



State of Israel
State Comptroller and Ombudsman
Annual Report 70A | 2020

Israel Railways

Freight Transport by Train

Abstract

Israel Railways

Freight Transport by Train**Background**

Israel Railways Ltd. was established in 1998 and began to operate in 2003. The government company is fully owned by the Israeli government. The Ministry of Transportation and Road Safety is responsible for the regulation of railway activity, and its supervision and control. Transporting freight by train reduces the negative external effects of transporting freight by truck. In April 2012, the government decided to set up a freight subsidiary in to increase the volume of freight transported by train. All freight transport operations are carried out by the rail cargo division, and the subsidiary pays it for these operations.

Key figures**5.5% only**

the estimated rate of freight transport by rail as a percentage of all freight transport in Israel

8.54 million tons

the weight of freight transported by train in 2018, a decrease of 6.2% in comparison to 2017

2.6 million ton-kms

average productivity per employee in 2018, compared with 3 million ton-kms in 2016

10.9% only

cumulative increase in freight transportation in 1999-2018 as compared to a doubling of GDP (97.7%) in that period

NIS 580 million

balance of commitments for projects to transport freight via train that have yet to be completed and did not reach the payment stage in 2018

NIS 60.8 million

total operating losses of the train freight transportation sector from transporting freight in 2018, compared to a loss of NIS 19.6 million in 2017

NIS 144 million

sum of subsidies paid to the Israel Rail Company from the state budget for transporting freight in 2018

30.5 agorot per ton-km


freight cost of rail freight in 2018, compared to 24 agorot per ton-km in 2016

1,251 million tons per kilometer^[1]






the movement of freight carried by Israel Railways in 2018, a decline of 9.4% compared to 2017

[1] tons per kilometer = the transport of one ton a distance of one kilometer Freight transportation is calculated by multiplying the weight of freight by the length of distance it is carried. Freight transportation during a particular period of time is the sum of the multiplication of all the freight carried in that time.

Scope

 From November 2018 to March 2019, the State Comptroller's Office examined the subject of transporting freight by train and the operations of the subsidiary company. The audit was carried out at the train company, at the cargo subsidiary, and at the Ministry of Transportation. Supplemental examinations were conducted at the Budgets Department of the Ministry of Finance, at the Accountant General, and at the Government Companies Authority.

Key Findings

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-  **Continuation of statutory proceedings for the promotion of terminals for freight transport by rail:** The proceedings have lasted between five to nine years at the planning authorities, the Planning Administration at the Ministry of Finance, the Ministry of Transportation, the Ministry of Environmental Protection, the railway company, and the local authorities within whose jurisdiction terminals are planned, and there is as yet no end in sight. Activity at some of the freight terminals has declined and some have even closed.
 -  **Lack of efficiency in transporting freight by train due to a lack of infrastructure:** The non-development of infrastructure (the eastern line, terminals, and extensions) by planning institutions, the Ministry of Transportation, and the Ministry of Finance, as well as the limited availability of freight tracks to transport freight, means that mobile equipment is inefficiently utilized.
 -  **The delays in advancing projects to develop infrastructure to transport freight by train have led to non-utilization of budgets allocated to this end.** Even though, in certain years, the authorization to commit budget stood at tens and even hundreds of millions of shekels a year and its execution was implemented every year, cash performance for most years amounted to just a few million shekels.
 -  **Recent decline in efficiency of transporting freight by train:** In 2017-2018, the average productivity of employees declined and the cost of transporting freight per unit of output increased.
 -  **Freight operations were loss-generating in 2017-2018 and the first half of 2019,** and contributed to the rail company's losses, which increased in 2018. The cumulative loss in these years was NIS 114.1 million. The cargo subsidiary lost financial stability and, in February 2019, the rail company's board of directors decided to recommend that the Government Companies Authority terminate the operations of the subsidiary and dissolve it.

Deficiencies in the establishment of the cargo subsidiary: Establishment of the subsidiary was not accompanied by supplementary development plans. The actions of the ministries of transportation and finance made it possible to advance procedures to set up the company, but the limitations set out in the agreements limited the company's ability to operate and nullified the benefits of its establishment and privatization.

Increase in number of safety incidents relative to the movement of freight by rail: In 2014, there were 26 safety incidents per billion ton-kilometers. The number increased to 31 safety incidents per billion ton-kilometers in 2018. In 2015, there was a record high of 43 incidents per billion ton-kilometers and in 2016-2018 the number of incidents stabilized at around 30.





Improvement of the field of freight transportation: The government began a comprehensive program to improve freight transportation by rail.

Amendment to the development agreement between the ministries of finance and transportation and the rail company: The amendment includes abolition of the depreciation co-efficient for the subsidy per ton-kilometer in 2019 and 2020, bonuses for increase in freight volume transportation compared to 2018, and incentives for transporting empty containers to prevent the subsidiary's insolvency until the appointment of new rail company management and also to formulate a restructuring plan.

Decline in the number of safety incidents in 2019: The operations of the rail company to improve safety and the work of the rail department at the Ministry of Transportation to continuously monitor safety incidents led to a reduction in safety incidents in 2019.

