

SOME PROBLEMS OF THE ALBANIAN RAILWAY RESTRUCTURING

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ABSTRACT

Albanian Railways Restructuring as any other railway of a European country has its own peculiarities, which reflect the level of the country development and transport, policies and priorities, opportunities, the moment interests and center. All these together create different strategies and routes to follow. Directive number 440 of 29 April 1991 in this respect constitutes the terminal point where has to achieve the restructuring process. Its mechanical implementation without creating its self-operated body would be considered the only waste of time and loss of confidence in what can be identified as a necessity for the future.

The paper considers problems of the variable costs system or short term decision making as a preliminary way to the transition from a functional management system to that of the direction of the unit. Why should be considered this problem in the Albanian context, when business units own unused cost resources or excess capacity inherited from the previous functional management of the Albanian railway. How can we apply the restructuring process or a decision making of variable costs system when passengers trains are unable to cover their variable costs? Must it be organized the rail transport in relation to integral or sustainable transport policy? All these are considered in the paper as a preliminary route to reach the railway restructuring under the directive in question.

Keywords: *restructuring, management by units, short-term decision-making system*

JEL Classification: *L62, O32, D24*

1. Introduction

About the railway's restructuring is used to hear often in the recent decades, due to several economic and social phenomena, intertwined in some ways not experienced before.

But the very big problem of the rail transport in many European countries (especially in those of the united Europe) was the contradiction between their economic performance with respective states budgets. The continued growth of debt and inability to repay them greatly aggravated their position in relation to the budget of their countries. This situation dictated the creation of Directives with No. 440 dated April 29, 1991. The directions that define the content of this European Community directive were:

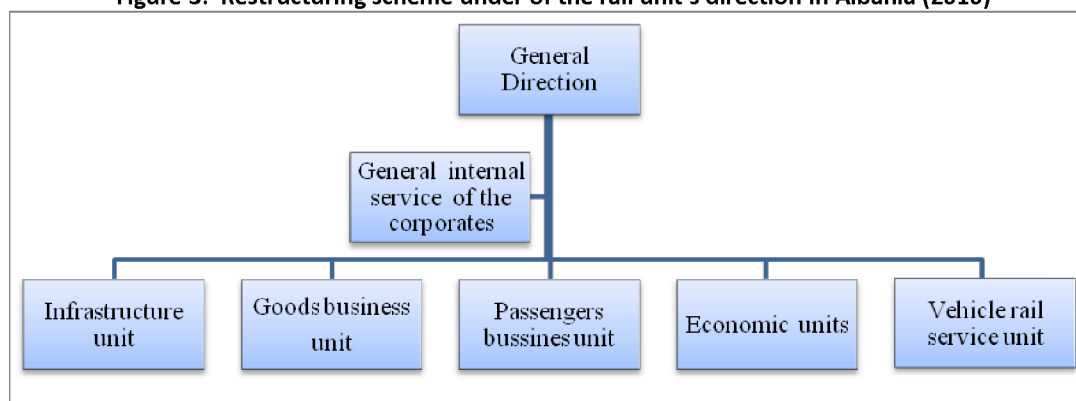
- The independence of the direction of the rail.
- The separation between infrastructure and the transport service direction.
- The improvement of the financial situation of railway enterprises.
- The free access to the private operators to rail services.

This way the railways restructuring became mandatory for EU countries, while for others that aspire to become part of this community in the future was not mandatory, but gradually over the time, this process in these countries was realized under the same directives in question.

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It is really important to say that early on after 1990, the Albanian government policy was not indifferent in this regard. Despite the strong refraction of the railway performance compared to the period before 1990 during to the second half of the twenty century, the strong rail transport tradition stirred up political attention to take some steps to restructure the railways. In the year 2005 was created the railway infrastructure enterprise but within the functional management of the Albanian railway's directory. While restructuring according to directives No. 440 dated 29 April 1991 of the European Community started in 2008 and completed in 2010, with the assistance of a group of foreign specialists.

