10.5

billion tonne-kilometres was the performance of SBB Cargo in the past year. This result reflects the slump in the economy of Germany, our most important market. The rather strong drops in export and transit traffic could in part be compensated with a good result in domestic traffic. Transalpine freight increased slightly.

The strategy of SBB Cargo, revised in the spring of 2001, stakes on growth in international traffic on the north-south axis, newly also by making use of the free network access. In domestic traffic, SBB Cargo intends to maintain the high performance and quality level and to improve productivity. During the closure of the Gotthard road tunnel, SBB Cargo reacted flexibly and gave proof of its production capacity.

Modest increases in domestic traffic – decrease in international traffic.

With 10.5 bn tonne-km and 59 mn transported tonnes, SBB Cargo could not quite equalize the all-time record of the year 2000 (10.8 bn tonne-km, 60.5 mn tonnes), but came out significantly better than in 1999. With 1031 mn CHF, also traffic revenue was below the previous year (1081 mn CHF). SBB Cargo felt the economic downturn of the second half of the year, specially in the key market Germany. So the drop was mainly experienced in export and transit traffic. With the transports of steel for instance, heavily dependent on the situation of the economy, a drop of 10 percent had to be swallowed. In Swiss domestic traffic, SBB Cargo could catch up a little, in spite of increased competition in "Open Access", specially with the transport of construction material and mineral oil. The decreases in the business branches Agro (bad grain and sugar beet harvests) and wood ("Lothar" transports running out) were not attributable to influences from the general economic situation. With the "rolling highway", the opening of the connection Freiburg-Novara brought a shift from the Gotthard to the Lötschberg-Simplon axis, hence from SBB Cargo to RAlpin.

Competition among railways makes itself felt predominantly in the area of block trains that are easy to produce. Around 15 percent are now handled in Open Acces by third-party operators. The prices continue to be under pressure. The proceeds per tonne-km in block train traffic went down by 5.6 percent in the past year.

Changed outline conditions.

The changed outline conditions in the road transport industry per 1st January 2001 (increase of the general weight limit to 34 tonnes, acceptance of 40-tonne lorries in the scope of the contingents negociated with the European Union, introduction of the first stage of the LSVA (performance-related heavy lorry tax), have all contributed to perceptible modal shifts. With the heavy goods transport, traditionally a railway domain, road transport has thus become more competitive. Thanks to state subsidies passed on to the clients, the business lost to the road could be kept within bounds.

Advantages arise for the railway, however, with lighter goods in domestic traffic, namely in the trade industry. SBB Cargo wants to put them to profit with new products such as Cargo Express and Cargo Domino. On the whole, the outline conditions for SBB Cargo have worsened in the past year, a fact that has to be taken into consideration in view of the second stage of LSVA and the increase of the weight limit in road transport to 40 tonnes in 2005.

On the way to more punctuality.

Punctuality in domestic traffic could again be kept at a high level: 93 percent of the trains arrived on time or with a delay of maximally 30 minutes. Regretfully, these values are not yet reached in international traffic. The efforts of the SBB at harmonising production with the partner rail-

Prospects for the future, scenario 11/16: Quality will be even more important.

For bulk goods such as gravel or mineral oil, production capacity of the railway retains its importance. However, the quality of a transport performance will gain in importance in the future, specially with the transport of high-value goods. The railways must therefore refine their quality management in order to strengthen their intra-modal and inter-modal competitiveness.

*> **In a message** on the future integrated European railway system, the EU Commission proposes that the railways in the scope of their quality management contractually guarantee their clients the following quality obligations:*

- *Guaranteed times of departure and arrival;*
- *Punctuality;*
- *Clear commitment to the client for the whole transport chain;*
- *Safe transport, free from damage;*
- *Adequate and timely information of the client (e.g. consignment tracking with the help of transport telematics);*
- *Transport times in line with market conditions, from the source to the goal;*
- *Transparent invoicing;*
- *Timely placing at the disposal of the rolling stock.*

Source: Prognos AG, Basel (2002).

ways in the north and the south, however, have shown a first success on the pilot sectors Chiasso–Lecco and Chiasso–Carimate in the scope of the joint project "Transalp" with Trenitalia Cargo. Within three months, it was possible to reduce the delays on this connections by more than 40 percent.

