

# Funding Regional Passenger Rail Rolling Stock Investment in the Czech Republic

## Recommendations

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# Agenda

1

Aims of the study

2

European case studies

3

Passenger rail market in Czech Republic

4

Conclusions and basic conditions

5

Recommendations and possible models

# Aims of the study

Czech Republic plans to use EU structural funds (ERDF) to subsidize procurement of new rolling stock for regional rail passenger transport

EIB/JASPERS wants to ensure an effective usage of funds and fulfillment of European legal framework according to the following basic conditions:

- Funding should be consistent with the existing legal and economic framework
  - EU policies and regulations (state-aid, public service)
  - Organisational and market structures in Czech Republic
- Funding should consider PSO contracts, awarding and tendering procedures as well as other aspects of a competitive rail market

On the basis of an analysis of rolling stock financing structures and funding experience in other EU countries, the study shall provide necessary information and recommend four possible alternative approaches to use EU funds for that purpose in the Czech Republic.

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1

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2

European case studies

3

Passenger rail market in Czech Republic

4

Conclusions and basic conditions

5

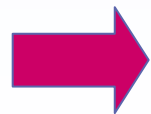
Recommendations and possible models

### Competition in passenger rail services

- No mandatory EC guidelines for competition in passenger rail services, but direct awards should fulfil some conditions
- National law or economic considerations push competition in many European countries
- Awarding of contracts should be transparent and avoid discrimination of certain bidders => impact on questions of state aid

### Allocation of risks

- Allocation of risks between public transport authority (PTA) and train operating company (TOC) affects remunerations for PSO contracts
- Distribution of risks affects also competitiveness of possible bidders and has impact on prices as well



**Subsidies for rolling stock cannot be analysed without affecting general questions of financing as well as the type of contract and allocation of risks**

# Competitive markets and financing rolling stock

## Subsidies and state aid – general legal background



### Criteria for the presence of state aid:

- Intervention by the State or State resources
- Intervention is liable to affect trade between member states
- It confers an advantage to the recipient
  - Assessment of advantage according to the 4 “Altmark” criteria
- It distorts or threatens to distort competition



prior notification requirement

### Basis for compatibility of the State aid with the common market:

- Regulation No. 1191/69 (from 3rd December 2009 on No. 1370/07): aid is regarded as compatible and not subject to notification requirement if it meets the conditions laid down in the Regulation
- Regulations No. 1107/70 and 1192/69: aid can be declared compatible by European Commission after prior notification

# Competitive markets and financing rolling stock

## Subsidies and state aid for rolling stock



EC guidelines on State aid for railway undertakings

→ 4 cumulative conditions must be met:

- Rolling stock must be assigned to urban, suburban or regional passenger transport services
- Rolling stock must remain assigned for 10 years to the service for which it received aid
- Commission may make the granting of the aid subject to the condition on the recipient undertaking to sell under normal market conditions any rolling stock it is no longer using
- The replacement rolling stock must meet the latest interoperability, safety and environmental standards