Figure 3: Restructuring scheme under of the rail unit's direction in Albania (2010)



2. Rail transport performance after restructuring

In general, all indicators reflect the continuous declining trend of the transport volume for the period from 2010 to 2015. There may be many reasons for that, but this paper will concentrate in some of them, that can prove that reconstruction is a much broader and complicated concept than a mechanical application of a scheme offered by the transport committee of the European Community. Each country has a certain level of the development and in accordance with that; the problems to reach the application of the same scheme are different. Mechanical restructuring based simply on an obliged scheme becomes invalid if there are not taken preliminary steps as the technological restructuring of the rail infrastructure (line, vehicles) etc and some decision making to open the way the rail development adapted to the country policy development.

Since 1992 in Albania has consistently evolved the contradiction between rapid deregulation of goods transport on the motorway and the lack of a clear vision to increase the volume of goods transported with railways. The poor condition of roads in the country until late of the last century helped railways to retain considerable volumes of freight transport. This also because (products and raw materials) of state corporations such chromium, fuels and other continued to be transported by rail until to the early years of the twenty-one century. Another part of the raw materials and some considerable materials size for the businesses comes through the port of Durres and with train were transported to the destination, thanks to the competitive tariff provided by railway.

While along with new highways constructed and those existed ones repaired, the transport offer across the country grew, which led inevitably to the reduction of transport tariffs for same goods and products. Gradually along with the deregulation and transformation of the preceding

mentioned state corporate into operations societies, comes the removal of raw materials and products offered by them away from rail (transportation of chrome, fuel and etc.) Despite the shadows and lights about how were directed these processes, such products for their nature should be remained to be transported by rail.

The trend in table 1 show the volume of the rail goods transport from 2010 to 2015.

As it's seen from the data in the table after 2010 is proved a continual decrease in the volume of goods by rail in the years following the restructuring of the Albanian railways.

The causes of this process are numerous and of a different nature.

First: This situation continues in a decreasing trend resulted from the priority created in the highways and roads, both in terms of the investment for building and their restriction, as well as in the diversification of types and the capacities of transport mean to follow transport goods demand. From the table, No 1 is noted that the average transport distance of one ton of goods in the years after the restructuring results over 100 km, this because of the increased weight of the rail traffic through Bajza station border crossing with Montenegro. While willing the country, because of short transport distances, under 100 kilometers, rail freight is going through a difficult period in relation to highways.

Second: Because of the monopoly position owned in the transport market in the common property system over the production means, railways inherited excess capacity or greater resources cost compared with that necessary used today. From this perspective, the tendency to improve economic performance should be focused on a policy of the goods tariffs based on the variable cost system. In the transition from a full cost system related to the transportation of state product corporations to a variable cost system to determine the price (tariff) lies the core concept of decision making, the substitution of the functional or vertical management with the units or parallel management point of view. The direction of the Albanian Railways not even today uses a system of variable costs or short-term decision-making, even though the transport capacity that owns is bigger than necessary. Even in relations outside the border with Montenegro continues the same policy of the tariff system based on the full cost.

3. Passengers transport

The main problem to discuss the passenger's rail transport in Albania is the type of trains composed. All trains, those to passengers and to goods use the same locomotive (CKD 1300 HP) manufactured for handling, formation and attracting the freight trains. This kind of locomotive used in the Albanian railway network from the 70's in the last century continues today to be the only one and unified locomotive for both goods and passenger trains.

