EU’s 4th railway package
Developments in rail deregulation in the Nordics
March 2, 2016
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Examples of rail sector assignments

- International rail freight forwarder
- Former authority for tendering of National passenger rail services
- Maintenance of Stockholm subway rolling stock
- Train and other ferry operator
- ROSCO for regional service EMUs
- Train cleaning and shunting services
- Intermodal rail services
- Rolling stock consulting services
- Train catering and restaurant services
- Freight car lessor
- Rolling stock maintenance and repair
- Freight car maintenance and repair
- Freight car maintenance and repair
- Passenger rail operator
- Rail freight operator
- Rail freight operator
- Rail freight operator
- Rail and other transportation infrastructure consulting services
- Rail infrastructure services

Carnegie has an extensive track record from transactions and advisory work related to the rail sector, including ALL rail sector privatizations in Sweden
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Concern
- The modal share of rail has remained modest, despite previous efforts to establish an internal market and to improve rail efficiency
- Low efficiency and quality of some rail services, mainly the result of low competition, remaining market distortions and suboptimal structures
- Inability to curb operational inefficiencies caused by a lack of appropriate competitive incentives
- Necessary to tackle the remaining barriers to a Single European Railway Area

Target
- (i) increase rail’s capacity, efficiency and attractiveness for customers
- (ii) encourage modal split from road and air
- (iii) complete the market openings already in place

Four key areas:
- Infrastructure governance
- Opening of the market for domestic passenger transport services by rail
- Interoperability and safety
- The social dimension

A holistic approach to address long and costly procedures, access barriers for new entrants and different market access rules in member states
Infrastructure governance

- Infrastructure managers (IM) to control all functions of the rail network – including investment planning, day-to-day operations, maintenance and timetabling
- IM must have operational and financial independence from any train operator
- European network of IMs to promote cross-border cooperation

Opening of the market for domestic passenger transport services by rail

- Domestic passenger rail services to be opened up to new entrants and services from December 2019
- Open for competition IN the market by offering competing commercial services
- Bidding for public service contracts – competition FOR the market – to become subject to mandatory tending
- Regional/local contracting authorities to establish public transport plans
- Non-discriminatory access to integrated ticketing systems
- Non-discriminatory access to suitable rolling stock – obligation to contracting authorities to take the financial risk of the residual value of rolling stock
### EU’s 4th railway package

**Focus areas (II/II)**

<table>
<thead>
<tr>
<th>Interoperability and safety</th>
</tr>
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<tbody>
<tr>
<td>- Transfer of competencies from member states to the European Railway Agency (ERA) for issuing vehicle authorizations and safety certification for railway undertakings</td>
</tr>
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<table>
<thead>
<tr>
<th>The social dimension</th>
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<tr>
<td>- Requirement that new contractors take over personnel from the outgoing contractor when public service contracts are transferred</td>
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**Unless competition IN the market is possible, EU’s 4th Railway Package requires mandatory tendering based on non-discriminatory access to rolling stock and mandatory ticketing systems**
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... and this was after the separation of Banverket (infrastructure) ...
The state owned rail operator – focus on the core business

- The main theme over the past 25 years as regards SJ, the previous part of the Swedish State – has been the definition of **rail operations as the core business**, and departure from the transport conglomerate structure.

- Divestments made out of the previous SJ structure:

  - Freight forwarding / logistics
  - Bus operations
  - Train and other ferry operator
  - Hotel real estate
  - Train catering and restaurant services
  - IT services
  - Train cleaning and shunting services
  - Intermodal rail services
  - Rolling stock consulting services
  - Freight car lessor
  - Rolling stock maintenance and repair
  - Freight car maintenance and repair
  - Rail and other transportation infrastructure consulting services

From a transport conglomerate to a full focus on core rail operations
Excluding operations related to infrastructure (separated from operations before 1990)
Measures taken related to deregulation and competition (I/II)

- The first country to implement separation between infrastructure management / regulatory matters and operations
  - Track access charges on a transparent and non-discriminatory basis
  - Track access charges based on short run marginal costs

- Rail infrastructure maintenance contracts are tendered by the IM from a state-owned company (Infranord) or other service providers on commercial terms

- State owned rail traffic incumbents continue operations, but without any type of monopolistic protection
  - Incorporation (as opposed to being part of the state)

- Introducing competition in all types of rail operations
  - Rail passenger traffic without state or regional subsidies – competition IN the market
  - Rail passenger traffic with state or regional subsidies – competition FOR the market
    - Tendering for all public service contracts, both local, regional and certain long-distance services
  - Rail freight traffic – competition IN the market

- Jernhusen, the state owned real estate company, has a responsibility for securing non-discriminatory access to stations, major intermodal and freight terminals and rolling stock maintenance workshops
Measures taken related to deregulation and competition (II/II)

- Non-discriminatory access to rolling stock for public service contracts secured in several ways:
  - For long distance services through the IM (Trafikverket)
  - For commuter or regional services through a company (Transitio AB) owned by all regional contracting authorities
  - In certain cases by individual regional contracting authorities