The year of new strategic orientation.

At the beginning of 2001, SBB Cargo under the direction of the new head Daniel Nordmann, reviewed the strategy in a broadly ramified process. The direction of thrust as applied up to now was maintained, but in some fields, corrections were made. The major principles of the strategy published in April 2001 are:

> SBB Cargo wants to distinguish itself mainly with the quality of its transport services.
> SBB Cargo undertakes a focussing on its core competence which is railfreight. This meant a break with the motto "we go logistics" and its expansion of activity to provider of overall logistics services. SBB Cargo, however, will continue to provide additional services, depending on the branch of industry, and provided they are in close correlation to the railway.
> SBB Cargo follows a strategy of growth. Growth is mainly sought in international traffic, namely on the north-south axis.
> Within Switzerland, SBB Cargo wants to maintain its position with a market penetration strategy, and wants to increase productivity.

For the strategy, the two key projects "Cooperation with FS Cargo" in the south, and "Cooperation with Häfen und Güterverkehr Köln (HGK)" in the north, are of central importance. The quality improvement in the south thereby constitutes the precondition in order that the volumes generated in the north can be transported over the whole north-south axis with a high quality.

Euro-Hub Basel as international turntable.

In the new strategy, the marshalling station of Basel is given a special role. It cedes tasks in the service of domestic freight traffic to the marshalling yard Limmattal, and in turn is revalued as a hub for long-haul north-south freight traffic. In Basel-Muttenz, wagonloads from the whole

Northern Europe are bundled and grouped together to form block trains for onward transport in the direction of the south. Thus, SBB Cargo with its partners can offer fast, reliable and frequent connections towards Italy. With the Euro-Hub Basel, additional shunting in other marshalling yards in Germany, Switzerland and Italy can be avoided. Thus, the railway transports are getting not only more safe, but above all faster, more punctual and more competitive as against the road. The transit times for freight from Northern Germany, Scandinavia or the Benelux states could be cut by 20 to 25 percent. With the strategic new orientation on the Euro-Hub Basel, SBB Cargo moved also its central management functions to Basel, the "Swiss Metropole for Transport and Logistics".

From "merger" to cooperation in production: Cooperation with Italy.

For some years already, the strategy of the SBB for the south has been directed at a close cooperation with the freight division of the FS, Trenitalia Cargo. In this way, the existing pinch points in the field of production shall be eliminated, the quality improved and the big Italian market better opened up for the railway. In a first attempt, FS and SBB aimed at a complete merger of their respective Cargo divisions. In the implementation of this ambitious plan, however, numerous problems arose. After the departure from "full merger" in the autumn 2000, FS and SBB therefore agreed on a different approach.

First priority is now given to an improvement of the production across the borders. To achieve this, FS and SBB want to eliminate the interfaces of the two production systems at the national border. The totality of the transports between SBB and FS shall be planned in common in the future, meaning out of one hand.

Since July 2001, this system has been applied on the pilot sectors Chiasso-Carimate and Chiasso-Lecco. First successes could be achieved with the faster and more punctual handling of steel exports of Swiss Steel. In 2002, FS and SBB shall expand this system to the whole area north of Milano, and to the long-haul connections south of Milano. The plan is based on the following schedule:

> From 27th January 2002: Transports via Luino with the destinations important for combined traffic Gallarate, Busto Arsizio and Novara, among others.
> Mid-2002: Transports via Domodossola.

> End of 2002: Transports via Chiasso with the destinations Monza and Milano Greco Pirelli, among others.
> Until end of 2002, a total of 21 destinations north of Milano shall be served according to the new concept.
> In analogy to this, SBB Cargo and Trenitalia Cargo will set up a common organisation for freight train connections between Switzerland and the other destinations in Italy.

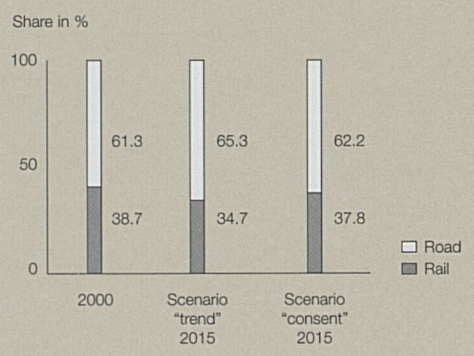
At the beginning, Trenitalia Cargo and SBB Cargo will handle the transports concerned in a joint business unit. In the medium term, the foundation of a trunk route company for border-crossing transports Switzerland-Italy is planned. The amalgamation of the whole freight traffic units of FS and SBB is, however, not an option any more.

