

# Getting into a reforming market

**EURASIARAIL** Turkey's position as a bridge between Europe and Central Asia offers potential for overseas investors, with railway reform and PPP financing key topics for debate. Andrew Grantham reports from the EurasiaRail conference in Istanbul.

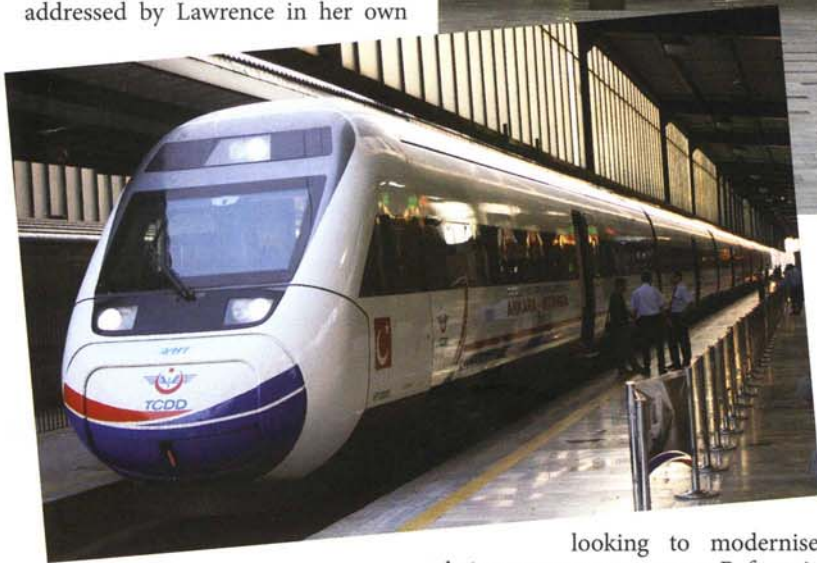
The Turkish government's proposals for reforming the railways on an EU-compliant holding company model are due to be submitted to parliament this year (RG 2.09 p53), Yesim Kurna, Project Group Head at the Privatisation Administration told Terrapinn's EurasiaRail 2010 conference on February 11.

However, this announcement triggered a note of cynicism from the floor: 'I have been hearing this every year since 2005', commented Martha Lawrence, Senior Transport Specialist at the World Bank.

'Why reform?' was the question addressed by Lawrence in her own



Photos: Martin Treacher



presentation. Railway restructuring in the EU, Switzerland, China and India shows there is no single right way of doing it, she said. Reform was possible without huge structural changes, and there had been a doubling of productivity after China's Ministry of Railways eliminated 44 sub-regions and commercialised management incentives, while India 'averted crisis' and now had 14 competing container firms. 'Inaction is the truly unsuccessful option', Lawrence concluded.

The World Bank is developing a railway reform toolkit to help railways

looking to modernise their management systems. Reform is not about shuffling boxes to fit a particular model, Lawrence emphasised, it is about creating the right boxes for the market. The key to success is pricing structures that are commercial and cost-based rather than political. Governments should purchase services, not simply cover expenditure or provide 'a big lump of money'. Policymakers also need to be aware that sometimes the market is for logistics, rather than for railways.

Ralf Schweinsberg of Germany's Federal Railway Office provided first-hand experience of regulation from

the starting phase of liberalisation. With 380 German operators simplicity is important — a 1000-page document on implementing the freight TSI 'turned out not to be a success'. A corridor approach had been found desirable, as just 6% of the German network carried 20% of the traffic.

Alain Terraillon is head of the European Investment Bank's Istanbul office, and he emphasised that hard choices need to be made in the search for value for money. Yield management is important, and the focus should be on economics rather than what is politically desirable. Links to real estate development can be beneficial for urban rail operators, although legal restrictions currently prevent Turkish municipalities benefiting from this.

Discussing Georgian Railways' plans, Director of Freight Transportation David Jinjolia described the 'purely commercial' project to remove the railway from central Tbilisi by 2013, funded by redeveloping the

TCDD operates 250 km/h CAF trainsets on the 245 km Ankara – Eskisehir route, which includes 206 km of new line. Studies for upgrading the remaining 39 km were due to be completed in March, according to the head of the railway's High Speed Department Serafeddin Deniz.

land. Other projects included the Baku – Tblisi – Kars line, now expected to open in 2012.

### Opening for business

Additional rolling stock is badly needed in Turkey, and the private sector was told it would be welcome to invest in the country. Many delegates were European suppliers seeking to expand into Turkey, to access a growing and opening market and seek a stepping stone to central Asia.

