

Public-private partnerships in railways

Workshop on infrastructure PPPs in South Gobi

*Richard Bullock: Consultant,
The World Bank
Ulaanbaatar, May 2008*



Contents

I. Framework for railway PPPs

II. Examples of freight rail infrastructure PPPs

III. Key issues to consider



Main forms of PPP for new railway projects.....

	Finance & build rail line	Operate & maintain rail line	Finance & maintain trains	Operate train services
Train availability contract	Public	Public	Private	Public/private (hire payments to private)
Train operating concession	Public	Public	Private	Private (pay access charges to public)
Infrastructure build concession	Private	Public/private (lease payments to private)	Public/private	Public/private
Infrastructure build & operate concession	Private	Private	Public/private (pay access charges to private)	Public/private
Integrated concession	Private	Private	Private	Private

....in all cases, defined assets transfer to public sector at end of concession



The following are eight examples of PPP's for main-line freight railway infrastructure, each of which has its own special features

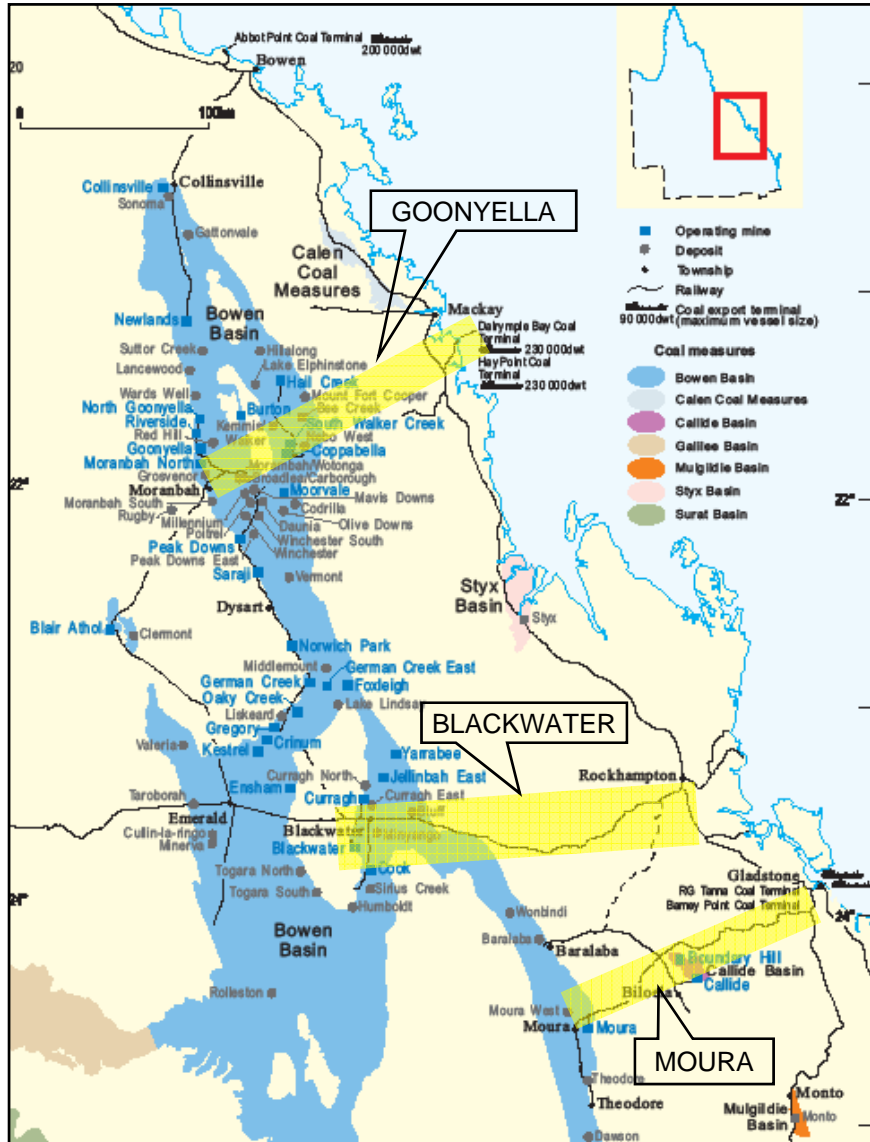
- ▶ Queensland coal lines (Australia)
- ▶ Pilbara ore railways (Australia)
- ▶ Murchison ore railways (Australia)
- ▶ Alice Springs to Darwin (1300km) Freight Line (Australia)
- ▶ Beitbridge Railway (Zimbabwe)
- ▶ Betuwe freight line (Netherlands)
- ▶ Fenoco (Colombia)
- ▶ TransGabonaise (Gabon)