# Competitive markets and financing rolling stock

## State aid and PSO contracts

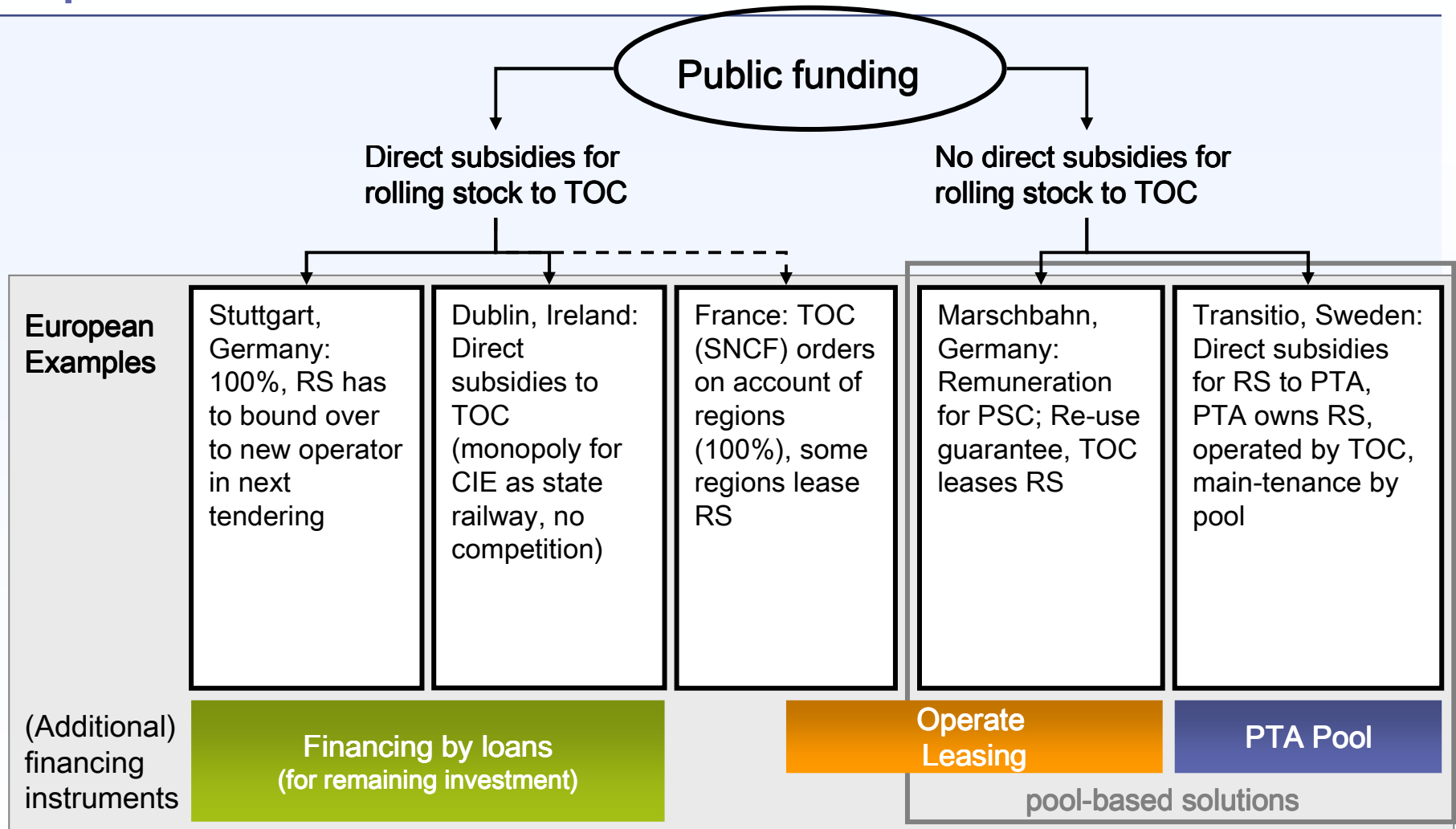


### Main problems will occur at the end of contract period

- Rolling stock can be used for up to 30 years, contracts normally last for much shorter periods
- Without additional obligations the TOC can have a more advantageous position than other competitors in future tenderings by using the subsidized rolling stock
- Benefits of subsidies may be transferred from PTA and passengers to incumbent TOC
- Problems will occur with tendered as well as direct awarded contracts
- Life period of the contract and economic lifetime of funded rolling stock has to be taken into account
  - No state aid problems will occur when rolling stock will be handed over to the PTA after end of contract period
  - Reimbursement of difference between subsidy and pro rata current value by the TOC is also possible

# Competitive markets and financing rolling stock

## European case studies



## Direct investment subsidies to the TOC

- Some countries in western Europe reduced or abolished direct subsidies for rolling stock in recent years (Netherlands, Switzerland, Danmark, etc.)
- Reason normally were problems with questions of competition and state-aid
- Analysed case studies show either monopolies for state railways or usage of additional instruments like contractual obligations to avoid problems with competition (termination clauses)

## Investment subsidies to PTA

- Specific subsidies for rolling stock are paid to PTA by a few countries, mainly for pool solutions (Sweden)

## No direct investment subsidies

- Some countries switched over to payment for public service contracts and other financing instruments

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1

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3

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5

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# Situation in Czech Republic

## Current situation

### General conditions:

- Separation of rail infrastructure and operating companies carried out
- No monopoly by law, free access for Czech TOC (according to Directive 91/440) but up to now only few new operators providing passenger services
- Up to 99% of passenger rail services provided by ČD

### Competition and awarding of contracts:

- Regions responsible for basic services, additional services can be ordered by municipalities
- Few experiences with tenderings and competition of rail passenger services (Ústecký Kraj and Karlovarský Kraj)
- Most Regions have direct awarded contracts with ČD
- Short-time contracts are common

# Situation in Czech Republic

## Actual problems:

- Old rolling stock → strong need for new or modernised rolling stock
- De facto monopolistic structure, only ČD has sufficient and nation-wide resources for procurement and maintenance of rolling stock
- Decision making up to the discretion of the operator, regions need more know-how to be treated as equal
- Duration of most contracts only for one year → evidence for the general problem of financing services (also problems with state-aid conditions)
- Lack of money either by PTA and TOC → strong need for efficient and economic solutions
- Know-how mainly provided by ČD, PTA still improve their knowledge  
→ all possible solutions should follow the principle “keep it simple”

# Situation in Czech Republic

## Budgets for regional public transport in 2007

Kraj (region)		Expenses for regional public transport (Mio CZK)			complete regional budget (Mio CZK)	percentage of budget	
	Capital city	total	Rail	Bus		Rail	Bus
Jihočeský	České Budějovice	696	321	375	9.620	3,3%	3,9%
Jihomoravský	Brno	922	468	454		8,6%	8,3%
Karlovarský	Karlovy Vary	294	170	124		9,8%	7,3%
Královéhradecký	Hradec Králové	513	298	215		3,5%	2,5%
Liberecký	Liberec	400	205	195	2.365	8,7%	8,2%
Moravskoslezský	Ostrava	961				18,0%	
Olomoucký	Olomouc	615	328	287	8.000	4,1%	3,6%
Pardubický	Pardubice	476			3.576	13,0%	
Plzeňský	Plzeň	540	320	220	3.000	10,7%	7,3%
Praha		No data available					
Středočeský	(Praha)	1.391	778	613	15.600	5,0%	3,9%
Ústecký	Ústí nad Labem	681	393	288	11.325	3,5%	2,5%
Vysočina	Jihlava	No data available					
Zlínský	Zlín	472			7.000	6,7%	
<b>total:</b>		<b>7.961</b>					

### Notes:

Budgets for Bus include payments for urban bus services only in case of city border crossing services  
 In some regions complete budgets include payments for school affairs (as an item in transit, up to 50%)  
 In Zlínský kraj payment for school transport services is included in the total value