A common view was that it would be best to enter the Turkish market through joint ventures with local firms. A number of international companies were in Istanbul to seek local contacts, while Turkish firms from outside the rail sector were hoping to meet foreign specialists.

However, Yesim Kurna from the Privatisation Administration faced questions about the willingness of state bodies to respond to enquiries. 'The private sector wants to talk now, not in the future' was the message from would-be partners in the freight sector.

One of the country's highest profile infrastructure projects is the development of the high speed rail network, with the first section between Ankara and Eskisehir having carried a million passengers since its launch a year ago. Tüvasaş board member Dr Muammer Kantarci gave some average costs, pricing 1 km of high speed line at €12m to €30m, maintenance at €70 000 a year and a six-car train at up to €25m.

The potential market for urban rail technology was highlighted by Ahmet Gok of industry association Rayder, which is undertaking feasibility studies for a Turkish metro and light rail test centre.

Sprawling Istanbul now has a greater population than Greece, and its transport network is expanding rapidly with an extra 134 km of rail routes to open by 2012. The city is focusing on the quality of the total journey experience, rather than simply 'replacing all the buses'. Chief Engineer of the Marmaray project Abdullah Akansu said the aim was to increase rail's market share from 8% today to 28% in 2015, equivalent to 4.7 million passengers a day.

An estimated 997 metro and light rail vehicles will be required, and there is a growing desire for greater standardisation. Nationally, Gok believes there is an 'unnecessary diversity of brands', and Turkey would benefit from a central authority to guide municipalities purchasing vehicles. Up to 5 150 new vehicles will be needed by 2024, which could support two domestic factories. While Rayder recognised that it might be difficult to produce a 100% domestic vehicle, 'Turkey has some good subcontractors'. Istanbul's municipal operator developed its own tram design last year, but would need an industrial partner for series production.

How far could standardisation go? The conference saw some discussion of the merits of metre gauge, which Eskisehir adopted to thread its new tramway through the city streets. Lawrence Fabian from the International

Society of City & Regional Planners also emphasised the benefits of personal rapid transit and transit-oriented development.

### Private funding

'Are rail PPPs a viable solution?' asked Geoffrey Hamilton of the UNECE Economic Co-operation & Integration Division. There was a lot of experience to draw upon — it was pointed out that Istanbul's Tünel underground funicular opened under a concession agreement in 1875. In 2007 around 90 transport PPPs worth a total of US\$25bn reached financial close worldwide. Not all PPPs have been a success, but Ahmet Kesli of Turkey's International PPP Platform said the troubled story of Metronet and London Underground was 'a London problem, not a PPP problem.'

Dr David Dombkins, CEO of Complex Program Group, spoke of another toolkit under development, a PPP 'how to' manual being created with UN backing. He stressed that a PPP could not just be picked up off a shelf, but must be customised to the local culture. Implementation must not be rushed, although no-one should copy the central Asian country with 45 staff in its PPP office but no actual PPPs. India was cited as having a flourishing PPP culture following a knowledge transfer programme.

Dombkins believed developing a successful PPP relied on skills which the public sector generally lacked, but warned that the private sector was not equipped to deal with long term forecasting and external factors. PPPs work when the rewards are based on outcomes such as availability, rather than factors such as usage that are subject to too many variables. Public bodies should be realistic about risk transfer, and must always remember that 'when PPPs fail, the government pays the cost.'

PPP's are not free money, and if a project's business case does not stack up then a PPP won't help, he said. 'PPP is not privatisation, it is about services that should be diligently developed to the public.'

### Crossing borders

Russian Railways Vice-President Avtandil Gorgiladze provided an update on the 2006-10 third phase of RZD's reform programme. One of the most significant steps occurs on April 1 with the formation of the

## China to Turkey train to launch this year

**FREIGHT:** Demonstration trains will link Turkey with China and Iran with central Asia this year, Mohammad Mirzaei Kahagh, Director of Transport & Communications at the Economic Co-operation Organisation told Terrapinn's EurasiaRail 2010 conference last month.

These will build on the Pakistan – Turkey train which ran last August (RG 9.09 p3). The trips are being organised by ECO on a supranational corridor basis to minimise bureaucratic hurdles, with containers despatched under ECO seals to eliminate the need for border inspections.

