements of passenger transportation. This is why the quality factor should be given more emphasis in track access pricing. Moreover, the low-noise bonus should be integrated into the track access price as a fixed price element.

New Company Shuttle business unit

In the growth market of combined transports, the number of customers reaching critical mass to purchase block trains on single routes and guarantee planning security to the railways is on the rise. The Company Shuttle business unit, established in 2014 and headed by Renzo Capanni (35), develops tailor-made concepts for customers with high transport volumes. “Each Company Shuttle is reserved exclusively for one customer and offers secured slot capacities. The freight forwarders accept the capacity utilisation risk and create a unique selling point in the market with “their” train”, explains Kunz.

In the Shuttle Net business unit, on the other hand, Hupac carries all the risks and offers customers an extensive transportation network with high train frequencies and full service traffic control. Network and company train are clearly two separate products meeting different needs. They are not competing against each other, they complement each other ideally: Company Shuttle is a pipeline for the large volumes of single customers, designed to meet specific market needs, while Shuttle Net offers maximum flexibility with a multiple departures. Together, the two types of services represent a complete development perspective for logistics.

Alpine transit for mega-trailers and Eastern Europe as the focus of network expansion

The services offered for mega-trailers in transalpine transports continue to be the focal point of the company’s network expansion. Around 100 weekly shuttle trains are operating in the Hupac system on the 4-meter corridors via Switzerland and Austria. The semi-trailer segment grew by 60% on the Lötschberg route, specifically on the connections between Novara and Ludwigshafen, Cologne, Lübeck and Rotterdam. The operating concept for Scandinavia was modified in early 2015. Hupac now also offers regular connections for mega-trailers between Malmö and Novara via Cologne to the Swedish market.

Hupac also achieved attractive results on the east-west route. With respect to Romania, the frequency of the Budapest ⇆ Curtici/Ploiesti shuttle was increased from one to two round trips. The Serbian and Croatian markets were connected via the Budapest hub with links to Novi Sad, Zagreb and Rijeka, and Macedonia was added in April 2015 with a connection to Skopje.

New rolling stock investments

Hupac continues to invest in rolling stock. For the mega-trailer segment orders have been placed for 100 double pocket wagons to be delivered by the end of 2015. One hundred flat wagons for the Russian broad gauge track were delivered last year. Another 100 are on order. The fleet of 90-ft. flat wagons will be enhanced this year with an order for 100 units.

Hupac’s fleet has been almost completely converted to low-noise wagons. At the end of 2014, 96% of the wagons were equipped with brakes made of a low-noise synthetic resin composite. The conversion of the wagon fleet is expected to be completed by late 2015. A first order for a number of pocket wagons with disk brakes was placed this year. However, the operating expenses of low-noise freight wagons are approximately 40% higher than those of conventional equipment. The higher cost is currently covered by a low-noise bonus paid by the government. This type of support will have to continue to prevent rail transports from unilaterally carrying a non-market related cost burden. “We expect politicians throughout Europe to tackle the problems associated with noise and not shy away from the related costs“, Kunz commented.

Hupac Group profile

Hupac is the leading operator of combined transports through Switzerland and one of the market leaders in Europe. The company is committed to increasingly shift the transportation of freight from road to rail, thus providing an important contribution to modal shift and environmental protection.

Hupac’s transportation services include 100 trains every day between the major European economic centres, Russia and the Far East. In 2014 Hupac transported approximately 660,000 road shipments by rail.

The Hupac Group consists of 13 companies with operations in Switzerland, Germany, Italy, the Netherlands, Belgium, Denmark, Poland and Russia and has around 400 employees.

Hupac Ltd. was established in Chiasso/Switzerland in 1967. The company has over 100 shareholders and a share capital of CHF 20 million, 72% of which is held by logistics and transportation companies and 28% by railways, thus ensuring market proximity and independence from the railways.

Contact

Irmtraut Tonndorf, Head of Communications
phone +41 058 8558020, itonndorf@hupac.com