"Lessons from Europe in rail reform"

Sumet Ongkittikul

The transport infrastructure investment plan that the Ministry of Transport proposed to the National Council for Peace and Order (NCPO) will play an important role in the economy for years to come.

This investment plan is a reworking of the 2 trillion baht proposal offered by the previous administration, with the some adjustment to broaden the scope of the investment to cover more transport modes. But the key projects on railways and mass transit in Bangkok and the vicinity remain intact.

Transport infrastructure investment has been lacking in Thailand over the past decade, and the country is now in need.

However, all projects in the proposal must subject to thorough cost-benefit analysis—not only the high-speed rail but also standard railways.

The question now is not "Should we invest in railway infrastructure?" but rather "How and who will be in charge of the implementation?"—especially in the railway system.

The State Railway of Thailand (SRT) is the key agency here. However, there are doubts whether SRT is capable of handling these huge investments, given the fact that SRT currently faces financial and management problems. Clearly, railway organisational reform is urgently needed.

It is useful to look at experiences elsewhere. The privatisation of railways was an issue in most countries of Western Europe in the early '90s. The European Commission required that the railway industry in each member state needed to have accounting separation of infrastructure and operation, which brought about the restructuring in the European railway sector.

To restructure a railway business, an important role of every government is to restructure the debt of unprofitable state railways enterprises. The countries did this in different ways, but most involve some form of subsidy to reduce the debt of the agency.

A Thailand Development Research Institute study in 2009 synthesises the European countries' experiences in restructuring their railways and formulates three broad policy measures.

The first measure is separating infrastructure from other services. Denmark, Finland, the Netherlands, Sweden and Norway are among the countries that have adopted this policy. Under this approach, the government establishes an infrastructure company which is fundamentally subsidised.

The railways could have income from infrastructure and other types of fees, and they enjoy a low debt level (5-30% of debt). An operation-providing company, meanwhile, is established as a business firm with commercially acceptable debt (25-50% of total debt). For instance, the French government established an infrastructure company to solve railway companies' debt, which was as high as 95%.

Portugal's government also established an infrastructure company with a 30% debt level, while an operation-providing company had an 85% debt level, which was higher than the commercial level.

The British government transformed the British Rail into smaller organisations with commercial debt levels. However, the Railtrack, a private infrastructure company, was unable to handle the increasing cost of infrastructure. It was replaced by the Network Rail, a company which pays no dividend and is subsidised by the government.

The second policy is to establish an independent organisation to be responsible for infrastructure investment. Austria and Belgium were among the countries that have adopted this measure.

The Austrian government established a group called Schig to be responsible for the cost of infrastructure extension and new network development.

The Belgian government founded Financiere TGV to handle high-speed network costs. Likewise, the Italian government settled TAV (Treno ad Alta Velocita) for similar purpose.

The third way is to reform the state railway and lift its old debt in order to revive a sustainable financial structure. This has been applied in four European countries.

The German government, for example, established BEV (National Railway Fund), a government-guaranteed company, to finance the old debt of DB (Deutsche Bahn AG).

Then, BEV was revoked and the DB's old debt became public debts.

The Italian government took partial debt for FS (Ferrovie dello Stato SPA) and generated mutual funds to reform its operation.

The Luxembourg government also took the debt of CFL (Societe Nationale des Chemins de Fer Luxembourgeois) and established Fonds du Rail to finance the infrastructure development project.

The Swiss government reassessed and transformed the debt of SBB (Schweizerische Bundesbahnen) into a non-interest rate loan.

Finally, The French government has placed the old debt of SNCF (Societe Nationale des Chemins de Fer Francais) into a new account with government assistance.

But to reduce the debt obligation is only a starting measure. More must be done to ensure sustainable operations.

Railway reform is the difficult process. Most elected governments tended to avoid the process due to strong objections from railway unions. Furthermore, the process often took a long time to finish — longer than the terms of elected politicians. However, without a proper railway organisation structure, any investments risk being fruitless.

Sumet Ongkittikul is Director for Transportation and Logistics Policy at the Thailand Development Research Institute. Policy analyses from the TDRI appear in the Bangkok Post on alternate Wednesdays.

First published: Bangkok Post, October 1, 2014