- With the introduction of new operators – other than the state-owned incumbents – in the rail market, a privatization of relevant support services to operations became a commercial necessity
  - Competitors to state owned incumbent operators would not want to be dependent on the services of a state owned service provider – such party would be seen as an affiliate of the main competitor
  - Diversity among operators should be mirrored by diversity among service providers
  - In-house capabilities can be used in addition to third party suppliers

Sweden already complies with the requirements in EU’s 4th Railway Package as regards the opening of the market for domestic passenger transport services by rail
The Swedish rail sector – the current diversity picture (I/IV)

### Passenger services on a commercial basis (IN the market) – timeline

- **1999**  Arlanda Express established under private sector ownership
- **2006**  Deregulation regarding night train services
- **2009**  Deregulation regarding weekend train services
- **2010**  SJ’s monopoly status terminated

### Passenger services on a commercial basis – active players

- SJ
- Arlanda Express
- MTR
- Transdev
- BLA TAGET

SJ (state owned) still dominates this segment, but MTR is a serious challenger on the busiest route (Stockholm – Göteborg)
The rail sector restructuring in Sweden

The Swedish rail sector – the current diversity picture (II/IV)

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>First tendering process for the Stockholm county commuter train system</td>
</tr>
<tr>
<td>1980’s</td>
<td>Tendering process for regional trains also in southern Sweden; rapid increase in such processes thereafter</td>
</tr>
<tr>
<td>2000</td>
<td>First net contract for long distance night train PSC traffic</td>
</tr>
</tbody>
</table>

Passenger services based on public service contracts (PSC) – timeline

All public service contracts subject to competitive tendering

Additional large players are actively competing for public service contracts
The Swedish rail sector – the current diversity picture (III/IV)

### Rail freight services – timeline

<table>
<thead>
<tr>
<th>Decade</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990's</td>
<td>Deregulation commences</td>
</tr>
<tr>
<td>1996</td>
<td>The single largest block train product, the iron ore transport to Narvik and Luleå, is transferred to a LKAB subsidiary</td>
</tr>
<tr>
<td>2000's</td>
<td>Strong growth of privately owned block train operators</td>
</tr>
</tbody>
</table>

### Rail freight services – main active players

- Green Cargo
- Hector Rail
- Rush Rail
- LKAB
- Tågakiren i Bergslagen AB
- CFL Cargo
- Baneservice Skandinavia

Despite certain turbulence among the challengers to state owned Green Cargo, such challengers are gaining market shares at the expense of Green Cargo.
Deregulation and introduction of competition have created a diverse market landscape also for support services to the rail operators.
Regional passenger rail systems based on PSC – some examples

The Malmö – Lund – Helsingborg area – service providers Arriva (“Pågatågen”) and Transdev (“Öresundståg”)

- Malmö (pop. 270’) – Lund (pop. 83’) – 16 km; 198 trains*
- Malmö – Trelleborg (pop. 28’) – 42 km; 37 trains*
- Malmö – Helsingborg (pop 97’) – 69 km; 82 trains*
- Malmö – Ystad (pop 18’) – 70 km; 39 trains*

* One way, Monday - Friday

EMU used by “Pågatågen”
The rail sector restructuring in Sweden

Regional passenger rail systems based on PSC – some examples

The Göteborg area – service providers SJ (most services) and Arriva (the orange line in the adjacent map)

Examples of train supply

- Göteborg (pop. 481’) – Alingsås (pop. 24’) – 45 km; 54 trains*
- Göteborg – Kungsbacka (pop. 19’) – 28 km; 54 trains*
- Göteborg – Uddevalla (pop 31’) – 88 km; 21 trains*
- Göteborg – Borås (pop. 66’) – 72 km; 14 trains*

* One way, Monday - Friday

EMU used by “Västtågen”
Regional passenger rail systems based on PSC – some examples

The Norrköping – Linköping area – service provider Arriva

Examples of train supply

- Norrköping (pop. 87’) – Linköping (pop. 104’) – Mjölby (pop. 12’) – Motala (pop. 30’) – 106 km; 38 trains*
- Motala – Tranås (pop. 14’) – 36 km; 18 trains*

* One way, Monday - Friday

EMU used by “Östgötapendeln”
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Sweden – further measures to increase competition proposed

- Further reform measures proposed on a state report (SOU 2015:110)
  - Further competitive tendering processes also on interregional passenger services, including traffic rights on the planned future high speed railroads
  - Strengthening commercial passenger rail operations by way of creating transparent transport supply plans for PSC traffic
  - Increased state responsibility for the location of assets which are necessary for the conduct of rail operations
  - Tasks within Jernhusen AB which are of a nature of tasks associated with a state authority should be performed by a state authority, so that such services are provided on a neutral basis to operators
  - Consider further privatization, in part as a result of the above principle, of state owned operating companies – SJ AB (passenger traffic), Green Cargo AB (rail freight traffic), Jernhusen AB (real estate related to the rail sector) and Infranord AB (construction and maintenance of rail infrastructure)