Source: Compilation by TU Dresden, based on reports and internet research

# Situation in Czech Republic

## Ordered passenger services by the regions in 2008:

Kraj (region)	Ordered train-km	Payment (in Mio. CZK)	Average costs per train-km (in CZK)
Jihočeský	6.300.000	328,0	52,1
Jihomoravský	8.867.310	491,0	55,4
Karlovarský	2.500.000	130,2	52,1
Královéhradecký	6.105.553	310,0	50,8
Liberecký	4.126.000	200,0	48,5
Moravskoslezský	No data available	553,0	
Olomoucký		328,0	
Pardubický	5.000.000	261,5	52,3
Plzeňský	5.280.000	330,0	62,5
Praha	2.861.355	226,9	79,3
Středočeský	13.440.000	794,8	59,1
Vysočina	4.600.000	260,3	56,6
Ústecký	7.350.000	375,0	51,0
Zlínský	4.840.000	220,0	45,5
		4.808,7	55,1

Source: Compilation by TU Dresden, based on reports and internet research

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# Conclusions and recommendations

## Key issues for future funding structure in Czech Republic

- Duration of PSO contracts is usually shorter than life-cycle of rolling stock
  - Are perspectives for and requirements of regional rail passenger services sufficiently clear to agree long-time PSO contracts?
  - Regions need flexibility, TOCs need reliably constraints for their calculation
  - Rising risks for TOC compensate benefits of subsidies
  - How to avoid problems in future tendering procedures?
- Different institutions awarding PSO contract and rolling stock investment subsidy
  - How to ensure that regions and passengers benefit from investment subsidy?
  - Can TOC calculate reliably on the provision of rolling stock investment subsidy?

# Conclusions and recommendations



## Core requirements for a future funding structure

- Nation wide, consistent, reliable framework for the distribution of funds
- Equal level of know how on both sides, TOC and PTA
- Compatibility with PSO contracts (either directly awarded or tendered) and probably increasing competition in future
- Well balanced risk allocation between PTAs and TOCs, provision of a sufficient base for the TOC's calculations
- Certain level of flexibility for the PTA to readjust services and PSO contracts according to changing objectives, passenger demands, social-economic developments and budget restrictions
- Nation wide consistent fleet strategy and technical compatibility of rolling stock (e.g. couplings, floor level, technical train communication) to ensure flexibility for future changes

→ Need for action: find an EU rule compliant solution to introduce new rolling stock, which can be implemented in a relatively short time.

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1

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2

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3

Passenger rail market in Czech Republic

4

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5

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# Recommendations and possible models



A	B1	B2	B3	C	D	Model
Direct awarded PSO contract				Competitive tendering	Direct or competitive	Awarding of PSO contract
Isolated subsidy, separated payment of PSO contr.	adjusting of existing PSO contract (1191/69)	obligation for new PSO contract(1370/07)	jointly regarded and negotiated subsidy and PSO contract (1370/07)	2. step?	only indirect relation; e.g. contract rules maintenance of RS	Relation between PSO contract and subsidy
Train operating companies (e.g. ČD, Connex Moravia, Viamont)					PTA (Regions)	Recipient of subsidy
Notification necessary	Subsidy and PSO payment has to be regarded as an economic unit Problems with overcompensation		requires knowledge with tendering		requires knowledge with pools	Problems at the awarding stage
legal risks of direct awarding						
Handover of funded vehicles or refund of subsidies Otherwise cost advantages in following tenderings					None	Problems at the end of the contract
Re-use guarantee for fleet after contract Dept service guarantee					Not necessary	Possible Add-Ons

