

A dark blue world map is centered in the background of the slide. The continents are visible in a slightly lighter shade of blue.

Restructuring Options For Reform of TCDD

World Bank Rail Restructuring Seminar

27 May 2003

A dark blue world map is visible in the background of the slide. The word "Agenda" is written in a large, red, serif font, centered at the top of the map.

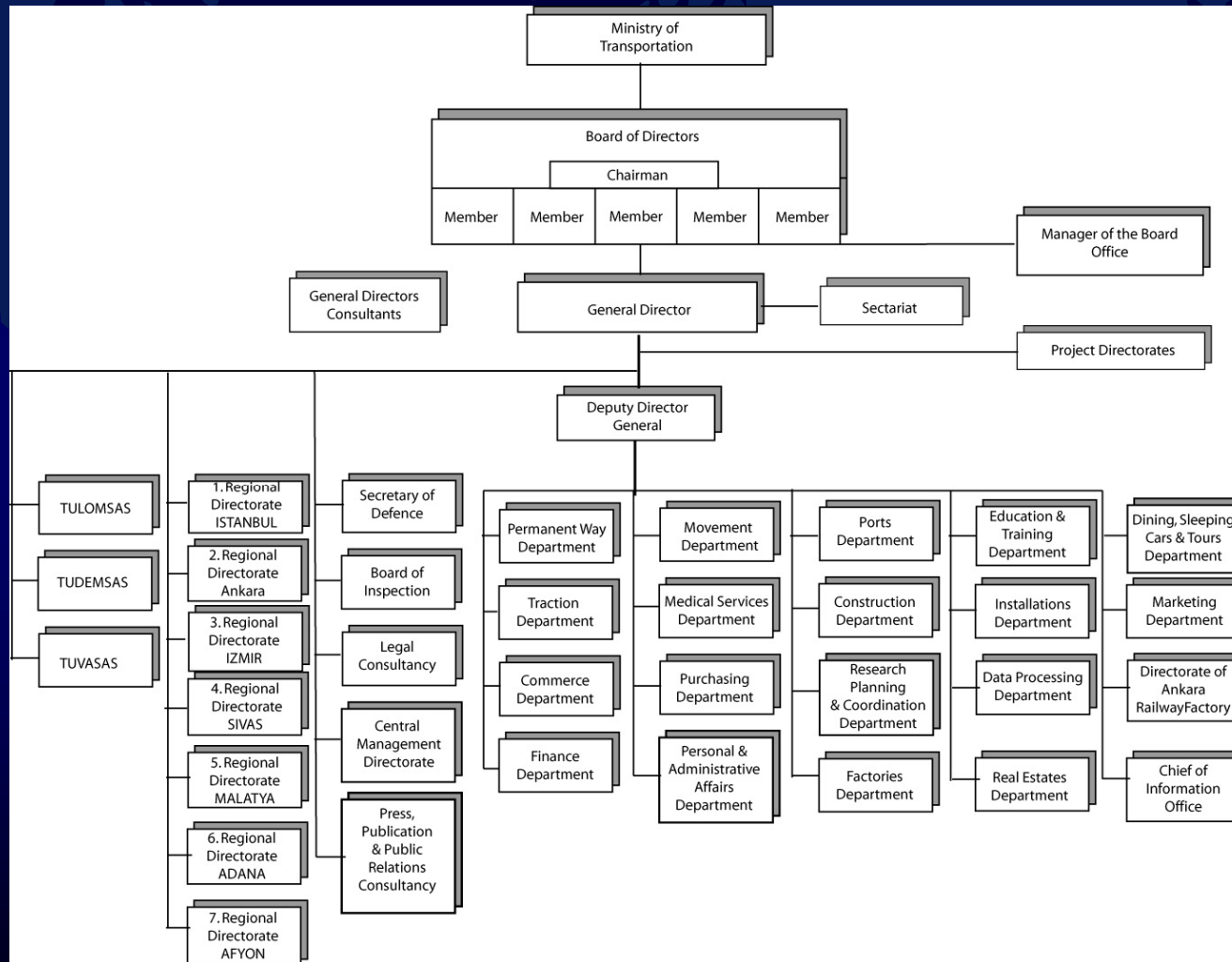
Agenda

- Introduction
- Background
- Restructuring Strategies
- Implementation Issues
- Next Steps