All of these are either for pure freight railways or for railways which are predominantly for freight. The first six are new construction whilst the last two are reconstruction/ rehabilitation



Case Study 1: Queensland coal railways

II. Examples of Rail PPPs

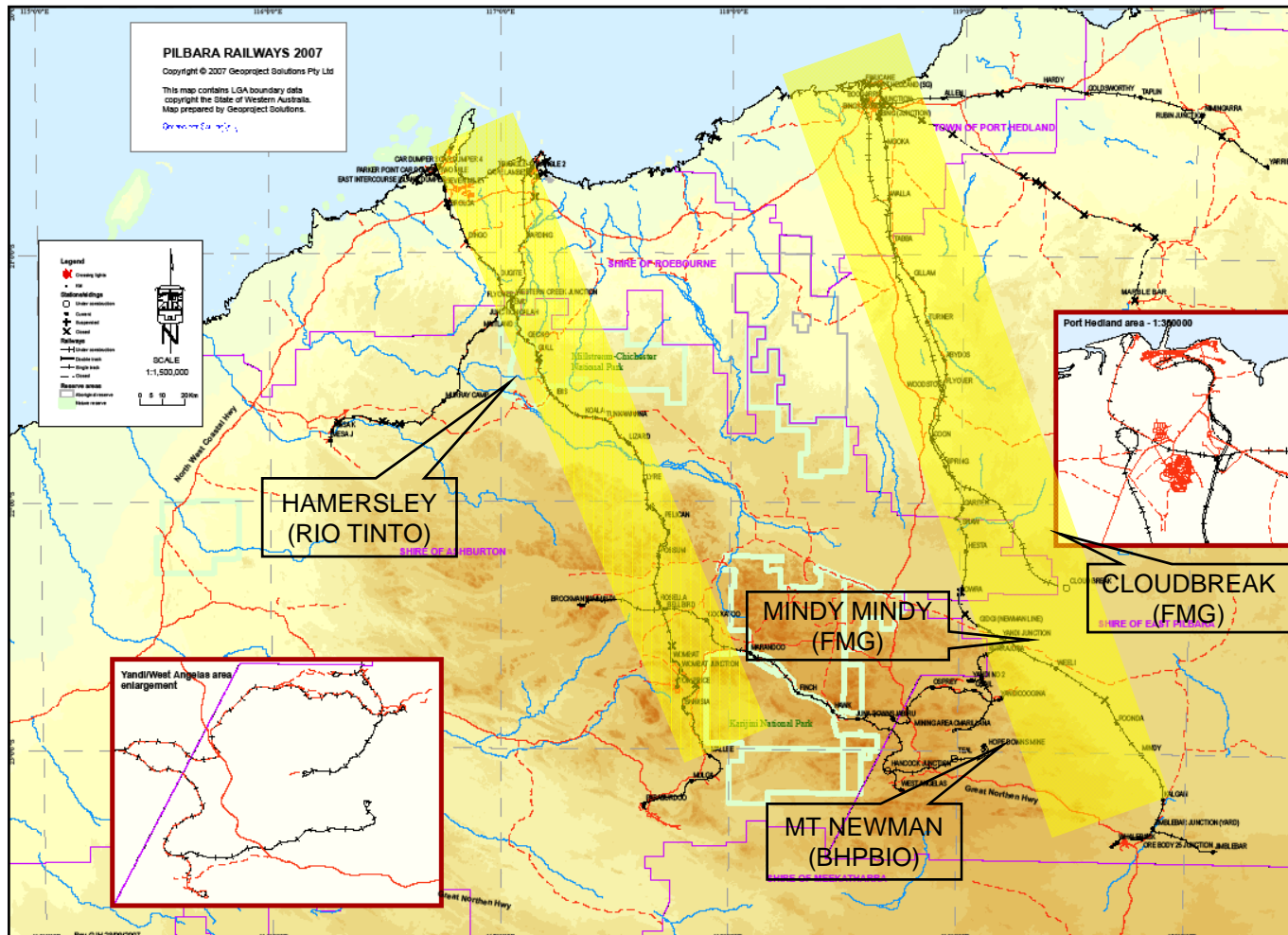


- ▶ First line negotiated was Moura – Gladstone (opened 1968)
 - 50% funded from mine security deposit
- ▶ Next was Blackwater (mostly upgrade) (1967)
- ▶ Major development was Goonyella (1972)
 - 100% funded from security deposit
- ▶ All lines operated by Queensland Railways as heavy-haul operations
- ▶ Freight rates set by Treasury (not the railways) on basis of export price and production cost



