

Brussels, April 9, 2020

Ensuring the survival of new entrant passenger rail companies – proposal for a rescue plan

Competition in the passenger rail market has brought numerous benefits

Our association ALLRAIL, the Alliance of Passenger Rail New Entrants in Europe – representing independent passenger rail companies (railway operators and ticket vendors) - was created three years ago with the purpose of promoting competition in the passenger rail market.

In recent years, competition both on the rail tracks and in the downstream rail ticket retail market has benefited passengers, taxpayers and the environment. It has led to increased numbers of travellers and, as a result, **modal shift to rail**.

Despite the many barriers to entry, competition for tenders have brought “20-30% savings for taxpayers, with better quality trains too”¹. In some cases, passenger numbers have grown 100%². This growth that has been brought about by new competitors has benefited the historical incumbents as well - by making them more efficient and innovative.

Without this intramodal competition, passenger rail would be less able to innovate and less able to compete with those modes of transport cause higher damage to the environment, such as airlines and the private individual motor car. **New entrants have a vital role to play and must survive.**

COVID-19 can lead to disappearance of new entrants as early as April 2020

The COVID-19 pandemic has led to an unprecedented crisis for independent passenger rail companies. There has already been over a 90% drop in passengers, particularly in those cases where intra-EU borders have been closed. While understandable, the decision to shut down passenger rail has also shut down much of our members’ business activities.

- ⇒ **Together, our members face over €1 billion in lost income by the end of this year.**
- ⇒ **It is no exaggeration to say that we might already face the first wave of bankruptcies in April 2020. Urgent action is needed to prevent this from happening.**

Independent passenger rail companies need to reduce fixed costs fast while at the same time securing the necessary cash flow to sustain capacity and deliver remaining services during the crisis. But their managers also have a sobering fiduciary duty; as soon as their business-sustaining costs are not covered, they must declare bankruptcy.

In short: COVID-19 is annihilating the viable business cases of many independent passenger rail companies. These are the kind of companies that have the proven ability to attract new passengers to the rail sector once this crisis is over - but many of them may no longer be around when the time comes.

¹ Matthew Baldwin, Deputy Director EU Commission Transport Directorate DG MOVE at the Workshop “Tendering of Public Service Contracts for Rail Passenger Transport” in Brussels on May 30, 2018

² https://www.railjournal.com/in_depth/italian-high-speed-success#.XMqlq2dFwDA.twitter

To ensure the survival of new entrants: top priority is liquidity

ALLRAIL welcomes the State Aid Temporary Framework recently adopted by the European Commission³ and hopes that the EU Member States will make the best possible use of it.

However, we would like to stress that- in order to ensure that the competition survives- we need the following measures to be applied fast by the Member States:

- ⇒ **Direct grants to cover lost income**, with caps for capital intensive industries being higher than the €800,000 cap stated in the Temporary Framework
- ⇒ **State guarantees for all existing loans** and ability to postpone lease payments
- ⇒ **Protection of workers from loss of income** (short-time work schemes)
- ⇒ **Deferral of payments** of statutory company taxes and social security contributions
- ⇒ **Ability** to refund customers for cancelled tickets with vouchers rather than in cash, redeemable at same point of sale as where the original ticket was purchased.

ALLRAIL's rail operator members need:

- ⇒ Suspension of charges for state-owned **track infrastructure, stations, service facilities and (rolling stock) parking**. After all, these are under the direct control of the EU Member State governments.

This support should be extended until the end of 2021- because this would help with the economic recovery after the crisis.

ALLRAIL's rail ticket vendor members need:

- ⇒ Reduction in financial deposits paid to all rail operators reflect reduction in bookings. These payments are guarantees to protect a much higher volume of tickets being sold. As long as such volumes are not happening, then this money should be returned.

The following principles must be adhered to when allocating support:

- (1) COVID-19 related financial support to the rail sector must be delivered promptly;**
- (2) It must be made available and disbursed to all operators in urgent need of liquidity, irrespective of their ownership (state or privately owned);**
- (3) Prioritisation of applications should be based on the carbon footprint and contribution to the EU's climate objectives. The Temporary Framework should not disproportionately help other modes of transport that compete with passenger rail, such as airlines.**

Whilst the money will come from Member States, the European Union has the means to guarantee it is spent justly and wisely.

- ⇒ **Saving new entrants now will save taxpayer money in the medium and long term.**

Last year in 2019, the passenger rail sector was growing and companies experienced the strongest increase in demand for a very long time. The EU and its Member States must ensure that the sector can quickly resume business activity as soon as the crisis is over, both in the interest of meeting their climate ambitions and for the benefit of their citizens. There is an urgent need to secure the services of all passenger rail companies that were active before the crisis – and new entrants are an integral part of that.

³ C(2020) 1863 final of 19.03.2020