This July a train will run from the Iranian port of Bandar Abbas to Kazakhstan, with a regular scheduled service planned to follow. Consultants are currently examining the launch of an Istanbul – Almaty train via the Sarakhs border crossing which can now handle 400 wagons a day following a US\$75m upgrading. Agreement has been reached with China for an Urumqi – Istanbul train, and proposals for a standard gauge line across Kazakhstan to China will be announced later this year.

After the successful Islamabad – Istanbul trial last

year, a train will set off in the opposite direction on August 2. Agreement has been reached to cut the journey time from 14 to 10 days, comparing favourably with 17 days by road and 37 by sea. ECO is negotiating a 20% cut in tariffs to make the price of rail comparable to sea. 'The ECO train is not there to cover costs elsewhere on the rail networks', stressed Kahagh.

While the various ECO trains cannot avoid a degree of political symbolism, a strictly market-based approach is being taken to their development. Pakistan Railways is to launch a website to handle marketing, and studies are underway to identify potential traffic, expected to include cotton and manufactured goods. 'There is enough cargo for this train', Kahagh assured *Railway Gazette International*, and trade between Iran, Pakistan and Turkey could triple with better transport.

Infrastructure enhancements are being discussed, with upgrading of the Pakistan Railways line between Iran and Quetta and electrification of Iran's Tehran – Tabriz route proposed. In the longer term a railway around Lake Van in Turkey could replace the current train ferry. ☛

Federal Passenger Company long distance business unit (RG 11.09 p28). RZD now has 18 commuter businesses, handling more than half its regional passenger traffic. Non-core activities are being privatised, but sales are on hold until the market picks up. Sapsan high speed services will be launched between Moscow and Nizhny Novgorod later this year, and RZD is to announce proposals for a 'European standard' 1520 mm gauge high speed line to raise speeds to at least 300 km/h between Moscow and St Petersburg.

RZD is working to simplify procedures with the aim of cutting transit times from the far east to Europe from 11 to seven days by 2015 (RG 6.09 p10), with containers covering 1 500 km a day as far west as Brest.

In his keynote address OTIF Secretary General Stefan Schimming warned that people seeking to move freight faster should not become too focused on infrastructure, as simplifying border crossings and bureaucracy could achieve as much but more quickly, cheaply and without disruption.

Shippers make modal choices on speed, reliability, traceability and security, he said, with cost getting only

a one-third weighting. But railways could spoil their own competitiveness though misguided attempts to stimulate competition. There had been cases of track access charges changing up to 25 times a year, making it impossible for operators to plan ahead. 'We always have to look at competition with road', Schimming said. Aviation is highly competitive between companies, but technical co-operation means the sector as a whole can compete effectively.

Companies want single consignment notes, but at present the resulting document becomes a sum of national parts rather than a true unification. Work is currently focusing on drawing up simplified documentation for use in major corridors, where operators and shippers do not need to allow for every possible situation which might occur on more exotic journeys.

Border crossing rules must be consistent and known in advance, and governments must treat checkpoints as part of the national revenue chain rather than isolated sources of money. 'Don't see the private sector as an enemy betraying your country', Schimming warned. Corruption also needed to be tackled; decent wages and a

### Expanding to meet modern needs

**OTIF:** The recent accession of Russia is a major development for the Intergovernmental Organisation for International Carriage by Rail, according to Secretary General Stefan Schimming, even though only a limited number of RZD routes are initially covered by the convention establishing a uniform system of regulations for cross-border traffic.

Montenegro will follow as the 45th OTIF member in August, and Jordan has recently submitted an application. Iraq's membership is being revived as international services return (RG 3.10 p7) and talks on expansion in the Arab world are to be opened with the Gulf Co-operation Council.

A strategy of organic growth is being followed, according to Schimming, with expansion matching cross-border rail services. Iran is already a member, and negotiations have begun with Pakistan as part of the ECO train programme (p62). There is an overlap with OSJD which provides a similar framework in the former Soviet bloc and can give a stronger voice to less significant operators, but Schimming believes the OTIF structure is more suited to current rail operations.

Clear international standards for maintenance are increasingly important as the number of private operators grows. Schimming points out that the fatal derailment at Viareggio in Italy in June 2009 highlighted the need for three aspects of the legal framework which OTIF provides: international traffic, private ownership of wagons, and the carriage of dangerous goods. ❏

reliable pension scheme would soon repay themselves.

All these efforts to facilitate trade act as a multiplier, he reported, noting that the World Trade Organisation had found that investing \$1 would generate \$1 500 in trade. ❏