Case Study 2: Pilbara iron ore railways

II. Examples of Rail PPPs

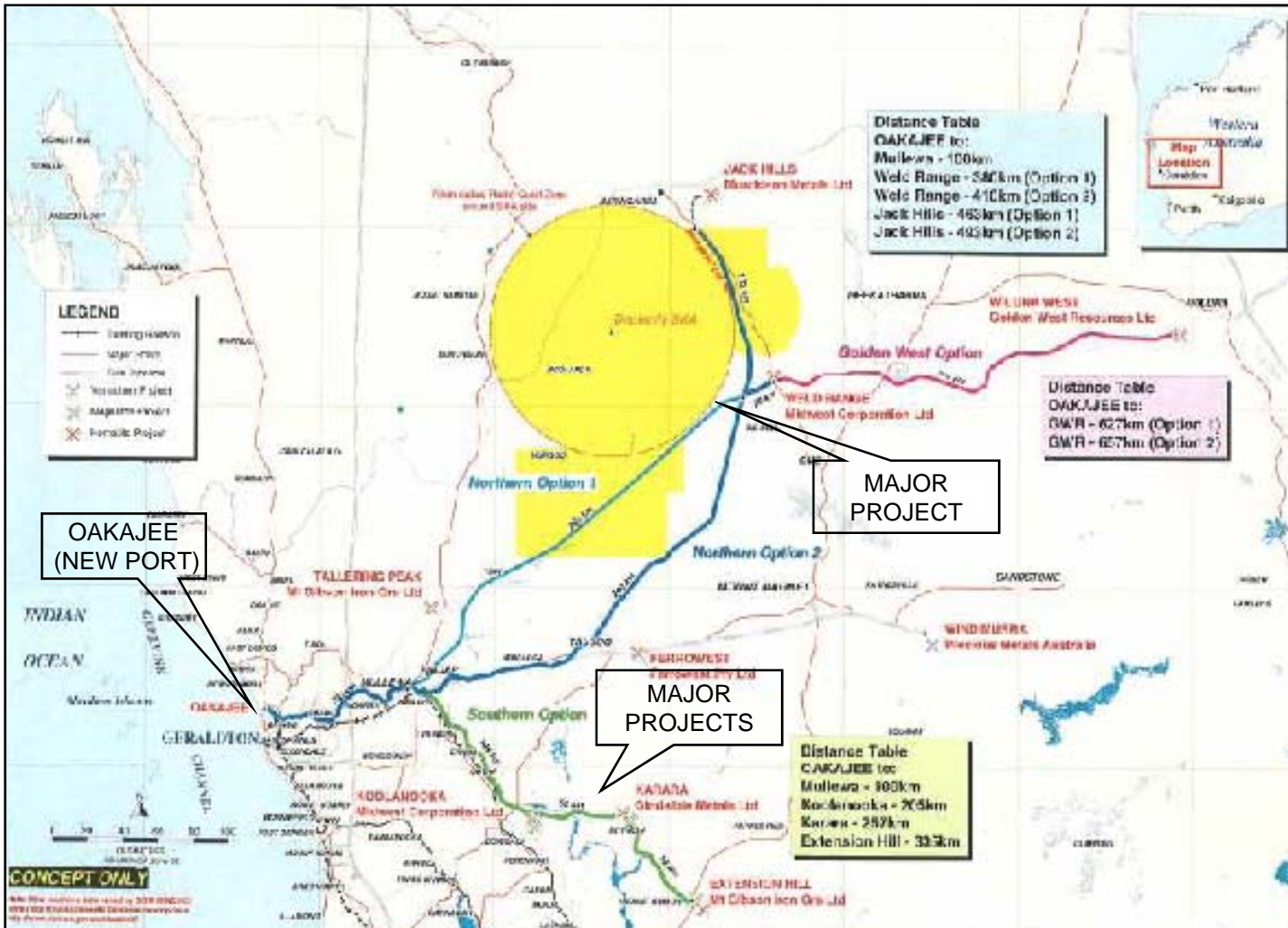


- ▶ Developed in 1970s as integrated mine-rail-port projects
- ▶ Acts required mines to allow third-parties through haulage agreements
- ▶ In 1995, competition policy allowed 'open access' to 'declared infrastructure'
- ▶ Long legal battle by FMG to have access to BHPBIO line
- ▶ FMG now building its own line for main mine