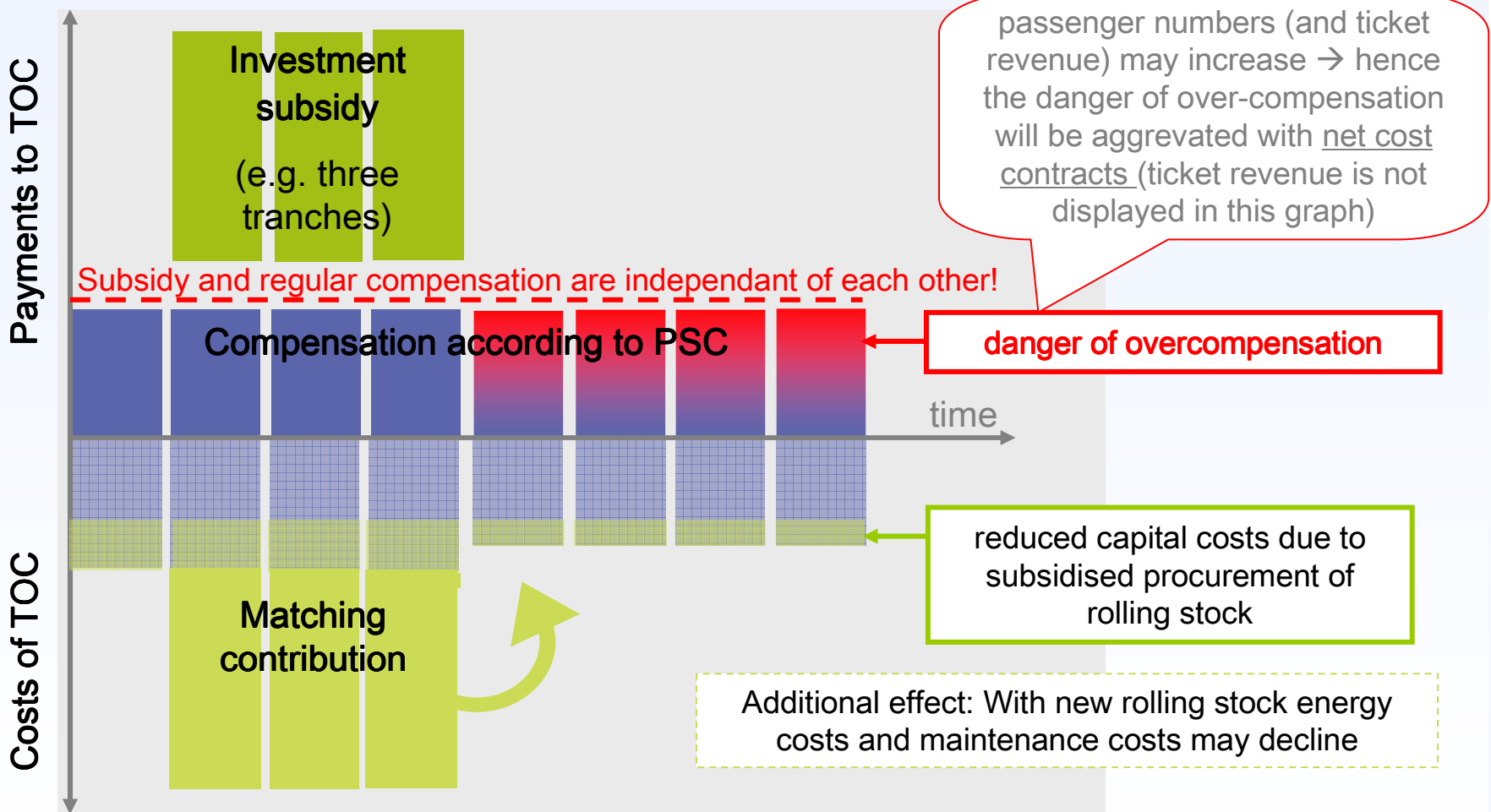
# Model A

## Isolated investment subsidy

### Description of Model

- Isolated investment subsidy. Compensation for operations is separated from investment subsidies and is fixed in a PSC
- PSC will not be adjusted
- Notification according to Article 88 EC/ Regulation (EC) nr. 659/99 mandatory

# Isolated investment subsidy Model A



# Model A

## Isolated investment subsidy

### Critical aspects of the model

- Obligation of yearly control of overcompensation may be necessary
- Decision of EC for the payment of investment subsidies which are not taken into account for the overall compensation of public service obligations is still unclear
- **Total maximum subsidy rates of 30 to 50%** [railway sector state aid guidelines]
- Risks of delays due to uncertain duration of the notification procedure



# Investment subsidy as part of directly procured public service contract (PSC)



## Model B 1

- Based on existing PSC (in line with reg. 1191/69), renegotiation of PSC necessary, admission of certain obligations in the contract

## Model B 2

- Obligation to award a PSC in line with reg. 1370/2007 after approval of funding application. The PSC will have to fulfill certain conditions.