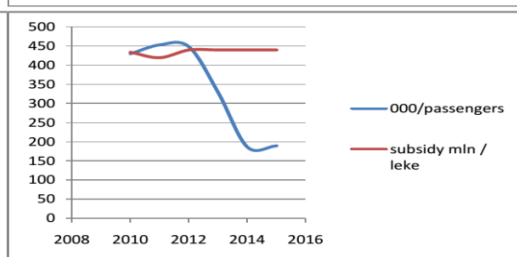
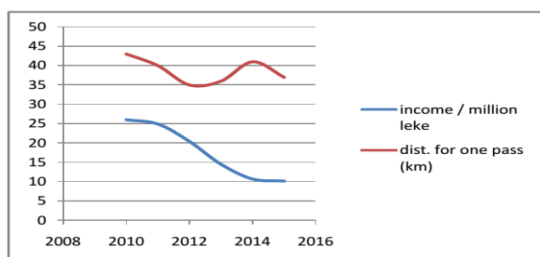
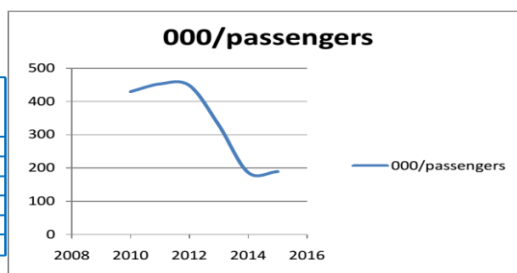
The fact that this locomotive was successfully used for the passenger trains in the previous communist system, refers to the monopoly position that rail had compared to road transport in the whole extension of the railway line and the using of the socialist system pricing policy. As result of monopoly status the passenger trains composed with many carriages, usually more than ten and their capacity used in significant levels, about 60% to 65 %. Today the Albanian railway continued to operate with the same trains, but with a considerable reduction, both in a number of operated trains and the carriages in their composition.

In the previous socialist system operated eight train formations per day, traversing a total of around 2700 km per day, while today operate five train formations, which traverse 764 kilometers per day.

Table No. 2

Passenger transport from 2010 to 2015 (period after restructuring)

Nr	Years	000/passengers	000/pass/km	income / million leke	dist. for one pass (km)	subsidy mln / leke
1	2010	429.8	18659	26	43	434
2	2011	453.1	18230	24.9	40	419.6
3	2012	448.1	15855	20.4	35	440
4	2013	329	11725	14.5	36	440
5	2014	186.6	7714	10.7	41	440
6	2015	189.7	6990	10.2	37	440



Data in the table No 2 show a trend of continuous deterioration of the situation of passenger service. There are many reasons for such a situation, but the most important may be ranged as follows:

- The high level of investment in the country's highways compared with investments in the railway system.
- This factor has affected continuously rail service diminution as a result of the Albanian political strategy to invest in the roads during the last two decades, to bring them to the level of European community standard. Along with the road construction came gradually the improvements in the road vehicles and the process of deregulation of the road transport.
- Higher operating costs and low speed of the passenger trains.

Passenger trains continue to be composed as before with the same type of locomotive (CKD 1300 Hp) and heavy long trips carriages. The only difference reflected is the continuation diminution of the average number of carriages per train as a result of the lower volume of the passengers. These trains in the communist system, in the conditions of monopoly operation position of railways compare to motorways, were financially justified due to a large number of wagons per train (from 10 to 13 cars) and the high coefficient of the utilization of their capacity. While today they have an average of two or three wagons per train and a lower utilization of their capacity ratio. In the terms of today competition, they manifest very high operating costs. According to data of 2011, the first year after the completion of the process of Albanian railway restructuring, following the directive number 441 of the 1991 of the European community, the total income from passenger trains operation were 25 million ALL, while only operation variable fuel costs for these trains resulted in 100 million ALL or about 400% more. So moving the passenger trains produce a loss in a direct correlation with the kilometers performed. As a result of any tendency to reduce the passenger transport services costs in the Albanian railways is associated with the reduction of performed train kilometers or the number of trains operated, reducing together the service volume and costs in general. When one train fails to cover his variable costs, it is not financially justified to operate online. Under this condition, no passenger train in Albanian railways should operate online. Table 2 shows that for the period from 2010 to 2015 the volume of transportation for pass/km is reduced 55.86%, accompanied by a decrease in