Case Study 3: Murchison railways

II. Examples of Rail PPPs

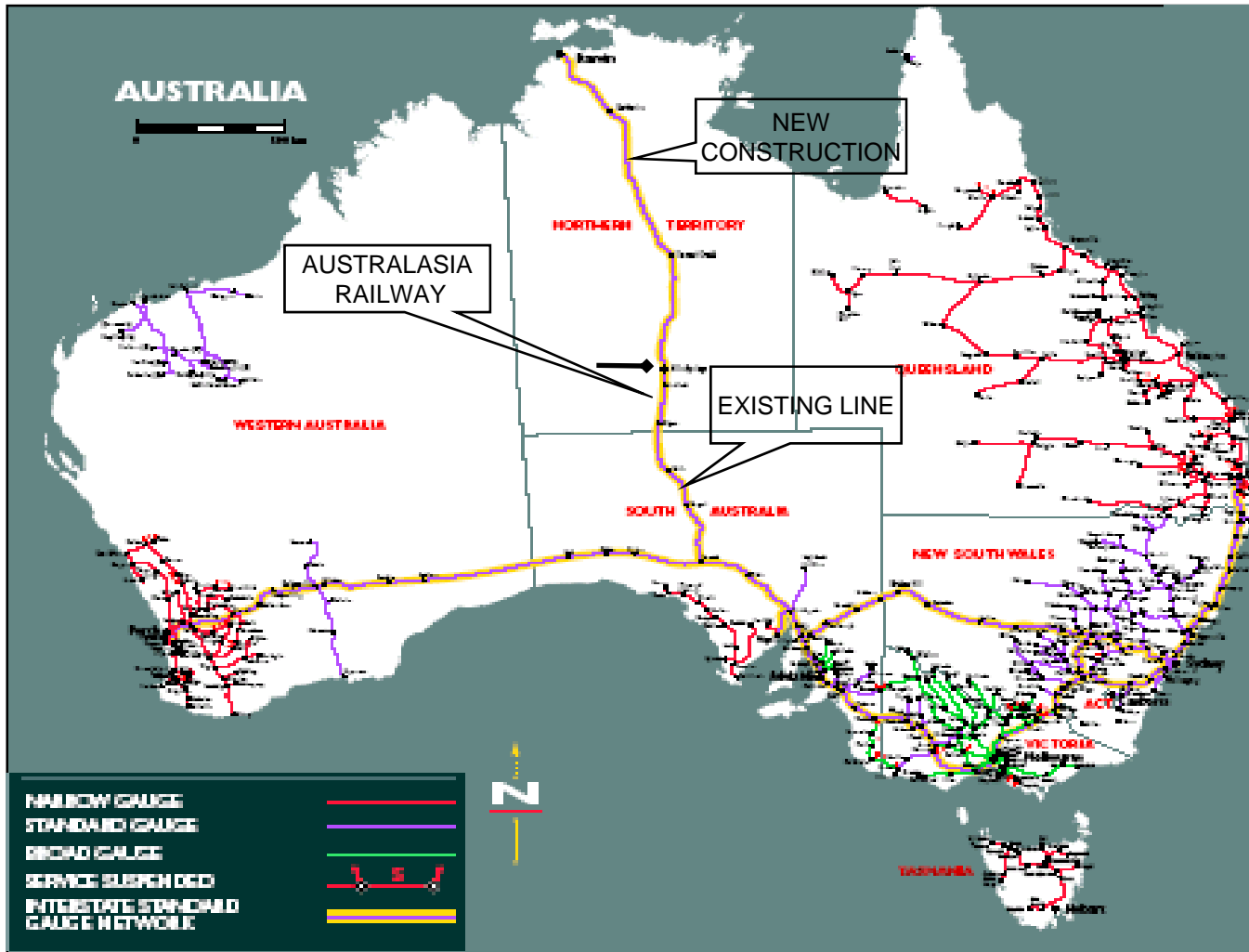


- ▶ Some small developments in 1970s but several new projects following resources boom
- ▶ Existing railways only suitable for low tonnages
- ▶ Government keen on multi-user railway and port facilities
- ▶ Two competing proposals
 - One is by a major potential mine
 - The other is an IIP (Yilgarn)