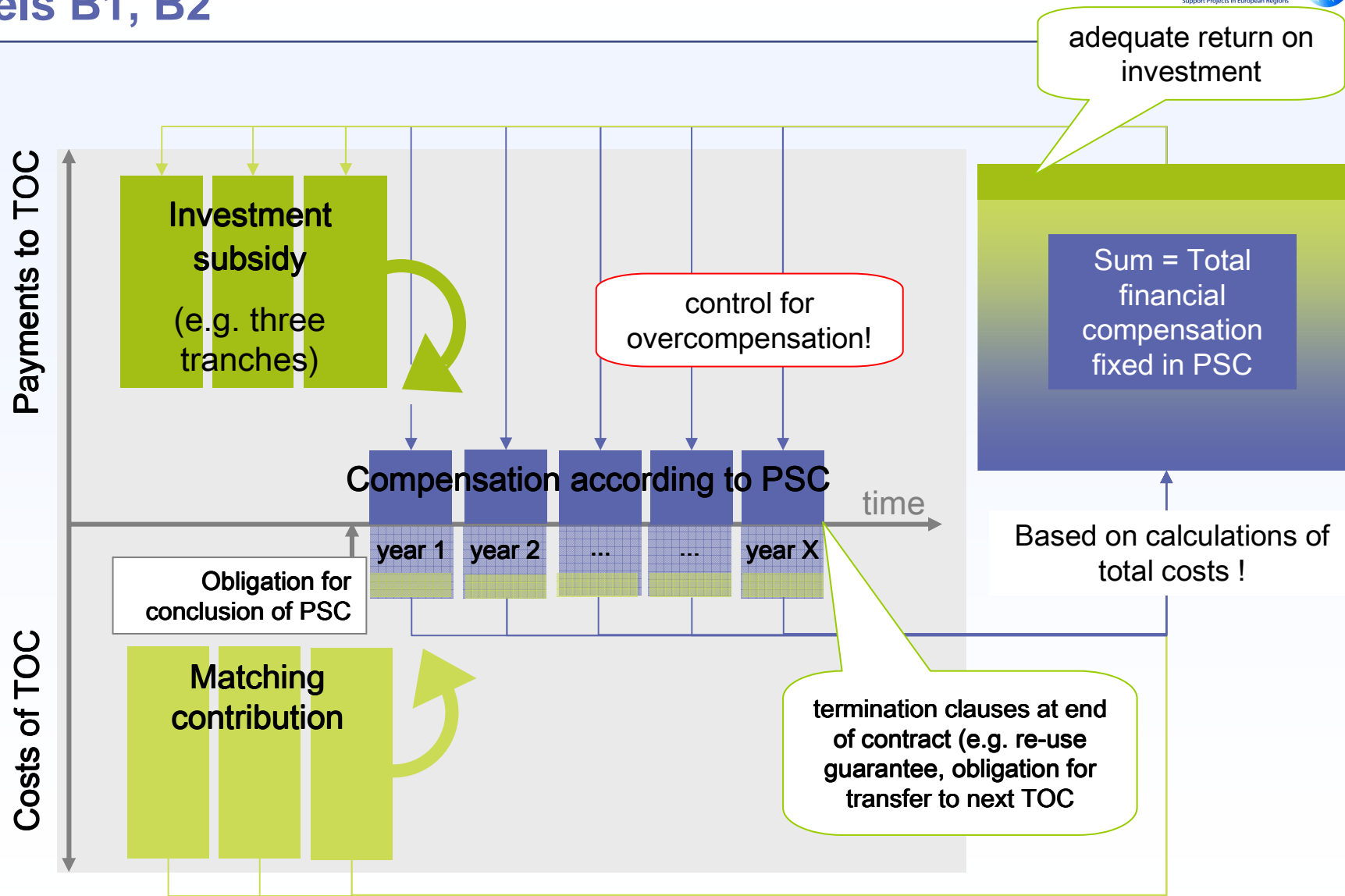
## Model B 3

- Direct award of PSC (in line with reg. 1370/2007) including certain obligations

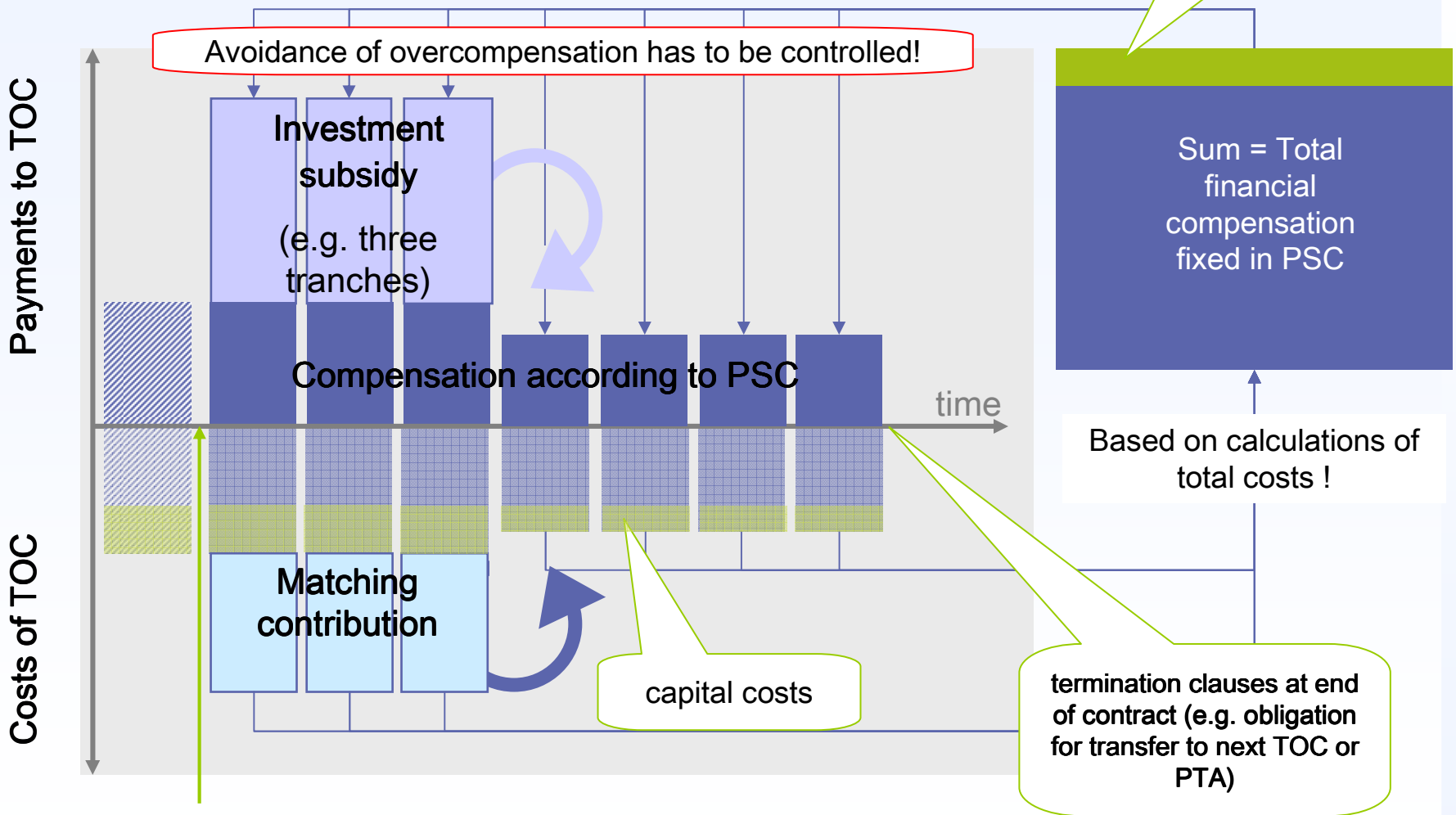
## Obligations to be included into the PSC in all three models

- Obligation to procure new rolling stock, use of subsidized rolling stock will be restricted to the railway lines covered by the contract
- Adequate termination clauses (handover of RS or refund of subsidy)
- Unity of financial compensation with two elements: investment subsidy and regular compensation payments, as compensation for all public service obligations set out in PSC (according to reg. 1370/2007).