Congratulations: Great Progress

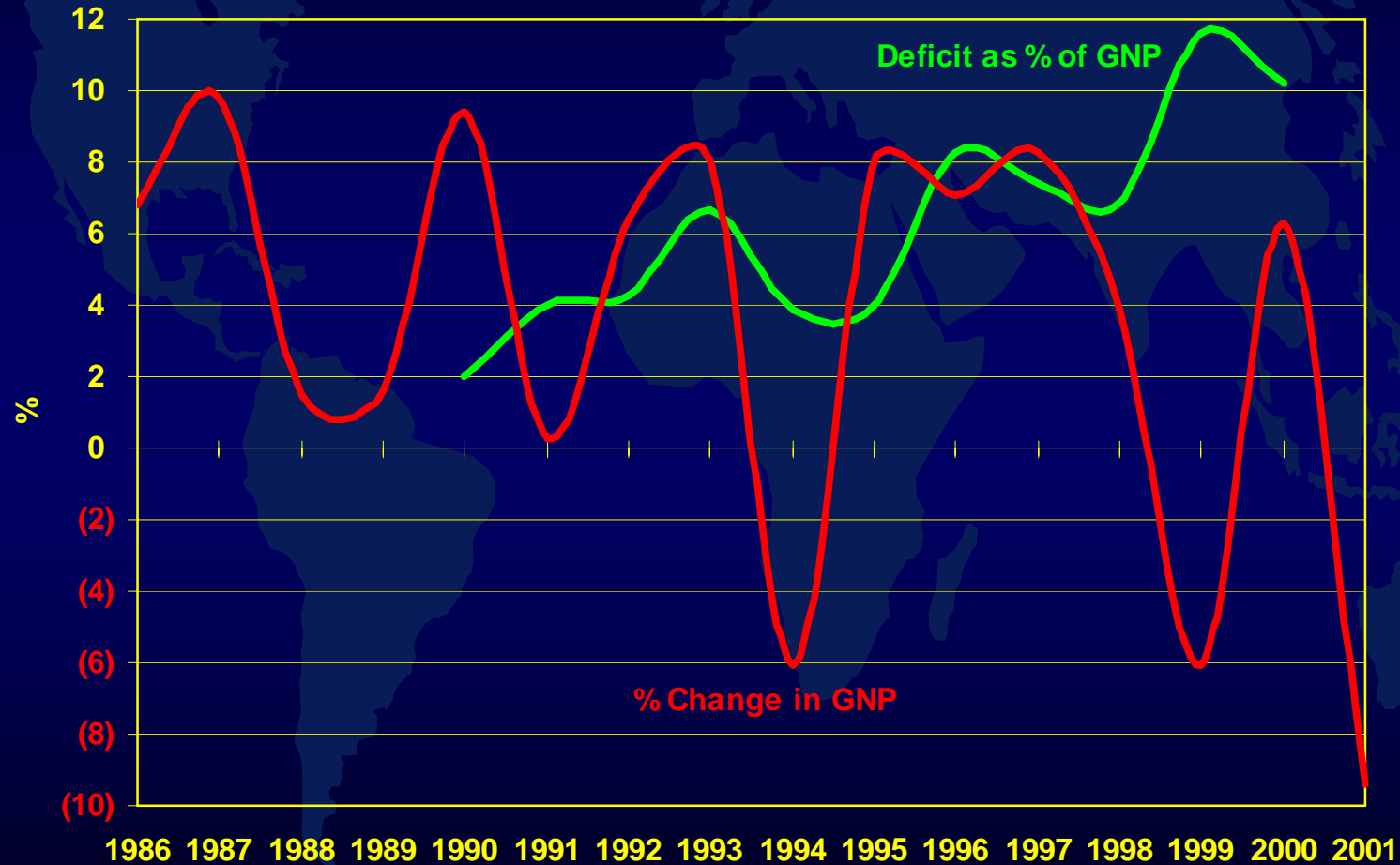
- Completed a number of studies
 - Restructuring Strategy Study (BAH)
 - Options for Reform (World Bank)
 - Gap Analysis (EU)
 - Organization Structure Reform (TCDD)
 - Freight and Passenger business planning studies (TCDD)
 - Reorganization Plan (TCDD)
 - Strategy and Proposed Changes in Transport Law (TCDD)
- Preparing for EU entry
- Now Need to Move Forward