revenues approximately 60.77%. To strong tendencies to main transport indicators, decrease responds to a constant amount of the subsidy increase. For 2015 from 450.2 million ALL revenues for passenger service sector only 2.27 % or 10.2 million were provided from passenger service operating the train. The remaining 440 million ALL or 97.73% of the revenues were provided through government subsidy. The situation presented in Table No. 2 shows no real prospects of rail passenger transport. Besides higher operating costs, trains attracted from locomotives CKD began to realize relative lower speeds and higher travel time in comparison with road vehicles that populate the streets and highways. The concept of time as increasing movement demand and a new way of living of the twenty-first century brought finally out of the picture the passenger trains in Albania.

4. Removal of the railway station of the Tirana city in one other position away from its center

Migratory population movements from northern, north- eastern, southern and south-eastern since the 90's of the last century have continued even today bringing uncontrolled population grown up in Tirana - Durres axis. Both cities especially Tirana faced a mechanical uncontrolled growth of the population reaching a density of 8,000 to 10,000 people per square kilometer. In the context of a regulatory urbanization plan of the capital on September 2, 2013, closed the railway station of Tirana, displaced temporarily five km from the city center towards Durres, until the implementation of the adjustment plan. Table 2, shows the difference between the passengers of 2012 (station enclosed) with those of 2014(station closed). It shows that the fall of passengers in relation to all Albanian rail network is 58% or 1227 passengers per day in 2012 to 511 passengers per day in 2014. The causes of such a decline can be explained in several ways:

1. Concentrating of about 50% of the country's population on the Durres – Tirana axis has created a sustainable segment of low-income inhabitants of the area (the elderly, students, small business employees, and others) connected with rail service due to low ticket price travel.
2. The impact of the displacement of the train station a few kilometers away from the center of Tirana, made these travelers facing with additional urban services (interchanges) to pass from the train station to additional urban bus lines, to continue the journey to the final destination and vice – versa. These additional services increased travel tickets price from Durres to Tirana and vice versa on average 30%, which was totally the consequence of the displacement of the railway station from the center of the city.
3. The necessary interchanges to move from rail to urban buses service to complete the trip is a big violation of the travel comfort, whether from the difficulty of interchange, as well as the time spent, lasting the travel time. Such a trip is considered integrated and should be promoted by reducing the price of the travel-integrated ticket.

Functional and units organization.

Restructuring as a process is not simply a duty to every country like Albania, who dreams their future in the European Community. In fact, the transition from the functional to the units organization model constitutes the content of railway restructuring. But its core concept is the restructuring of the decision-making process, the approach of the operating level was the decision is taken to the level where the decision is implemented, connecting together the right to take the decision with the responsibilities from its implementation. Despite separate recording of expenses and revenues for each rail unit,(look at the restructuring scheme under of the rail units

direction) the decision-making according to this is not exercised. Albanian Railways continue to be governed by the concept of functional management organization. This is because of lower economic performance that constantly rail system has proved in the last two decades.

Conclusions

1. For rail goods transport.

The business division of goods rail transport from passengers rail transport and the same the separation of infrastructure (railway line) from the movement of trains is a simple problem to be conceptualized and realized. The purpose of creation of the goods rail transport unit is the improving of the financial situation of this sector by increasing the volume of freight transport. This indirectly is related to the purpose of following an integral transport policy, which means to take away the trucks from the roads, so to throw part of their goods on railway transport. During the history of the Albanian railways in recent decades, there have been many opposite cases as chromium, oil products and other raw materials removed from rail to the road (trucks). Specifically, these phenomena have occurred gradually with the privatization of the state's corporations that treated these raw materials. In the early post- communist period, by its own low social-economic development of the country, many distorted things were justified by the idealization of the free market, without appreciating in detail the phenomena, unintended consequences and the experience of other countries. Now such things have come the time to be seen from another point of view. Air pollution and roads blockages due to the traffic increase has begun to produce social cost. In this context, actual transport fees on our roads for over mentioned raw materials do not represent their actual levels. To follow a policy of integrated transport these external costs (social) must be internalized, so have to be reflected as an additional cost in fees that road transport currently presents. In addition, there are enough restrictions and regulations that must be implemented rigorously for better roads access, which mostly is built recently and are showing problems by Improper use.

