ALLRAIL

POSITION PAPER

How to Finance EU Commercially Driven "Open Access" Long-Distance Passenger Rail Rolling Stock, Both Cross-Border and Domestic

23rd November 2023

For both daytime and night time long-distance rail services in the EU

Please note: in this Paper, we use the term "Commercially Driven" to describe what others may call "Open Access" rail services However, this is the same thing. This means long-distance rail services that are not justified Public Service Obligations ('PSOs').

A Publicly Owned Rolling Stock Pool Is *Not* The Solution

ALLRAIL does not believe that establishing a publicly owned rolling stock pool will contribute to solving the issue of access to rolling stock for commercially driven services. With this reasoning:

- It would cost the more taxpayer money. But on the contrary, the whole point of liberalisation is to gradually decrease the burden on the taxpayers, so unless there is a path to gradually reduce it, then it does not make much sense.
- There is no obvious EU Commission (EC) budget for this. Only national EU Member States control this level of funds. However, *even if* the EC had access to such funds, then the following questions must be asked:
  a. How would the EC decide who will use the carriages? How would a Single European Railway Area (SERA) be able to develop?
  b. More specifically: which entity would decide which commercially driven operators get the (probably very limited) supply of rolling stock? After all, state-owned incumbents operate commercially driven long-distance services as well, and being state-backed, rationally they are

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likely to be viewed as less risky. Would state incumbent then receive all of the rolling stock, undermining the very development of the SERA?

- Furthermore, the EC does not have the asset management knowledge (i.e. in-house rolling stock expertise) that is needed **to remarket the vehicles and ensure the highest remaining value for the taxpayer**. This is something that is already a problem in the situations where regional Public Transport Authorities funding and provide the rolling stock (e.g. for regional trains in Germany's North Rhine Westphalia).

The EU Urgently Needs **Solutions that Will *Actually* Work**

- **We need to ensure the right market conditions** to lower the risk of investment for private investors. After all, the objective is to reduce the burden on the taxpayer and allocate any EU Member State's finite resources to crucial expenses (healthcare, education, defence, etc.). Thus, the taxpayer does not have much leeway in taking on the extra burden of paying for new rolling stock fleets.
    - In addition, there will be the inevitable squabbling regarding which Member State should be expected to pay for rolling stock that crosses an internal EU border.
- **The primary financing condition showing potential investors the security of getting a long-term timetable:** this means framework agreements for a minimum number of 10 years without falling into the trap of the highly prescriptive Spanish model that favours larger state-owned operators.
- **The European Investment Bank (EIB) must help** with providing some of the financing in the form of debt.
    - After all, as an EU Agency, part of the role of the EIB is to help meet wider societal needs in the most environmentally friendly especially for cross-border transport. Loans to finance new long-distance trains tick all of these boxes.
    - Besides, the EIB has often been mentioned in EU Commission documents as a potential solution for this problem [1].

[1] EU Commission (9 December 2020), Commission Staff Working Document Accompanying the Document Communication from the Commission to the European Parliament, the Council, the European Economic and Social

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- Indeed: with more interoperability of new rolling stock, then there is less risk, because rolling stock can then be more easily sold/leased onwards to anywhere else in the EU (that is, if a commercially driven rail operator were to go out of business).
- However, until now, as far as we know, the only money loaned by the EIB for commercially driven long-distance Open Access trains has been to a state rail incumbent, FS Trenitalia[2].
    - It was a €550 million loan two years ago, enough to pay half of the purchase cost of 17 high-speed Frecciarossa trains.
    - All applications by private owned rail operators have been refused, even if these were made by well-established and successful companies that are already active around the world.

Ideally, there needs to be a mix of equity and debt. The EIB can be the public provider of a piece of debt, but you also need:

- National vehicles like KfW in Germany[3],
- A private equity provider, such as a pension fund,
- In addition, a leasing company could be added - for the sorely needed asset knowledge,
- In fact, there could be a mix of all four, with different sized parts having different risk profiles and different upside.

➢ **Order 1,000 or more similar carriages in the same batch,** assuming that there is manufacturing capacity. An article published by the Financial Times underpins the benefits of large rolling stock orders[4]. Unfortunately, the OEM market remains much too concentrated. Standardisation contributes to lowering the financial risk for private investors, because rolling stock can then be more easily sold/leased onwards to anywhere else in the EU (that is, if a specific commercially driven rail operator goes out of business).

Committee and the Committee of the Regions Sustainable and Smart Mobility Strategy – Putting European Transport On Track For The Future (SWD/220/331), point 792, page 185.

[2] EIB (16 December 2021), Italy, Spain: European Investment Bank provides financing to FS Italiane to purchase new high-speed trains in Italy and Spain via €350 million green bond.

[3] KfW Bankengruppe, a German state-owned investment and development bank.

[4] Financial Times (10 March 2023), *'We are full': the rebirth of Europe's sleeper trains.*

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- After all, potential financiers will be more interested in larger size orders - and so will manufacturers.
- The carriages to be ordered must be uniform. Nowadays, temporary customisation for an individual operator is more easily possible within the same standard design than it was 20-30 years ago, when customisation was a more permanent feature and harder to change for any new buyer.

Conclusion

- **The EU Commission or EU Member States as asset managers is not the solution.**
- **Governments have a finite budget. Taxpayer spending is necessary in more crucial domains (healthcare, education, defence, etc.).**
- **Therefore – as we are seeing [around the world] – the involvement of more private investment will help to both finance and operate a higher number of long-distance passenger rail departures and meet the growing demand for passenger rail services[5].**

  To serve existing demand and create new for long-distance rail, Europe needs to move away from prescribed and unjustified Public Service Obligations (PSOs).

  Instead - to *also* meet the ambitious climate emission reduction goals of the EU Green Deal - EU Member States should create conditions for more commercial services that are proven to grow revenues, reduce subsidy and speed up modal shift to rail.

  We believe that this can all be done:

  1. **ENSURE THE RIGHT MARKET CONDITIONS TO LOWER THE RISK OF INVESTMENT FOR PRIVATE INVESTORS,**
  2. **ENSURE THAT EU RAIL INFRASTRUCTURE MANAGERS PROPOSE FRAMEWORK AGREEMENTS FOR A MINIMUM NUMBER OF YEARS,**
  3. **THE EUROPEAN INVESTMENT BANK ('EIB') MUST CONTRIBUTE,**
  4. **THERE NEEDS TO BE A MIX OF EQUITY AND DEBT,**
  5. **ORDER 1,000 OR MORE SIMILAR CARRIAGES IN A BIG BATCH.**

[5] In the beforementioned article by the Financial Times, a spokesperson from incumbent rail operator ÖBB said, about night trains, "We are full, we are full, we are full".

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