TCDD Now Has Many Functions

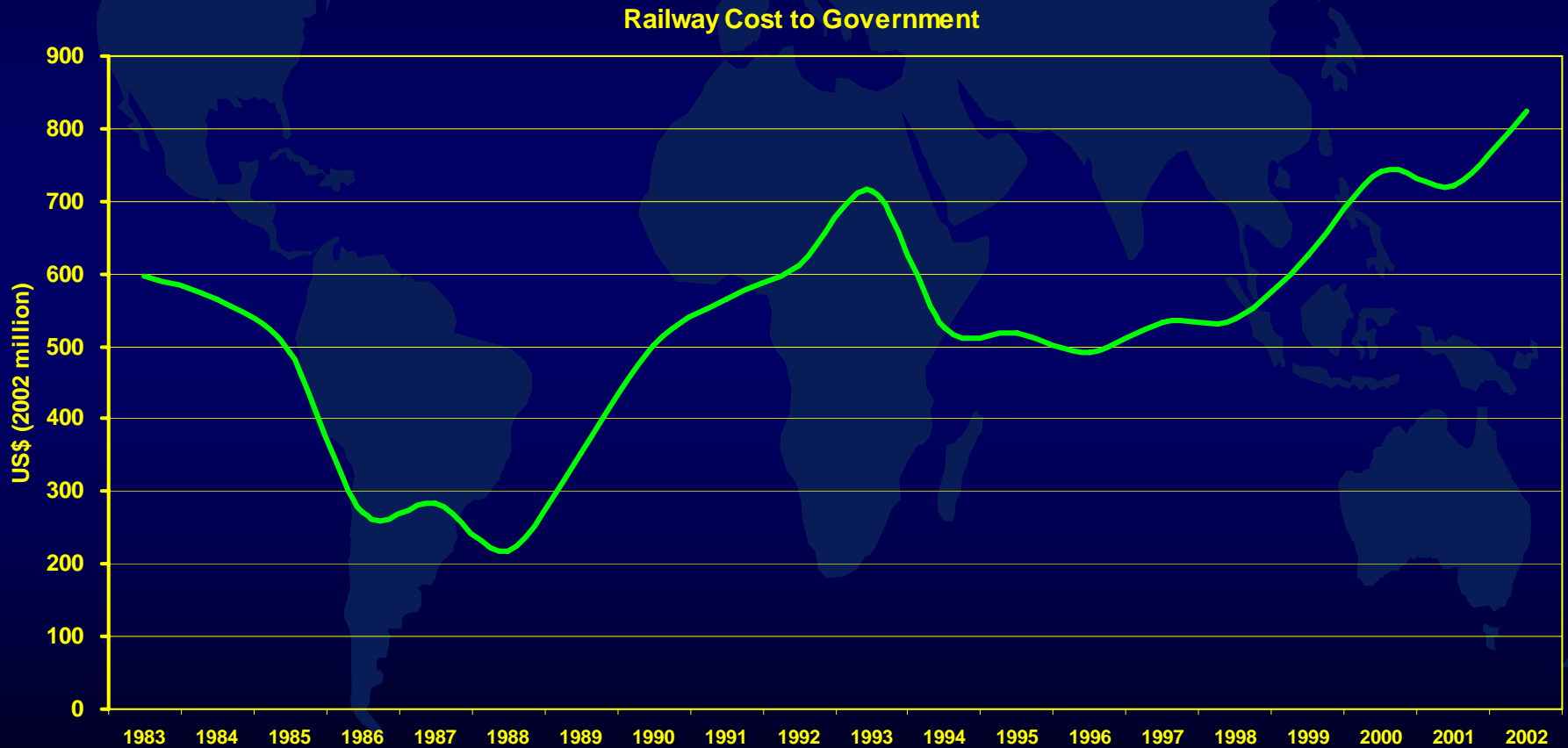


Large Swings in Economy

Budget Deficit And GNP

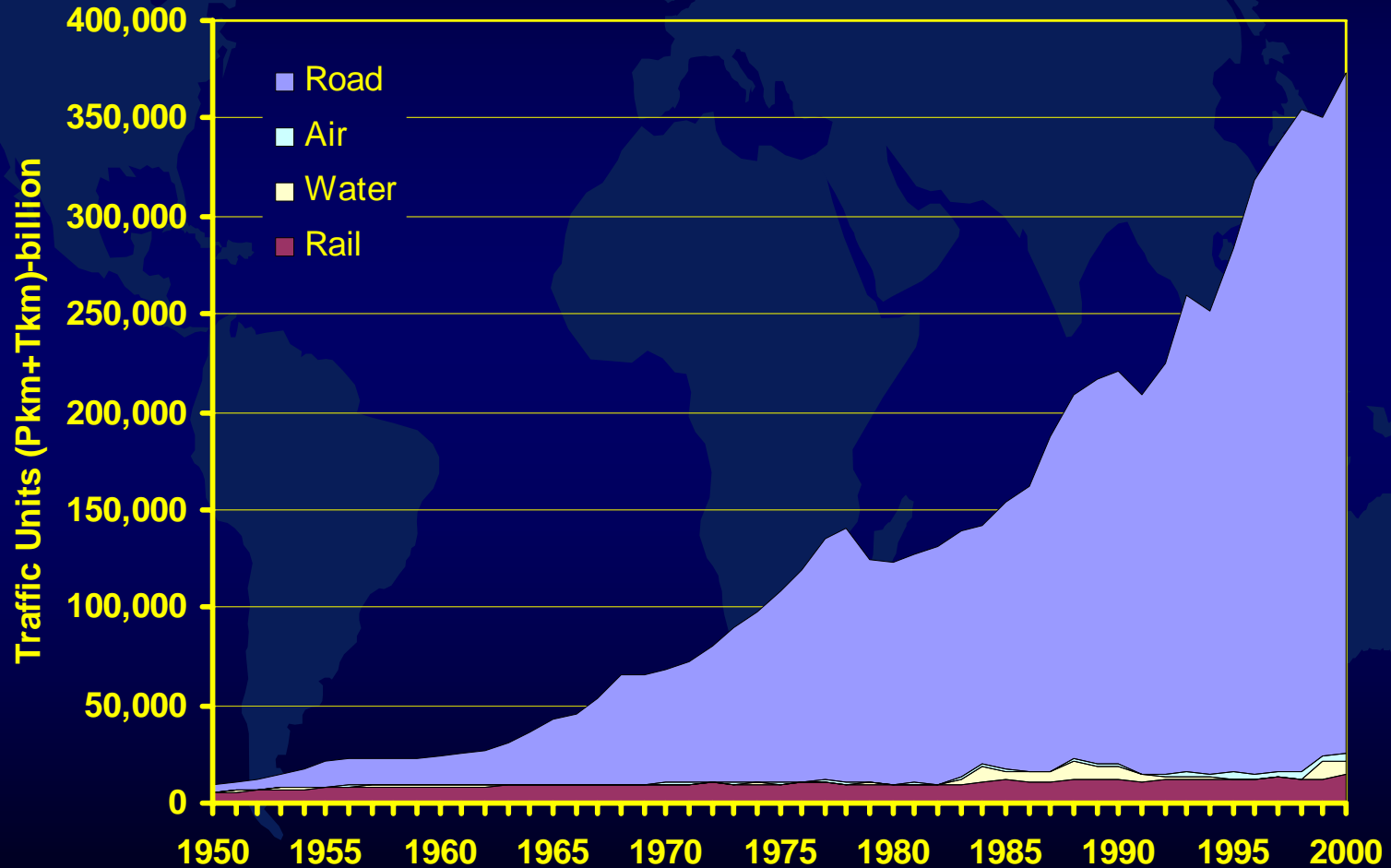


TCDD Cost \$10 Billion Over 20 Years