Case Study 4: AustralAsia Railway

II. Examples of Rail PPPs

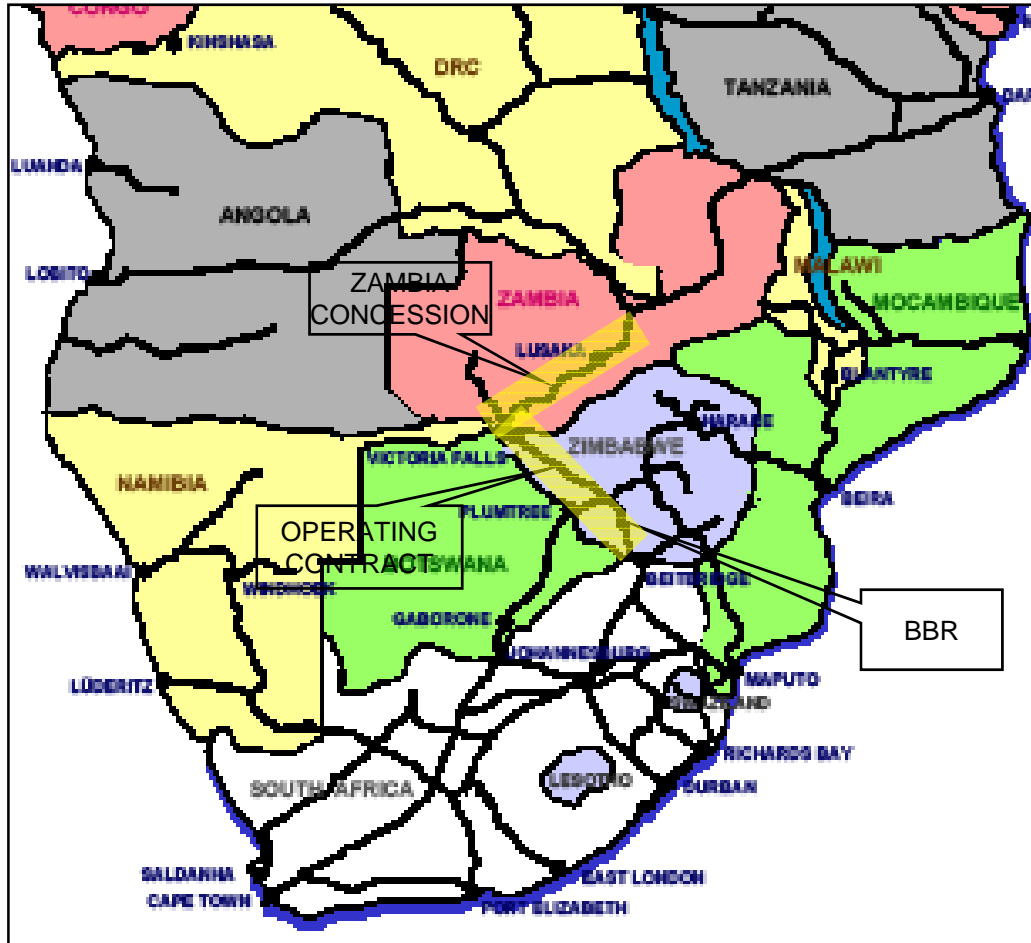


- ▶ Opened in 2004 after having been promised in 1901
- ▶ Built as general-purpose railway with 40% government contribution – subject to open access with regulated access charge
- ▶ Passenger service currently run by third party
- ▶ Financial results poorer than planned
 - Some minerals traffic now beginning



