ENSURING LONG TERMINVESTMENT FOR A SUSTAINABLE RAILWAY SECTOR

How can rail projects attract new investors and make the best use of EFSI?

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A Question to Start

- One may ask whether it is advisable to first focus
  - on the perfection of the model: regulation unbundling, financing,
  - on opening the black box of intermodality and reconsidering railway financing again in this new light (e.g., mobility pricing).

Regulation?

- Regulation is not really strong and stable.

- There are significant inconsistencies between the European regulatory framework on the one hand and the national regulatory practices on the other.

- There is still the problem of intermodality.

- Does a coherent, stable and strong regulatory framework in the railway sector even makes sense, considering that competition comes from the road?

  A stable regulatory environment is key, namely because of the long-term nature and asset specificity of investments in infrastructures in general and in railway infrastructures in particular.

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Unbundling?

- On the one hand, there is the network infrastructure (railway tracks, electricity grid, gas grid, telecommunications grid, etc.) whose financing can be public or private. A distinction could be made between the financing of the development of the tracks (which clearly depends on public financing) and the operations of the infrastructure, which should be financed by track access charges, but which can also be subsidized by the public sector.

- On the other hand, there are the services (e.g., energy services, transport services, communication services), which, [ideally], should be financed purely by the private sector for commercial purposes.

In the railway sector, things are a little bit more complicated between commercial railway services (e.g., long-distance passenger services, high-speed rail services, cargo services) on the one hand, and services under public service obligations (PSO) on the other hand.

Financing

- There is a need to match the timeframe of the financing with the lifetime of assets. Long-Term Investors could provide the answer if the proper framework is available.

- Vertical separation offers an opportunity to create a more transparent division between infrastructure management, finance and operations, as well as a closer alignment with the natural monopoly of the track infrastructure, as opposed to operations, which lend themselves more to competition. However vertical separation may also create inefficiencies and requires serious consideration of incentives to ensure optimal management of the entire system.

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Financing

- Applying different financing models to different sections, depending on the anticipated financial performance and other social considerations that emerge from a robust economic appraisal of the project (e.g. concession vs. partnership PPP models).

- Investing in the most profitable portions of the railway network first is helpful, as the success of prior projects makes financing of new projects less problematic or risky – whether private or public sector financing is involved.

- Rolling stock as a liquid European asset ? Compared to airplanes, railways are lagging behind in terms of international harmonization of technical and safety standards as well as interoperability. This has an impact on the “liquidity” of rolling stock as an asset.

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Conclusion

- Transportation (rolling stock) and infrastructure assets financing can be a risky business.

- Project risk translates into counterparty (indirect) credit risk on the suppliers and Equity traffic risk on the project itself.

- Investments in rail infrastructure and rolling stock require clear, stable and predictable rules because of their very long-term nature (up to 50 years).

- The European Union plays an increasingly important role in investment financing through Regional Funds, the Connecting Europe Facility, the shift2rail initiative and since 2015, EFSI.

- It is necessary for financial investors to protect themselves and properly allocate risks.