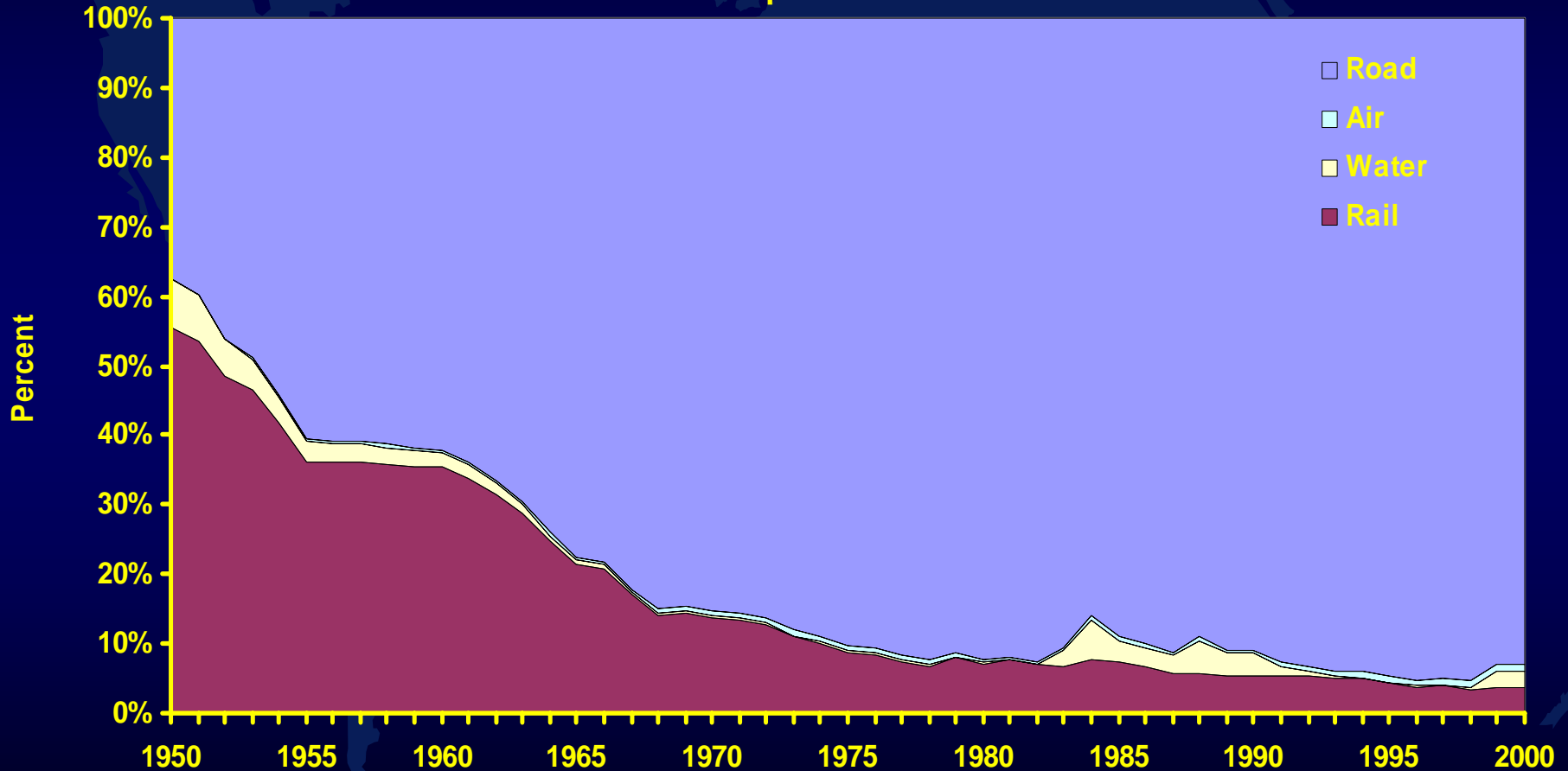
Rail Becoming Less Important

Transport Market Size



Rail Now Less Than 4%

Transport Market Shares

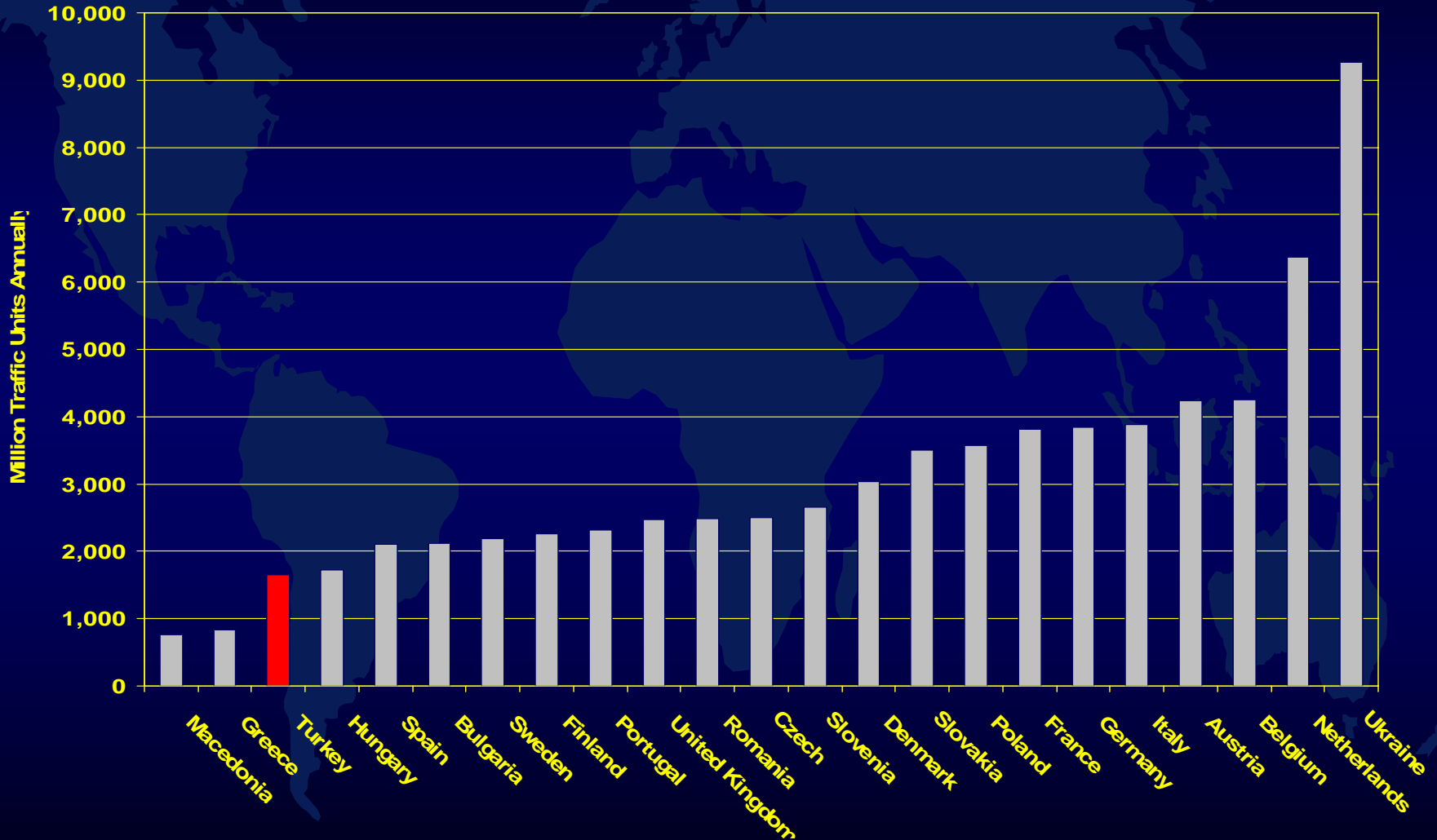


TCDD Has Light Density Network