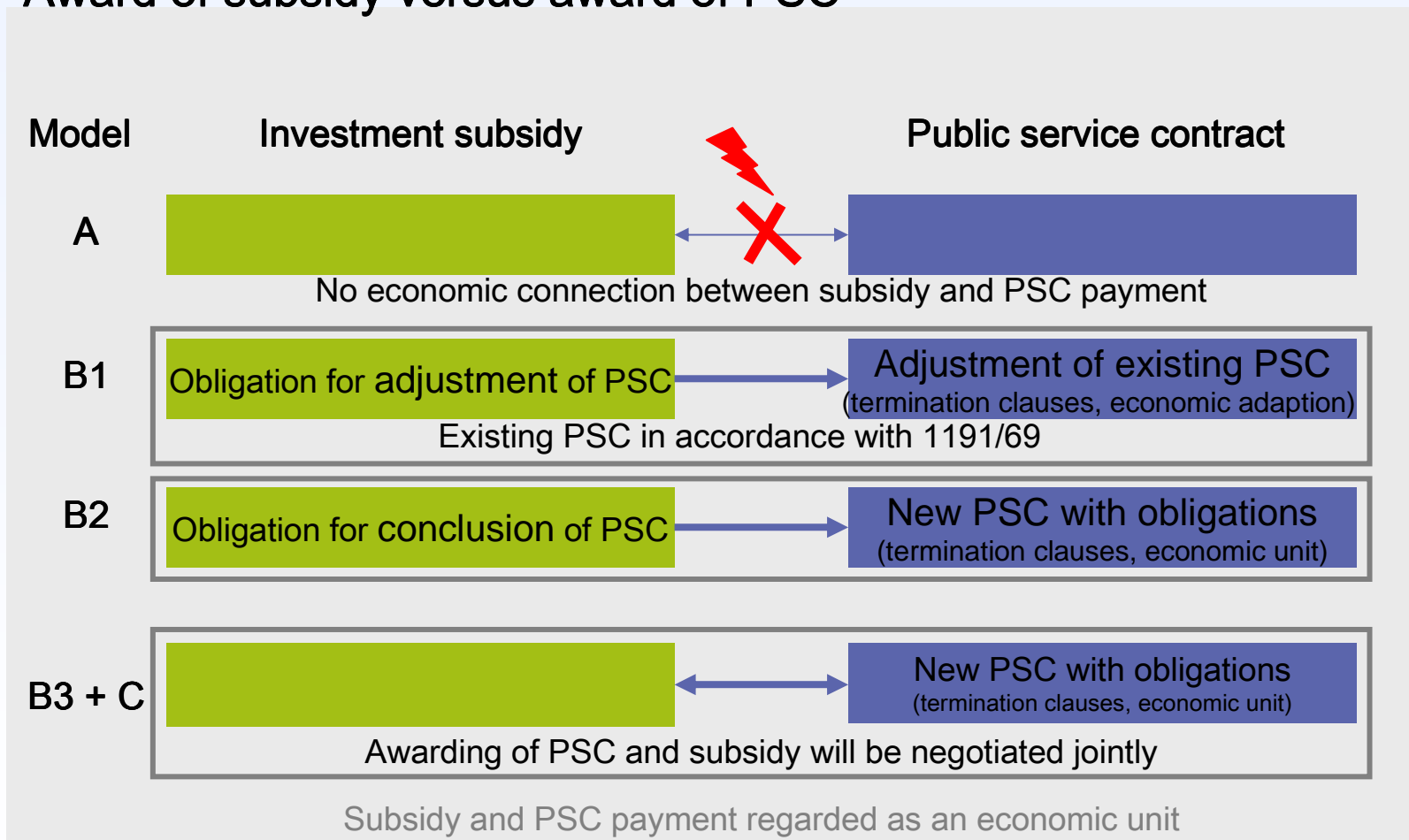
# Subsidy with obligation for conclusion of PSC Models B1, B2