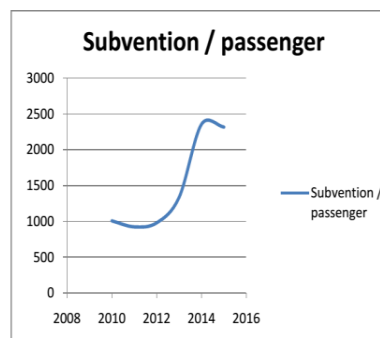
The direction of goods transport unit must change the tariff policy from the traditional long-term to short-term decision making or tariff calculation using the system of variable costs. This decision conception is the result of the loss of the monopoly position and the continuous deregulation of goods transport (by trucks). Consequently, Albanian railways have lost a substantial part of the transport of goods and as a result has created an excess of the transport capacity or unusable cost sources. Former states corporations that consume large quantities of raw materials and their coexistence with the railways no longer exist. Under these conditions, a system of variable costs for decision making in a deregulation market is more flexible.

2. For rail passengers transport.

Railway restructuring under the directives of 411/4/1991 of European Community from another view is an attempt to create value by the inclusion in the free competition market these large and complex enterprises, maintaining in the same time their social character. This quality emerges through the ticket subsidy policy in the service of passenger trains. As noted in Table 1, the decreasing tendency of the passenger's volume of the rail transport for the years 2010 to 2015 corresponds the same level or even increase of the subsidy per one passenger noticed in the table No 3.

Table No 3 Subvention for one passenger from 2010 to 2015. (period after restructuring)

Nr	Years	Subvention / passenger
1	2010	1010
2	2011	926
3	2012	982
4	2013	1337
5	2014	2358
6	2015	2319



The case is explained by the fact that the passenger trains in Albania, not covering their variable costs do not produce contribution. In this case, the only way too low the total operation costs is reducing the graphed everyday kilometers or the number of operated trains. This trend has reduced together with the volume of passengers, the number of trains and their kilometers performed, while the government has tried to keep a constant level or perhaps even to increase the operating passenger transport subsidy (see Table No.1). Such a policy is reflected as increasing trend of subsidy per one passenger reflected in table No.3. In this argument the subsidy is not justified because the trains do not cover their variable costs, so financially has not justified their operation. This conclusion argues that before the restructuring process undertaken by the European Community recommendation should be taken into consideration another prior necessary restructuring process. This process should take into consideration another type of commuter trains in the Albanian railways, trains of modern technologies, lighter and smaller capacity, flexible and low cost operating. These trains most likely will cover their variable costs from their income and realize a contribution to increasing the overall system performance.

Following the discussion of this paper and the facts of the daily reality, railway station of Tirana must be replaced on the previous position or another position that would be closer to the city center. Any tendency to argue otherwise, for example, the creation of a multifunctional central terminal designed at a greater distance from the city center, it would not avoid negative elements that already have emerged, such as the violation of comfort and increased travel costs mentioned before in this paper. Within the context of operating in an area of intense urban movement, the rail investment constitutes the best way to follow an integrated transport policy.

A part of the conclusions and findings of this paper may find solutions to the state decision-making level and other to Albanian railways. To solve some of the problems outlined in this paper Albanian government should be guided by a policy of integrated transport and realistically define the rail transport in this context. Also, the direction of the Albanian railways should pursue a liberal tariff policy, which should aim to enhance the contribution of trains in circulation through their large number train in operation.

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