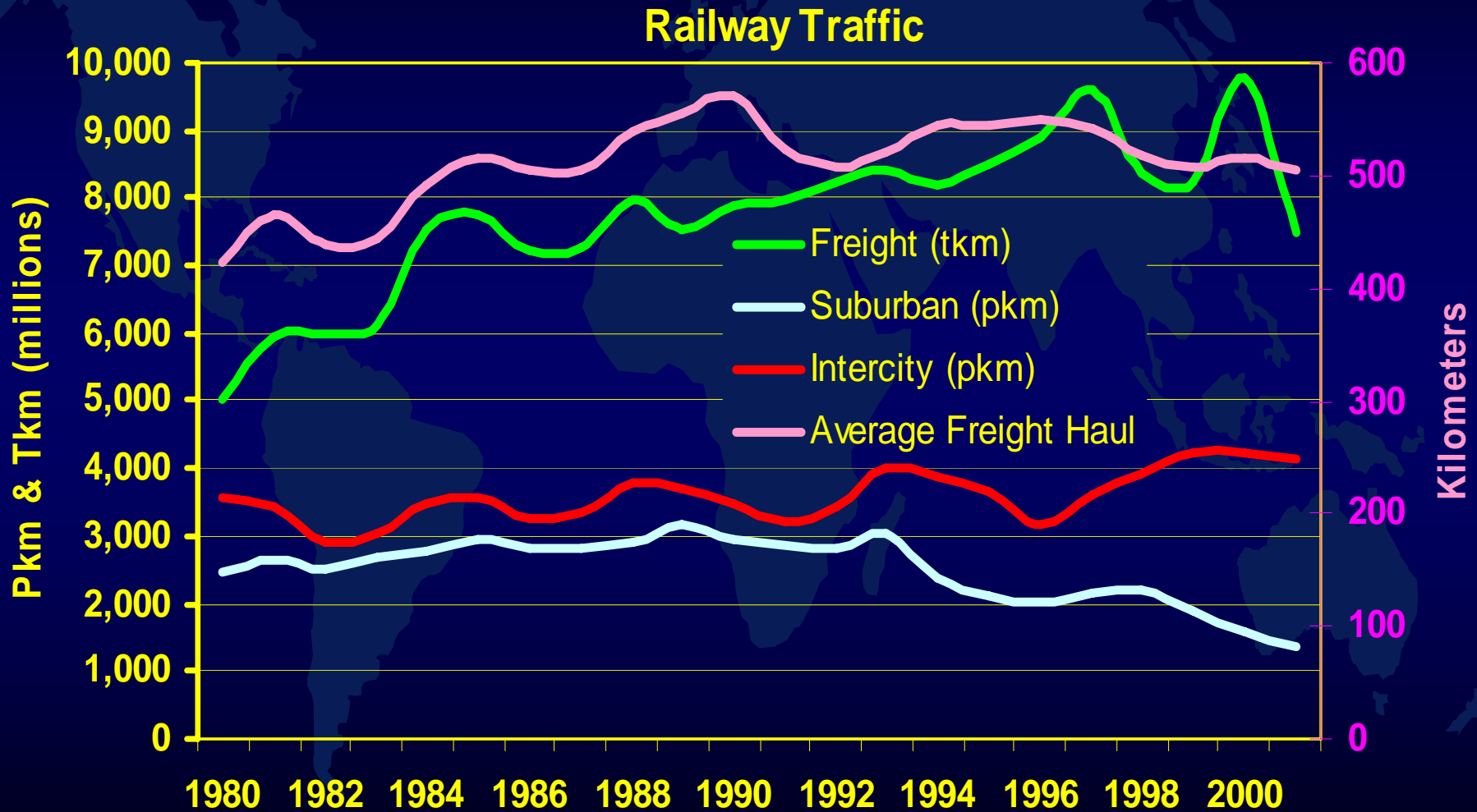


- Highest density is 20 mt/km; highest density freight is 4 mt/km

Average Density Less Than 2 mgt/km

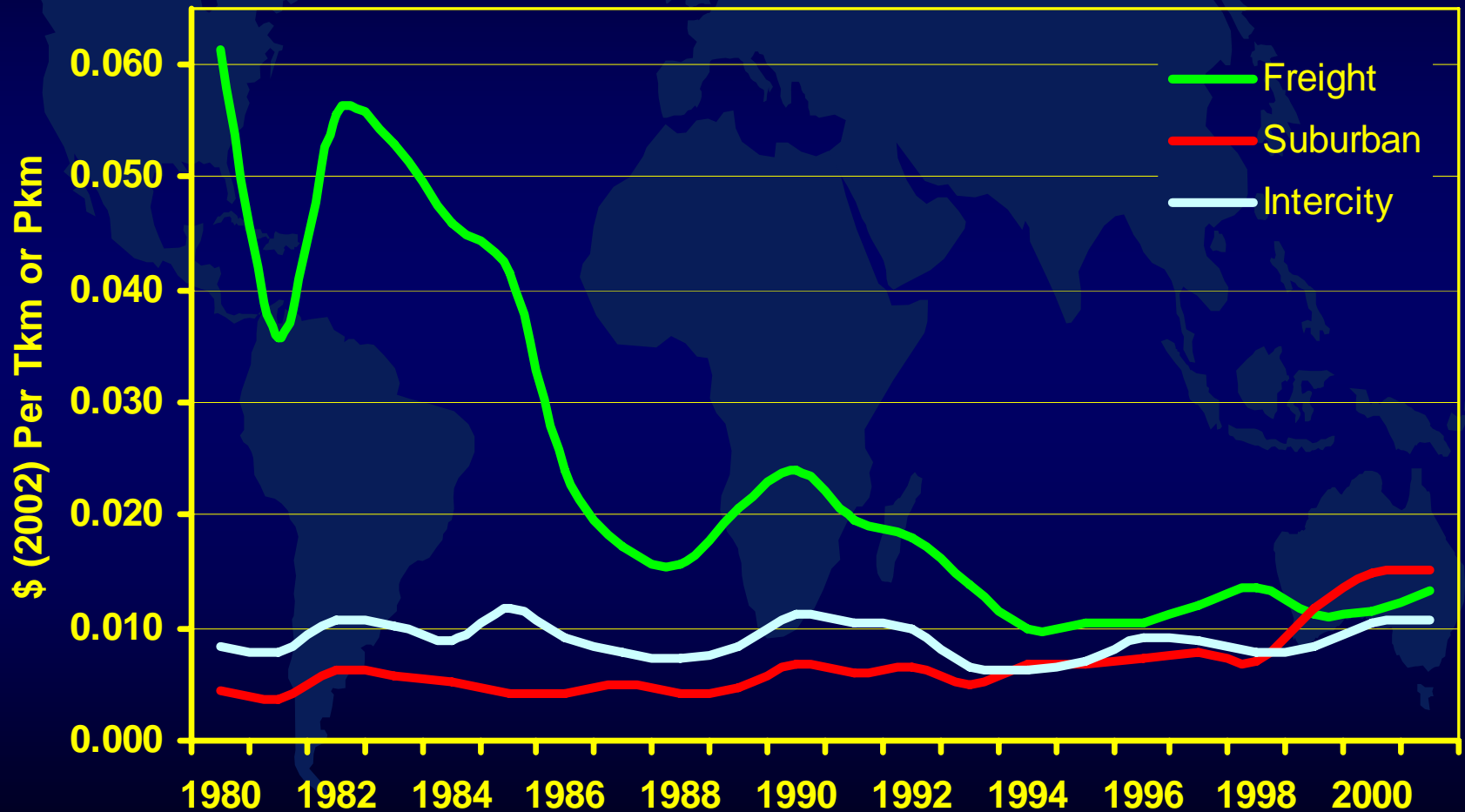


While Rail Traffic Grows Slowly...