# Investment subsidy as part of PSC Model B3



## Award of subsidy versus award of PSC

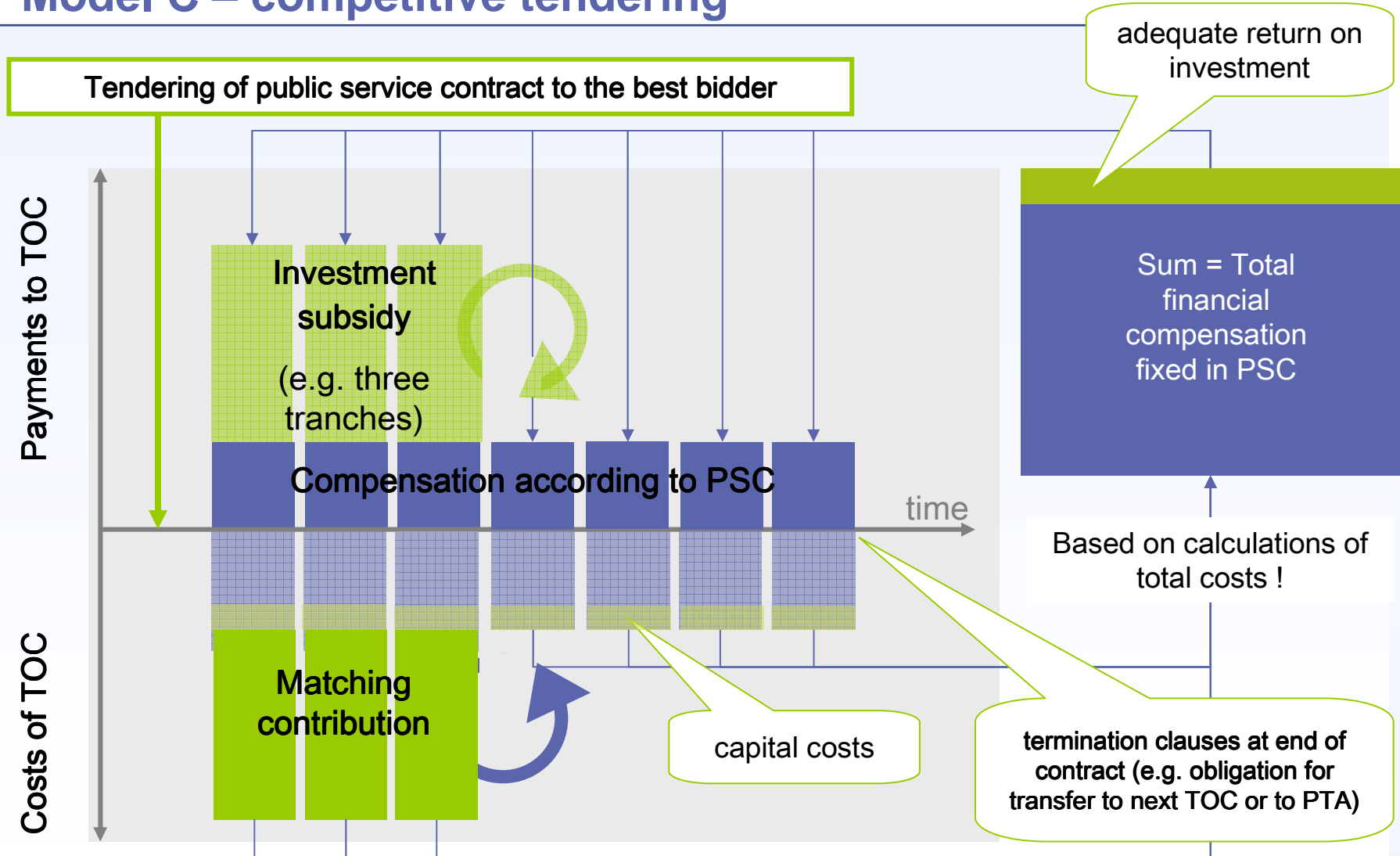


# Investment subsidy as part of a public service contract (PSC)

## Model C – competitive tendering

- Competitive tendering of PSC (in line with reg. 1370/2007) including obligation to use new rolling stock
- Winner of contract shall fulfill same obligations as in models B
  - Obligation to procure and use new rolling stock
  - Adequate termination clauses
  - Use of subsidized rolling stock will be restricted to the railway lines covered by the contract.
- Unity of financial compensation with two elements: investment subsidy and regular compensation payments, as compensation for all public service obligations set out in PSC (according to reg. 1370/2007)