Case Study 5: Beitbridge Railway

II. Examples of Rail PPPs

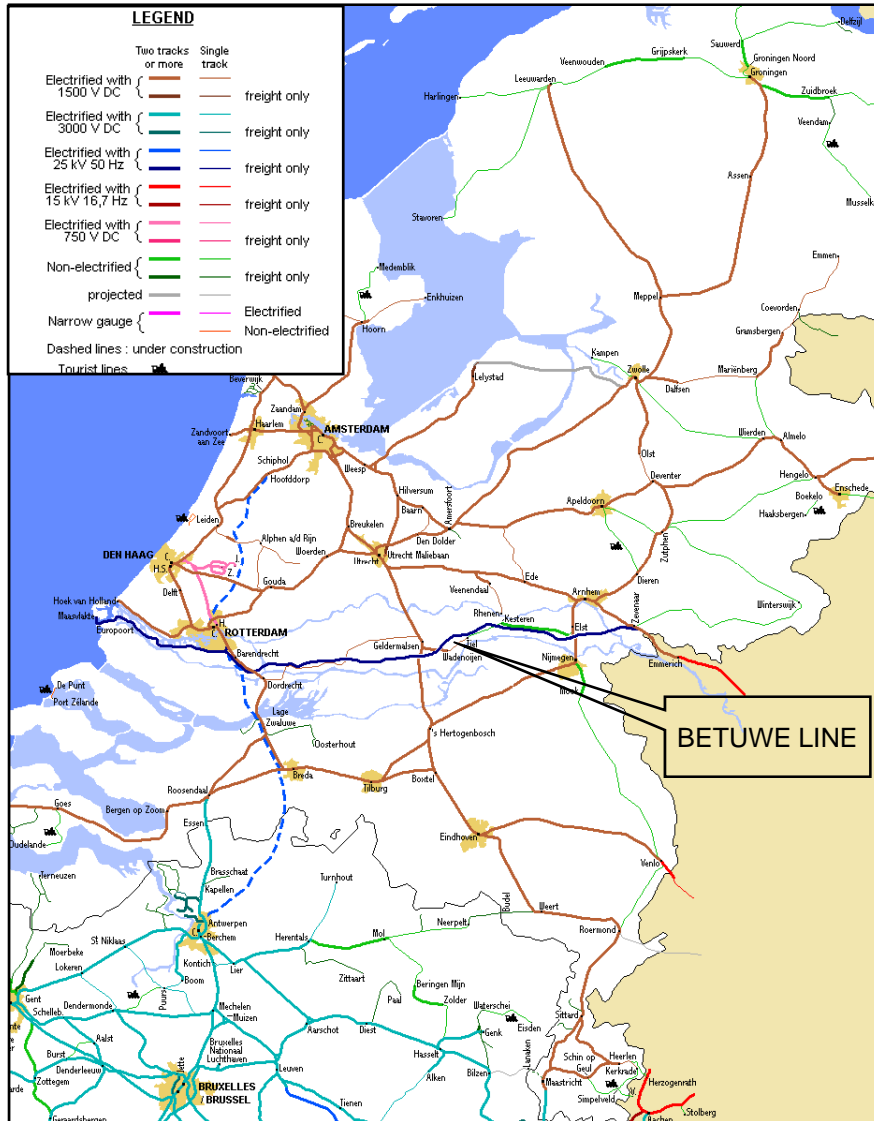


- ▶ Opened in 1999 after unsolicited proposal followed by direct negotiation with senior members of government
- ▶ Provided shorter route between Zambia/DRC and Johannesburg/ Durban, instead of alternative route through Botswana
- ▶ Negotiated ‘take-or-pay’ agreement
 - almost all transit traffic diverted, even when Botswana route was shorter
 - Even some South Africa - Harare traffic diverted to make up tonnage
- ▶ Operator subsequently awarded Zambia concession and took over operations on intermediate section