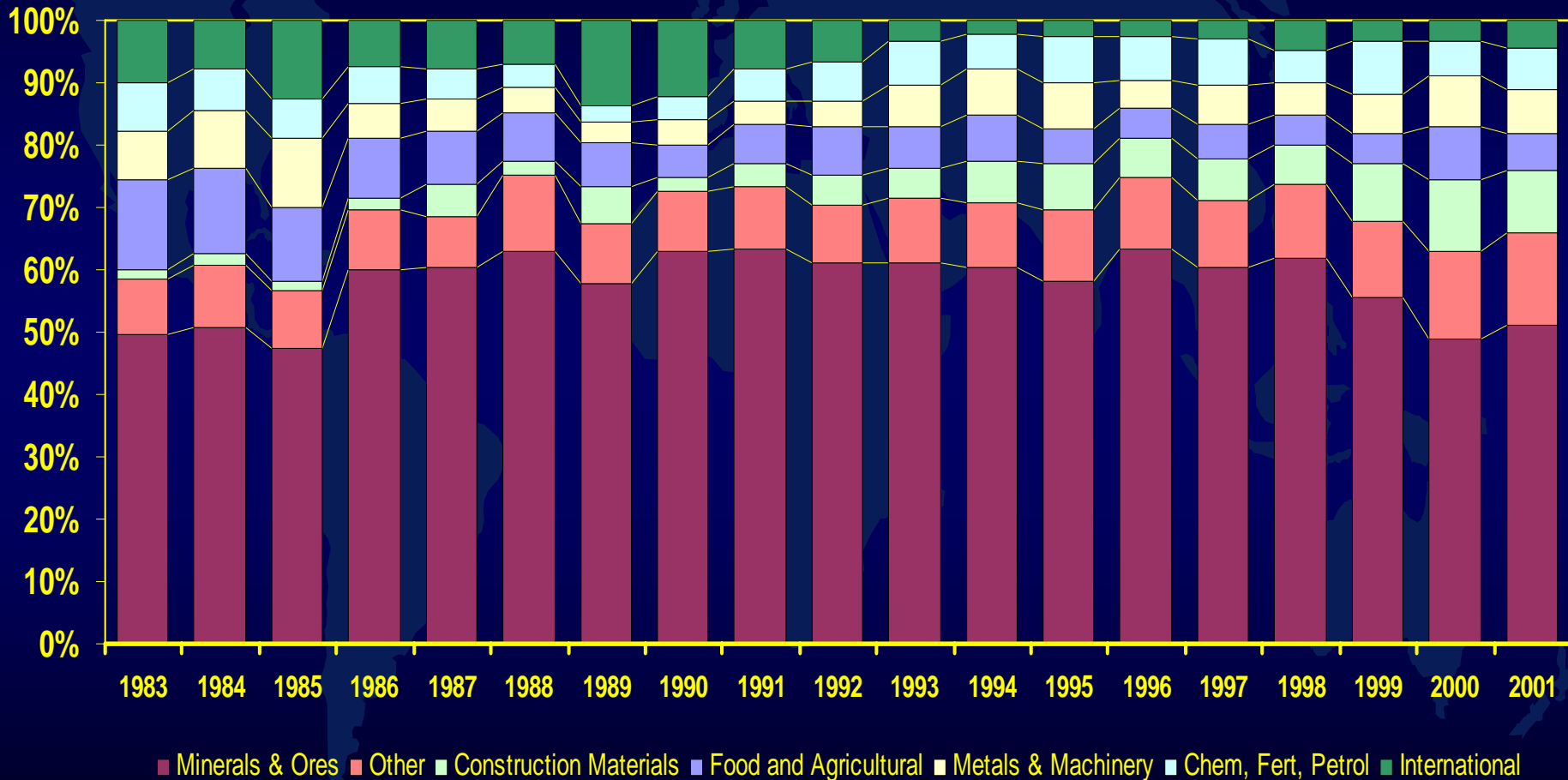
Unit Prices Have Declined

Unit Revenue (real)



