Central and Eastern Europe; a special situation

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CER – the Community of European Rail and Infrastructure companies

CER brings together 49 railways and infrastructure managers from all EU states (including also from Switzerland, Norway, the EU accession states, and those on a road-map towards EU membership). It provides advise on all issues relating to the EU and its laws.

The CER works on all political questions relevant to the railway business (in close cooperation on technical issues with the UIC in Paris). It provides information and advise to political decision makers in Brussels.
Legal framework for public service transport in EU

• Third railway package proposes further liberalisation of rail passenger market.

• EC proposes to revise Regulation 1191/69, which was historically adopted with a view to secure proper compensation for public service obligations.
Legal framework for public service transport in EU

CER demands in its position paper ‘Public service Transport by rail and road: a new legal framework’ special attention for:

- Scope of application of the proposed regulation i.e. synchronisation with third railway package, definition of regional and public service transport),
- Securing proper compensation of Public service obligations,
- Duration of Public Service Contracts.

On these issues the situations in the new EU Member States and EU-15 countries are significantly different!
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CER activities on passenger rail services in Central and Eastern Europe:


• 25 June 2004: The problem of cross subsidisation of passenger services discussed in meeting with F. Lamoureux, Director General Transport & Energy.

• 27 January 2005: High level EC/CER Conference on public passenger rail transport services in an enlarged EU.

• November 2005: CER overview of Public Service Rail Transport in the EU
### CER overview of Public Service Rail Transport in the EU:

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<td>Is there a PSC for passenger services?</td>
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<td>Is proper compensation for public service obligations secured?</td>
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<td>Is the PSC longer then 1 year?</td>
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Cross subsidy of passenger services with revenues from freight operations prevails in CEEC.
Cross subsidy of passenger services with revenues from freight operations must stop, because:

- Freight sector will be fully liberalised within 12 months; new entrant railway undertakings do not support loss making passenger operations, so that existing companies will be unable to compete.

- Regulation 1191/69 obliges EU Member States to compensate losses from public service obligations.

- Directive 91/440 obliges EU Member States to provide a sound financial basis to the rail sector.
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What is needed in CEEC:

➔ Authorities need to decide on best-value-for-budget service propositions and compensate losses from public service obligations,
  but are therefore reluctant to negotiate multi-year contracts.

➔ Railway operators need to rationalise operations and invest in rolling stock,
  but will do so only with a long term expectation of sufficient revenues.
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Authorities will not negotiate multi-year contract, because the product is not attractive (or budget is inadequate).

Railway undertakings will not invest in the product, as long as they do not have a viable multi-year Public Service Contract.

Meanwhile services are inefficient and unattractive, while rolling stock is at the at of its technical lifetime.
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Public Service Contracts (whether negotiated through competitive tendering or not) require that:

➔ Service propositions are defined.

➔ Budgets for service propositions are adequate.

How much is the cost of the product?

How much budget is there for the product?

The Voice of European Railways
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Competitive tenders can be instrumental in negotiating PSCs when:

• Various potential bidders are able and interested to offer the services, but as yet there is only 1 national company obliged to provide services at the expense of freight operations.

• Authorities know what they want and what they can afford, but as yet costs, budgets and service levels are not clear.

• A rolling stock market or financing scheme bridges the gap between the duration of the PSC and technical lifetime of the rolling stock, but as yet the poor condition of rolling stock is likely to cause collapse of the system.
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CER position: *Promote the introduction of proper Public Service Contracts with EU investment support for passengers rolling stock*

- EU investment support to be conditioned by/ linked to multi year PSCs.
- Introduce scheme for financing investment in RS without sovereign guarantee, thus based on PSC and/or asset-secured (lease).
- Total investment need in passenger RS ca. Euro 4 bln.; With 50% subsidy Euro 2 bln. EU funds would be needed.
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EU support for passengers rolling stock

(Example 1 of CER position paper)

Governments can pay EU co-funding upfront or through multi-year Public Service Contracts.

Option 2: Rolling stock investment based on a 8 year public service contract and asset secured financing (lease scheme) + 50% EU grant on rolling stock investment based on annual public service contract payments.

- Transport Authority (multi-year Public Service Contract: 34 mln Euro/year)
- Transport operator company (TDC): 50 mln train-km/year; 1 bln pass-km/year
- Lease company providing 80 modernised trainsets (120 mln Euro)
- Passengers (Revenues from ticket sales 40 mln Euro/year)

Eligibility EU funds: 2.75 mln Euro * 8 years * 300% = 66 mln Euro

Annual PSC payment of which 2.75 mln Euro per year for RS from public funds

Annual/monthly lease payment

EU capital grant 50 mln Euro (50%) on RS investment

Asset secured loan 60 mln Euro (no state or holding guarantee)
Thank you for your attention.

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