Case Study 6: Betuwe Line

II. Examples of Rail PPPs

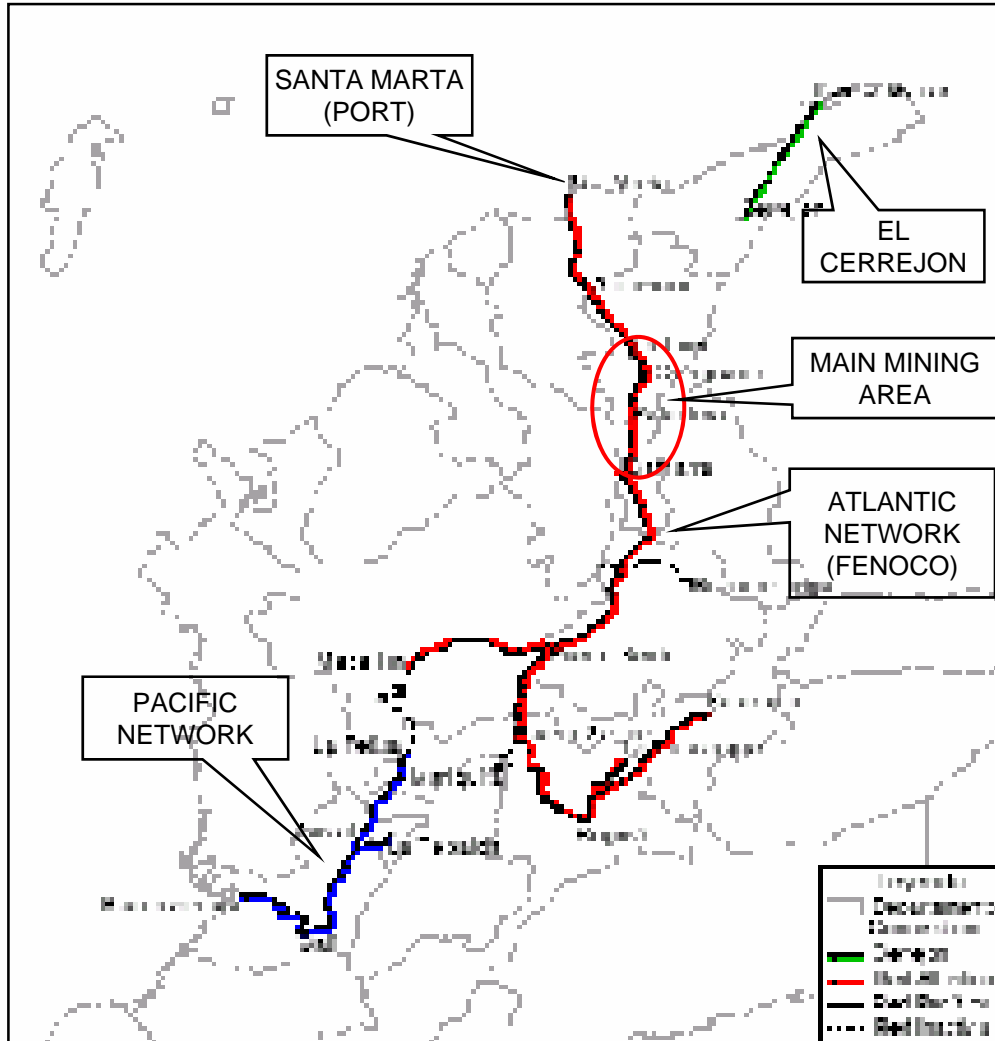


- ▶ Project first developed in 1980's to strengthen Rotterdam's competitiveness for German ocean trade
- ▶ Approved in 1992 with planned completion date of 2000 and private-sector contribution of 30%
- ▶ Intended as private-sector build/operate line with open access
- ▶ No private-sector operator interested and 100% publicly-funded
- ▶ Opened in 2007; public-sector operation and not covering even operating costs
- ▶ Classic example of muddled thinking and unclear objectives