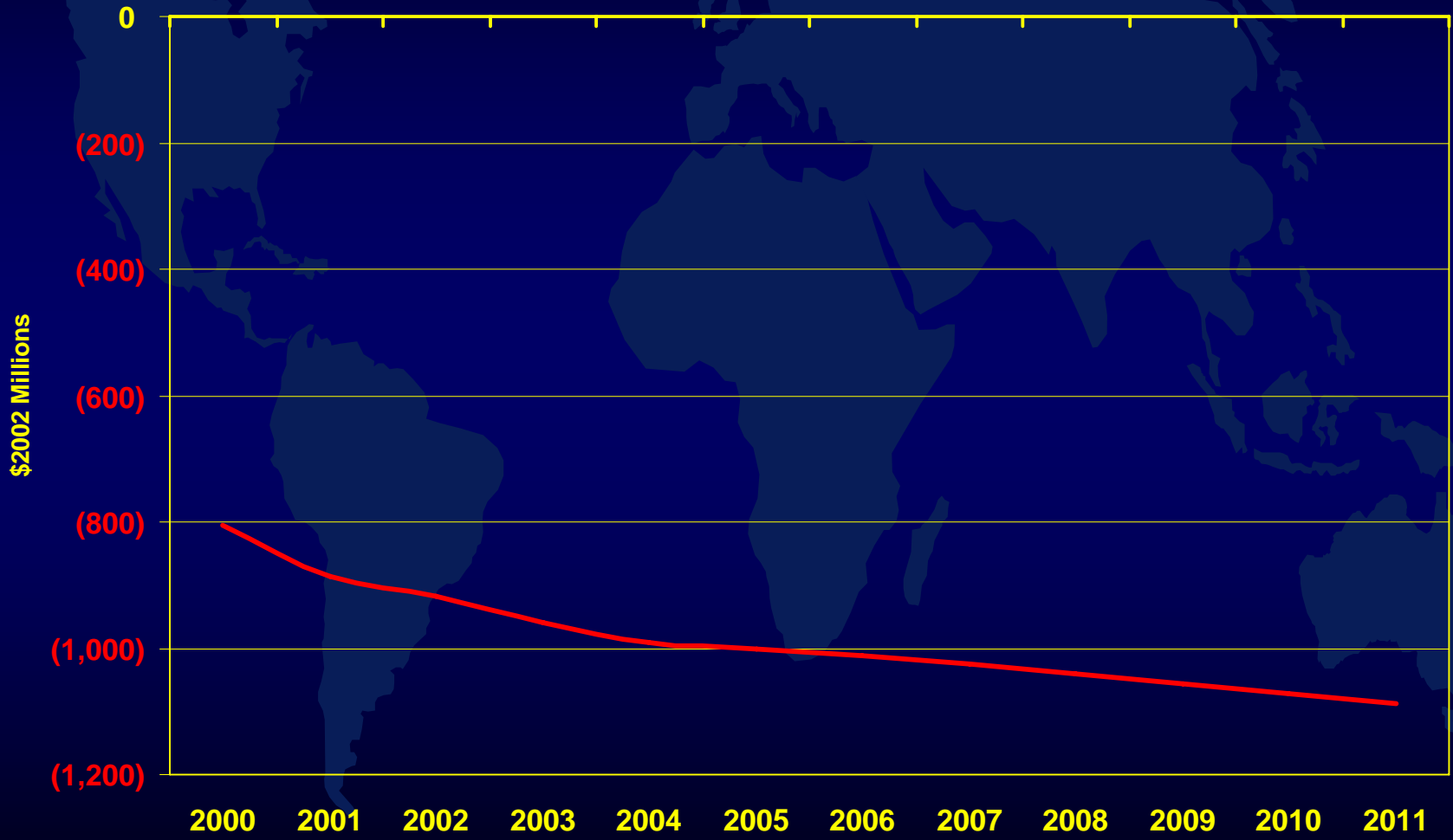
Freight Traffic Mix Similar

TCDD Freight Commodity Shares



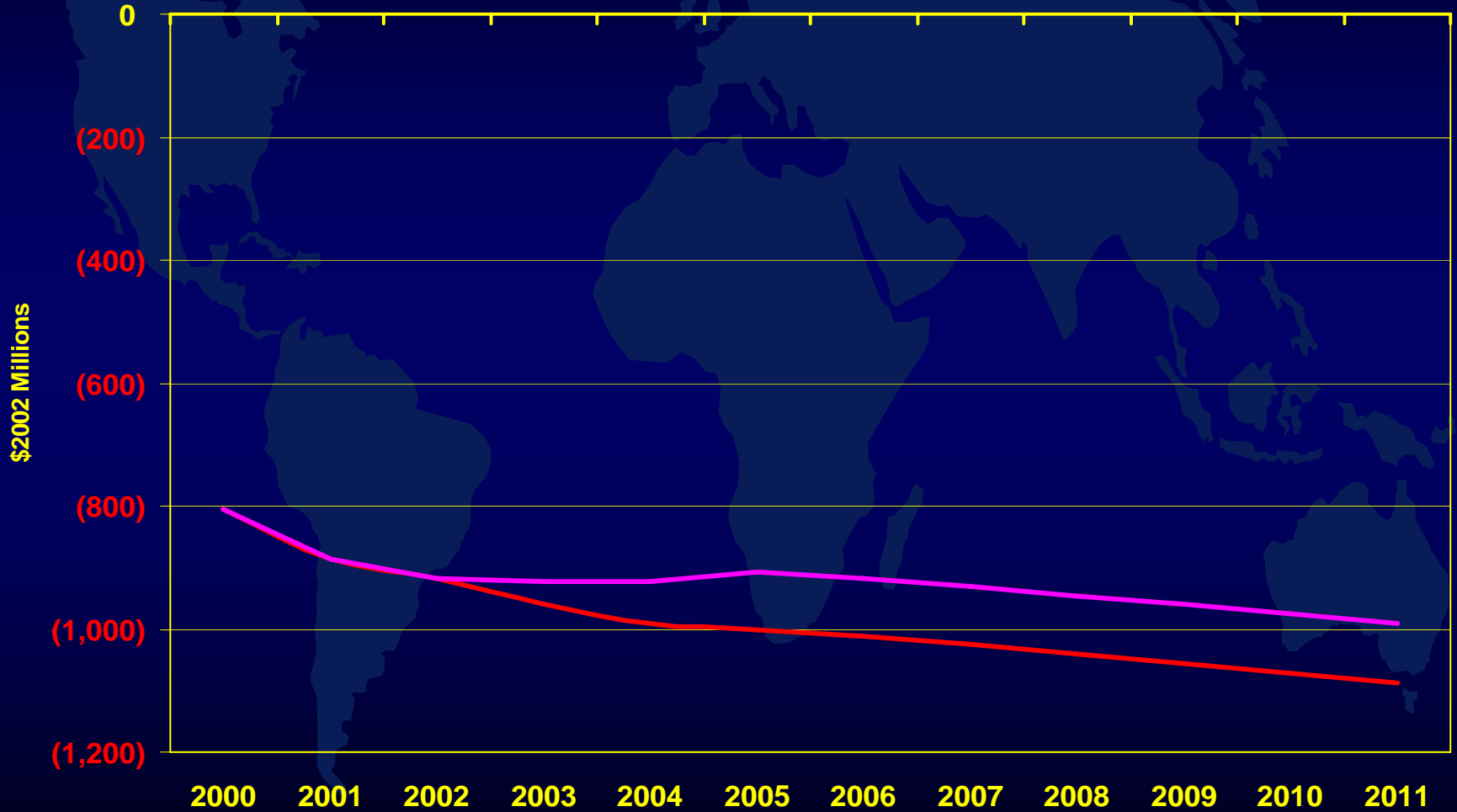
TCDD Would Cost \$10 Billion

Net Operating Loss of Railway



Existing Strategy Helps a Little

Net Operating Loss of Railway



Consider Alternative Strategies

- 90% of traffic, 60% of network. Ten-year losses are \$8 billion
- Core network: 85% of freight, 60% of passenger, 53% of network. Ten-year losses are \$7 billion
- Efficiency Improvements (on core), Ten-year losses are \$5 billion
- Concessioning (on core), Ten-year losses are \$3 billion
- Does not include significant new investments