Key recommendations

-  The Ministry of Transportation must **act to complete the plans to implement the cargo master plan** that the Ministry itself prepared with the goal of increasing the volume of freight significantly.
-  The Ministry of Transportation, the Ministry of Finance, the Ministry of Environmental Protection, the Rail Company, and the Planning Administration **must work together to streamline planning procedures** for the sake of developing rail infrastructure that will assist in transporting freight by rail.

- 💡 The Rail Company, the Ministry of Transportation and the Ministry of Finance **must work cooperatively with the workers' organization to advance streamlining measures in the freight sector**; to improve financial results in the sector and restore the cargo subsidiary to a satisfactory level of operational profitability.
- 💡 The ministries of transportation and finance and the rail company **must act to ensure that subsidies paid to the freight sector reflect the benefit to the economy of transporting freight by train.**
- 💡 In the course of working to advance competition in the economy and streamline government companies, **the ministries of transportation and finance must refrain from imposing significant limitations in future agreements** that, even if they allow the promotion of government policy in the short term (for example, through the establishment of subsidiaries), can impair the possibility of implementing policy in the long term (for example, restrictions on privatization of subsidiaries in the future).

Summary

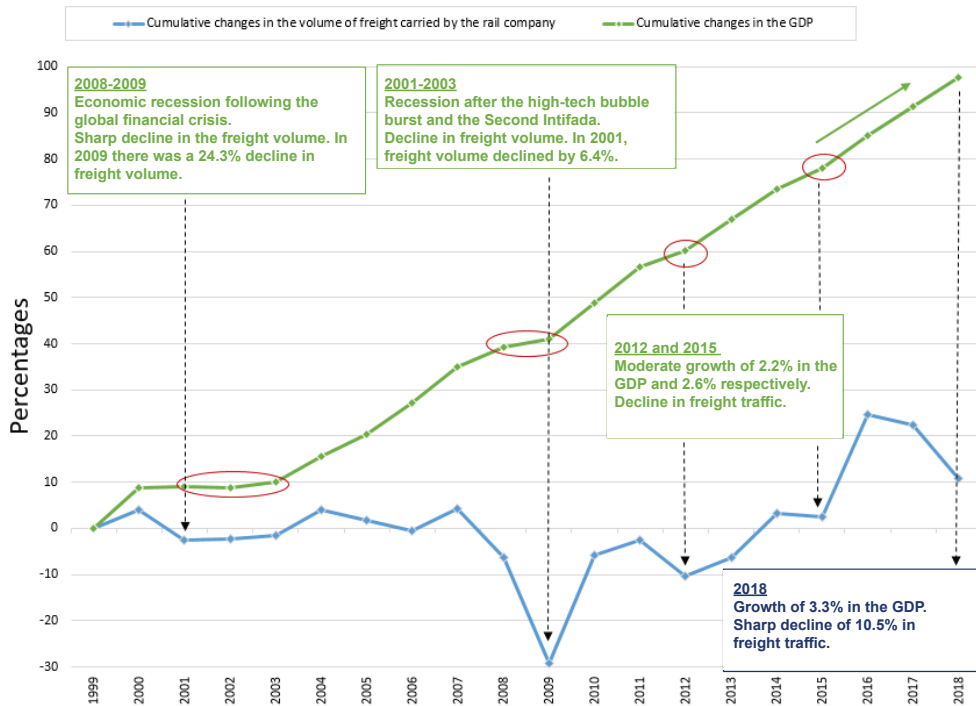
The volume of freight transport by rail decreased in 2017 and 2018, and the cargo sector is suffering from a lack of infrastructure. The rail freight sector is characterized by a lack of efficiency, due to a lack of infrastructure and inefficient operations. Consequently, in recent years, freight operations have been generating losses. The ministries of finance and transportation and the rail company must correct the deficiencies cited in this report and significantly increase the volume of rail freight transportation to enable the economy to grow and the company to realize its inherent economic potential.

Cargo transportation by the Israel Rails Company



Image description: The image shows two photos of freight trains.
According to rail company documentation

Cumulative changes in freight volume and the GDP, 1999-2018



Description of chart:

With regard to 1999-2018, the chart presents the correlation between the cumulative annual changes in the GDP and the cumulative annual changes in the volume of freight carried by the rail company. In 2001-2003, there was a global recession after the high-tech bubble burst and the Second Intifada, and at the same time there was a decline in freight volume. For example, in 2001, freight volume declined by 6.4%; in 2008-2009, there was an economic recession following the global financial crisis and at the same time there was a sharp decline in the freight volume. For example, in 2009 there was a 24.3% decline in freight volume; in 2012 and 2015 there was moderate growth in the GDP of 2.2% and 2.6% respectively and at the same time there was a decline in freight traffic; in 2018 GDP grew by 3.3%, but there was a sharp decline of 10.5% in freight traffic.

According to data from the Central Bureau of Statistics and the Rail Company processed by the State Comptroller's Office