# Investment subsidy as part of PSC Model C – competitive tendering



# Investment subsidy as part of PSC

## Additional items to be considered

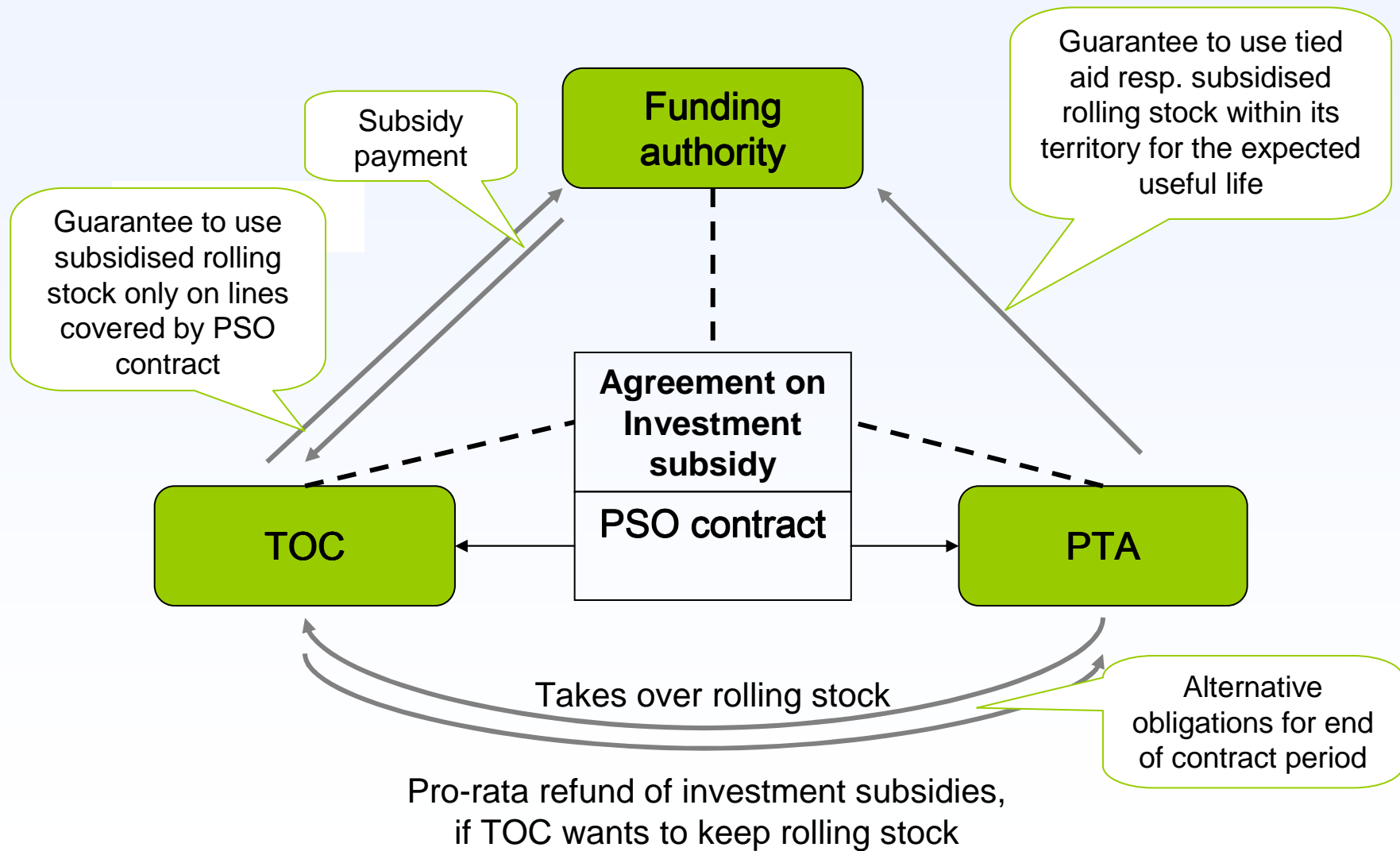


- Normally contracts will have to be concluded for at least 10 years (if state aid has to be notified on the basis of the EC state aid guidelines for the railway sector) and up to 15 years (according to reg. 1370/2007).
- Restriction of the level of investment subsidies for new rolling stock is not necessary, since these subsidies are part of the overall compensation for all public service obligations in the PSC (on the assumption the contract has following obligations)
  - Control of overcompensation in line with annex of reg. 1370/2007;
  - Termination clauses for the end of the contract period
  - Obligation to use rolling stock only on railway lines covered by the PSC

# Models for payment of subsidies

## Relations between stakeholders

### Models B1, B2, B3 and C



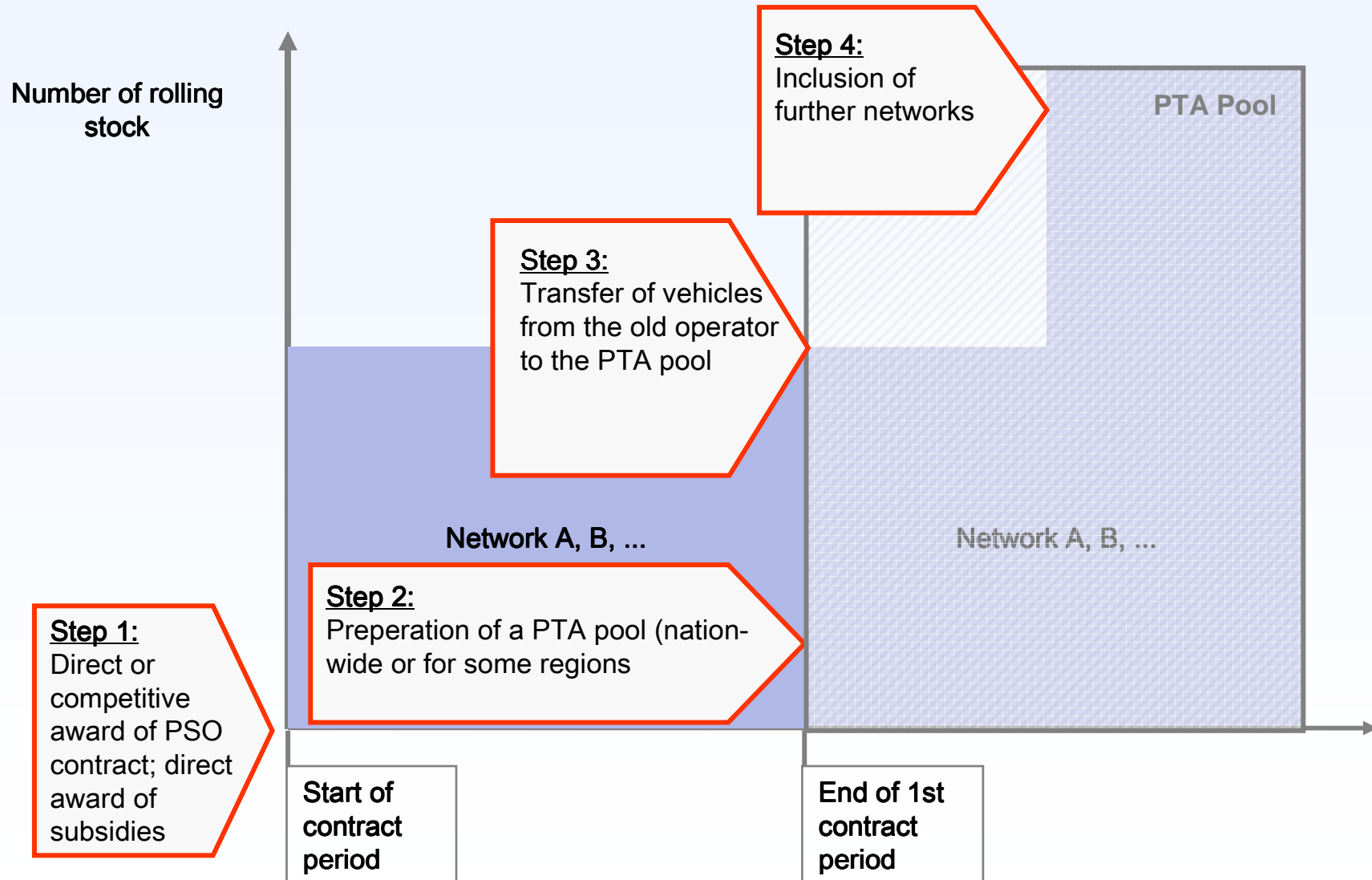
## Implementation of PTA pool

### Model D

- Solution for a second step – in the Czech Republic not suitable for a short-term implementation

# Implementation of PTA Pool

## Model D - Transfer from TOC to PTA



# Thank you for your attention!

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