Prospects for the future, scenario 12/16: Growth on the north-south axis.

It emerges from the EU study "Transalpine Traffic 2010" that the transport volume in transalpine railway traffic in Switzerland between 1992 and 2010 will increase by 230 percent.

*> **Forecasts** concerning the whole transalpine freight traffic in Europe (Alpine arch from Vienna to Ventimiglia) come to the conclusion that the infrastructure measures planned in a long-term perspective (base tunnels at the Gotthard and Lötschberg, and at the Brenner and Mont Cenis) with the respective access routes certainly are necessary, but by themselves are not sufficient to stabilise or improve the railway's market share. These forecasts are confirmed by the actual development of volumes 1992–2001 (+29 percent). Based on the same prognosis, it must be counted with a doubling of the transport volume in the course of the next ten years (2002–2012).*

Modal split in transalpine freight traffic.
As distinguished from the Swiss transalpine routes, road haulage dominates overall on the transport routes across the whole Alpine arch. A further growth of its share can be limited only in the scenario "consent", starting from the presumption that apart from the fact that new rail infrastructures will be built, also the development of costs of rail transport will be more favourable.



Area considered: Alpine arch from Vienna to Ventimiglia.
Scenario "trend": Reference to total of transported tonnes with a 105 percent growth of the total volume since 1999. Scenario "consent": Reference to total of transported tonnes with a 100 percent growth of the total volume since 1999.

Source: Prognos AG, Basel (2002).

A step across the border in the cooperation with Germany.

For SBB Cargo, the most important cooperation partner in the north is DB Cargo. Big shares of the transport volume are being handled together with this reliable partner. In the future, SBB Cargo will intensify this partnership even more. A common locomotive pool for the axis Basel–Köln, and a regular-interval timetable for freight trains Köln–Basel(–Milano) are in preparation.

With new partners, SBB Cargo additionally wants to seize the opportunities offered by the free network access in Germany. Jointly with the partner "Häfen und Güterverkehr Köln" (HGK), SBB Cargo establishes "Swiss Rail Cargo Köln" (SRC Köln) as a joint production company to operate freight trains on the Rhine axis from/to Köln and from/to the deep sea ports on the North Sea. At the same time, SRC Köln begins to treat the market in order to win new traffic for rail. The cooperation with the alliance partner Hupac Intermodal secures an initial volume of combined traffic for the new company.

Trans-Alpine Traffic of SBB Cargo.
Despite a shift of part of the rolling highway to the Lötschberg axis (RAlpin), transalpine freight traffic continued to grow.

	2000	2001
Wagonload traffic	11.26	11.84
Unaccompanied combined traffic	11.99	11.32
Total*	**23.25**	**23.16**

*without rolling highway and RAlpin: in million net tonnes.

HGK is an enterprise owned by the city of Köln, commanding an extensive track network with ports and terminals in the Köln area. HGK owns locomotives for long-distance traffic that since the spring of 2001 have been hauling the first joint trains as far as Basel.

More competition and new products in Switzerland.

Despite the growing share of international traffic, the Swiss domestic market retains its central importance for SBB Cargo. The high level of quality has brought about that the market share of the railway in Swiss freight transport is many times bigger than in the neighbouring countries, in spite of shorter transport distances.

It is true however, that the starting situation is not easy, precisely in the domestic market. As a former monopolist with a very big market share, SBB Cargo can hardly profit from liberalisation. On the contrary: SBB Cargo is very strongly exposed to the new competition, specially in

Prospects for the future, scenario 13/16: Internationalisation – In the future, service performances out of one hand.

The predictions on transport developments point to a scenario according to which in the coming years, international freight traffic will grow three to four times more strongly than domestic traffic. The cause is increasing integration and division of labour across borders. Most products are not manufactured at a single location any more. Specially with high-value merchandise, the subcontractors are distributed at numerous locations, chosen according to economical criteria. The clients, be they the loaders or the "mediators" from the transport industry, therefore choose the transport offer with the best price-performance ratio.