Case Study 7:Fenoco

II. Examples of Rail PPPs

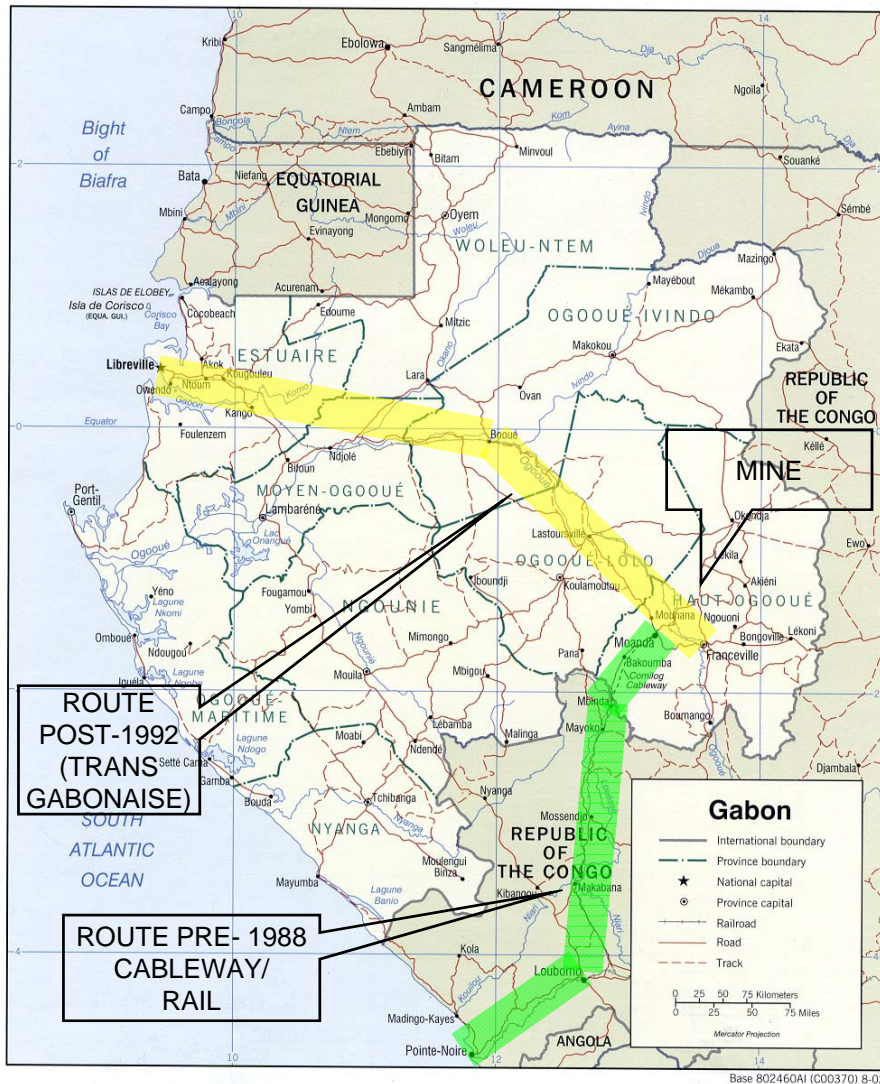


- ▶ Colombian network had deteriorated severely by the 1990s
- ▶ Concessioned as two separate networks in 1999
 - Fenoco had lease for 30 years but had to rehabilitate within 5 years, assisted by government funds
- ▶ 5 years extended to 7 years but little progress and no private finance forthcoming
- ▶ Fenoco successfully sued by one potential coal customer
- ▶ Fenoco bought back by government in 2005 and now controlled by consortium of coal companies



Case Study 8: Transgabonaise

II. Examples of Rail PPPs



- ▶ **New railway constructed (1972-86) which allowed manganese mine (Comilog) to export through Gabon port**
- ▶ **Previously Comilog had exported through Republic of Congo by cableway and railway**
- ▶ **Gabon railway was government-run but Comilog was allowed to operate its own trains for a very low access charge**
- ▶ **In 1996 Government began concessioning but only bidder was other main rail customer (logging company), who took over in late 1999**
- ▶ **Comilog was unco-operative and there was no mechanism to uphold concession terms**
- ▶ **In 2003 concession was terminated and handed over to Comilog**



Is the railway to be single-user or multiple-user?

- ▶ If it is single-user, small mines whose production does not make building their own line worthwhile will be handicapped in marketing their production

- ▶ If it is to be multiple-user, is this to be with multiple train operators or by requiring the line operators to haul other mines wagons?

- ▶ In any event, a regulatory framework will be needed to set the rules giving the rights and obligations of all parties
 - including charges, whether these are haulage charges or access charges



Is the railway to be operated in perpetuity or handed back at the end of a defined time period

- ▶ Standards will need to be established which the construction of any new line must conform with
- ▶ If the line is to handed back, the condition at handback needs to be defined and a mechanism established to check that condition
- ▶ Procedures may also need to be established to check on the condition of the line at intermediate times (say, every five years) and remedies defined if the line condition is below standard



In summary, the key features needed to encourage railway PPPs are

- ▶ Creation of necessary policy and legislative basis for active encouragement of PPP approaches:
 - may permit national, provincial and municipal PPP initiatives.
- ▶ Creation of new institutions, separate from Mongolia Rail, to administer and encourage PPPs in the national railway industry.
- ▶ Development of tools for implementing policy: procurement procedures, standard types of bidding documents, methods for evaluating the value of bids, PPP Agreement templates etc.
- ▶ Establishment of regulations setting out, on a fair and transparent basis, the interlining and revenue sharing arrangements between different operators (including between PPP operators and Mongolia Rail and between PPP operators and third-party users).
- ▶ Establishment of regulatory and enforcement mechanisms fair to both sides to PPP agreements but independent of each.