Reform based on even more comprehensive separation between regulatory/traffic management and actual operations, introduction of competition throughout the system, and full privatization of operators
The Government of Norway plans a major restructuring of the rail sector, as described in Meld. St. 27 (2014-2015). The main themes are:

- Full separation between regulatory and operating entities
- Departing from a structure with one state owned passenger rail provider providing services on a concession basis to a structure where passenger rail is based on competitive tendering
- No preferred status of any state owned operators in terms of legacy rights or access to strategic production factors
- Market economy principles to be applied as regards management and coordination
- Alignment with the national transport plan

Proposed concrete restructuring measures include:

- All infrastructure operations and maintenance tasks should be based on competitive tendering processes, rather than being performed to a substantial by the infrastructure owner, Jernbaneverket
- Ownership of assets which are necessary for the conduct of rail operations should be owned by the infrastructure owner, not by the incumbent NSB, and should be made available to operators on a neutral basis
- Passenger rail operations to be based on competitive tendering – competition FOR the market being the envisaged principle – two large packages have recently been announced for tendering
- Strive to create competition between several providers of maintenance services for rolling stock
- Workshop facilities to be owned by a state entity, so that such facilities can be made available to operators on a neutral basis
- NSB's rolling stock to be transferred to a state owned rolling stock company, and subsequently be made available to winners of competitive tendering processes

Reform based on full separation between regulatory/traffic management and actual operations, and introduction of competition throughout the system
Current developments in Sweden, Norway and Finland

Finland – comprehensive restructuring being discussed

- Discussions about a new structure in progress
- A new set of rules may be in place in 2016
- VR’s (the state owner operator) may lose its exclusivity effective 2018
- Privatization is not part of current discussions

Reforms related to the opening of the market for domestic passenger transport services by rail, as required in EU’s 4th Railway Package may be implemented
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Strong position in rail freight...

Comparison between EU countries as regards billion ton km related to population (million)...

...and total growth/contraction in ton km 1990 - 2013

Source: European Commission

Note: For CZ and SK in 1990 – Source data refer to Czechoslovakia; assumption that the distribution between CZ and SK was the same as in 1995.
For Croatia, the total growth is between 1995 and 2013.
Potential restructuring in Lithuania

…but weak position in passenger rail

Comparison between EU countries as regards billion passenger km related to population (million)…

…and total growth/contraction in passenger km 1990 - 2013

Source: European Commission
Potential restructuring in Lithuania

Potential action points

<table>
<thead>
<tr>
<th>Current position</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Rail freight doing fine – very highly ranked in terms of volume (ton-km) in relation to its population</td>
</tr>
<tr>
<td>▪ Passenger traffic a tiny trickle only – in absolute numbers, smaller than Luxemburg</td>
</tr>
<tr>
<td>▪ Rail freight and passenger rail have quite dissimilar characteristics</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Potential action points – state control</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Continued state control of the key assets - ownership of infrastructure, management of infrastructure – but not necessarily carrying out the actual work, which would be better carried out by contractors acting on a competitive basis – and control of track access charges, allocation of train paths and monitoring of the utilization of train paths</td>
</tr>
<tr>
<td>▪ Full separation between rail infrastructure and rail operations</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Potential action points – passenger rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Separation between rail freight and passenger rail</td>
</tr>
<tr>
<td>▪ Securing non-discriminatory access to rolling stock – implying the need to create a state-owned rolling stock company – and other assets necessary for operations</td>
</tr>
<tr>
<td>▪ Introduction of a comprehensive system for public service contracts</td>
</tr>
<tr>
<td>▪ Tendering for all public service contracts</td>
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</table>
Several extensive restructuring processes may be coming up, partly as required in EU’s proposed 4th Railway Package, but ultimately for the benefit of passengers and rail freight customers. Sweden, having gone through extensive restructuring of the sector, is highly likely to be a source of inspiration.

Potential action points – rail freight

- LG is in essence a rail freight operator, with transit traffic to/from the port of Klaipėda being the most important traffic.
- LG thus faces serious competition from rail freight services into competing ports for such traffic, including Liepāja, Ventspils and Tallinn/Muuga.
- LG thus needs to be as efficient as ever possible in order to defend its traffic.
- The port of Klaipėda needs efficient rail services (not necessarily from LG only) to support its current gains in volume and earnings.
- The efficiency requirement calls for a spin-off of all passenger rail assets and operations out of LG.
- Such spin-off would increase the earnings in LG by elimination of the loss from passenger services, and also increase the value of LG by a multiple of such earnings increase.
- The same argument calls for a divestment of all non-rail freight assets.
- Granting market access to challengers would not call for a privatization of LG.
- Desirable to make LG an efficient rail freight operator also on a market with competing rail freight providers.