*> **The purely ecological advantages** of the railway shall scarcely be "rewarded" by the market. The reason for this is, among other things, that the external effects of transport in the areas of ecology and safety, speaking in favour of the railway, are not enough integrated ("internalized") in the market prices. These advantages of the railway therefore are not directly beneficial to the end client in terms of business economy.*

*> **Although the Heavy Lorry Tax** and the planned measures in transport policy on a national and European level hint at attempts to an internalization, performance and quality improvements of the railways themselves are more important than ever for the improvement of their market position. This means for transports on European distances: Border stops of freight trains for administrative and technical reasons must be reduced in order to guarantee a similarly high quality in international as in domestic transport. Besides, the clients expect that they can deal with only one contact partner for the whole length of the transport.*

Source: Prognos AG, Basel (2002).

the area of the profitable trainloads which are easy to produce. The advantage of the Heavy Lorry Tax, introduced at the beginning of 2001, was ruined by the simultaneously introduced increase of the weight limit in road transport.
In its strategy for Switzerland, SBB Cargo counters these challenges with productivity improvements and new products.

Cargo Express and Cargo Domino.

With the timetable change in June 2001, SBB Cargo has taken the new Cargo Express network into service. Cargo Express offers freight connections in a shortened "night jump" between around 40 departure and destination stations. The client can place the wagon ready later, and despite this it is delivered to the receiver earlier!

50 trains with a total of 500 wagons run since then every night. The introduction of the Cargo Domino technology, and the introduction of day connections from 2003, shall further enhance the attractivity of the Cargo Express network. Cargo Domino is a transshipment technology that can do without expensive terminals. The swap body container can be transshipped between the railway wagon and the road trailer by the lorry driver alone, without the help of further personnel. The system can be deployed quickly and flexibly and is perfectly suited to maintain and expand collection and delivery services in the regions. Some clients make use of the system in advance operation, the real market introduction will take place in the summer 2002. The strong interest expressed by many clients fuels the hope that with Cargo Domino, additional traffic can be won for the railway.

The Dominance of Transit Traffic.
While transit and export traffic gave way in the past year, domestic traffic was on the increase.

	2000	2001
Domestic traffic	2230	2278
Import traffic	1379	1388
Export traffic	984	905
Transit traffic	6193	5964
Total	**10786**	**10534**

In million net tonne-km

With the definition of the strategy, it was also determined which of the activities will in the future not belong to the core business of SBB Cargo any more. This concerns in particular the Cargo-Service-Center warehouses which are not directly related to railway transport. Their sale to the transport and logistics company Rhenus Alpina has been agreed in the autumn 2001.

With new wagons and new locomotives.

For the first time after many years, the SBB ordered new freight wagons. 150 temperature-controlled wagons for clients in the trade business, and 120 grain and hopper wagons for clients of the food industry. Both procurements are part of the fleet policy decided in the autumn 2001. The present fleet of wagons, partly obsolete, shall be renewed gradually. SBB Cargo will thus be able to better meet clients' needs.

For traffic in cooperation with HGK on the axis Basel–Köln, the SBB have ordered in the autumn 2001 ten freight locomotives Mark Re 482, able to run in Germany. The short time of manufacture of barely 5 months may well constitute a record, and delivery will start in the spring of 2002. Additionally, a first loco of the proven series Mark Re 4/4 II has been adapted for use on the same line. Its denomination is now Re 421. The business unit Rolling Stock Service intends to increasingly offer the big know-how of its around 1000 employees in the industrial works and servicing centres to external clients, and to generate one third of its turnover outside of Cargo SBB, in the medium term. First orders are already secured.

The Gotthard is and remains a challenge.

As a state-owned enterprise, SBB Cargo will continue not only to act to the letter of the strategy, but in exceptional situations to offer help quickly and flexibly. This was the case after the tragic accident in the Gotthard road tunnel. The reason for setting up the rolling highway in an extremely short time was not to make a profit, but to meet the special obligation of the SBB to the Swiss public and the economy. Concurrently, SBB Cargo could furnish proof of its capacity and flexibility, both being characteristics that shall play a major role in the implementation of the strategy. □