The 90% Network

TCDD Network Capturing 90% of 2001 Traffic Units



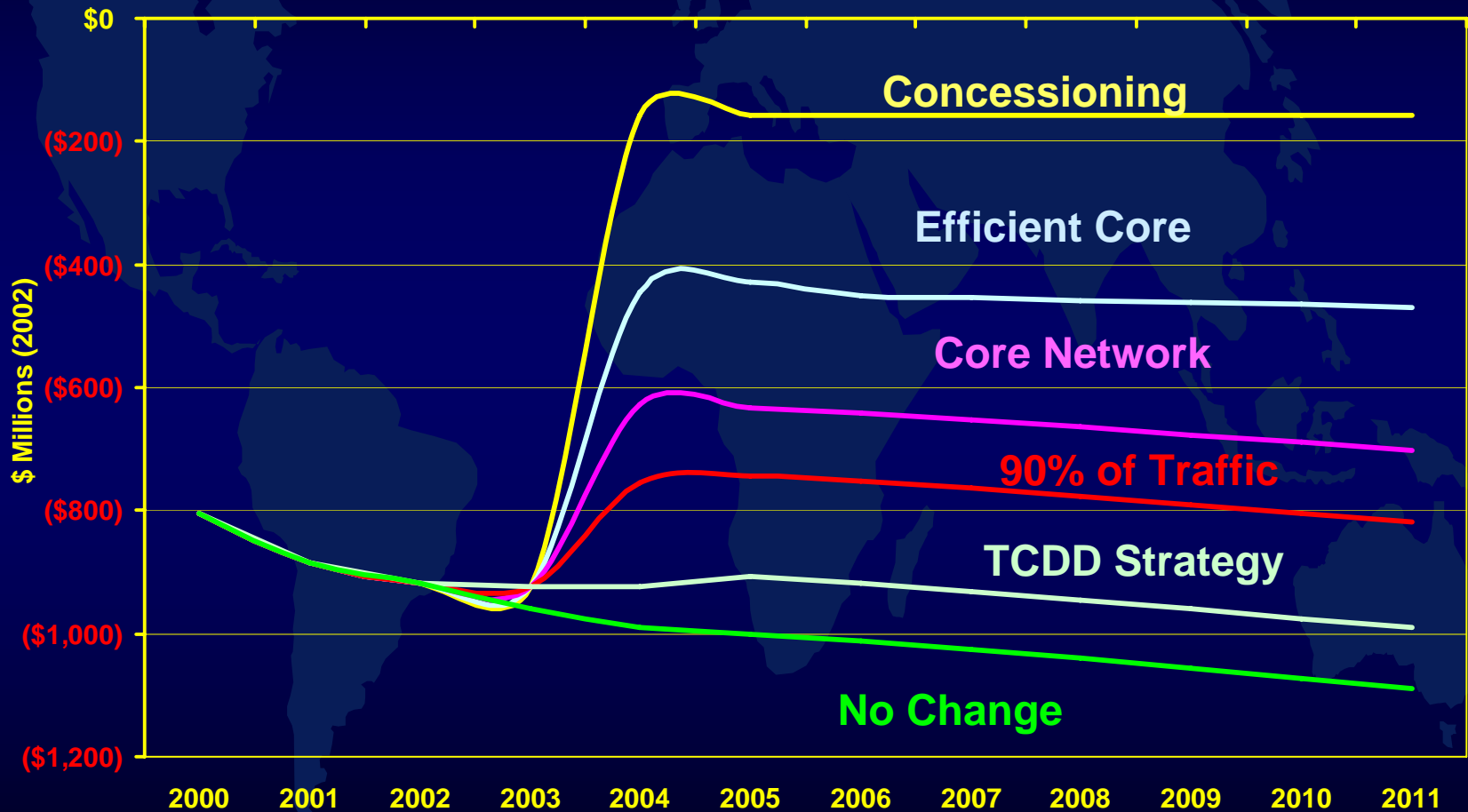
The Core Network

TCDD Core Network



Subsidy Needs Can Be Reduced

Operating Cost of Railway



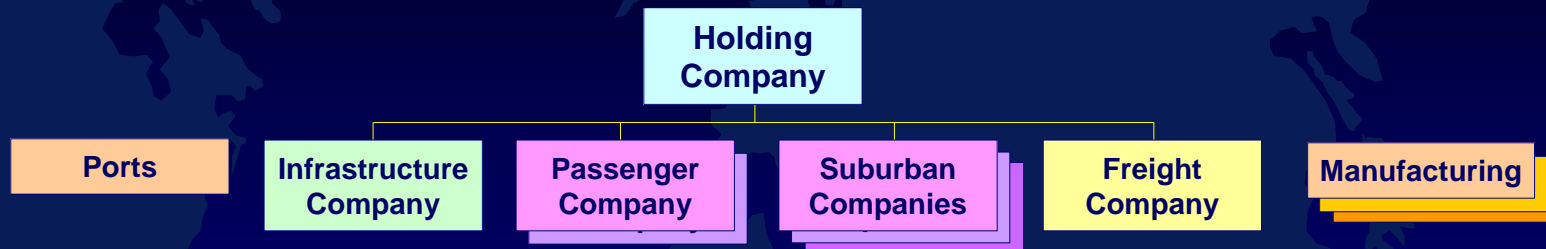
Considering Bolder Plan

- Government and TCDD are considering restructuring alternatives with greater fiscal impacts but the trade-offs have not been considered
- Plan to develop legal and regulatory framework needed for EU membership
- But need to develop a transition strategy and schedule for implementation

Strategy Must Address Major Issues

- Address industry structure clearly
- Define restructuring, investment, organizational strategies in detail
- Analyze investment priorities
- Define service & labor implications-create mitigation strategies
- Prepare culture change program
- Develop schedule and action plan

Work Towards Core Railway Structure



- Separate ports and manufacturing, others where possible
- TCDD holding company
 - Infrastructure company
 - Passenger company for intercity
 - Several suburban companies
 - Freight company

Develop Integrated Approach

- Find a restructuring champion with mandate to act
- Agree high-level goals with government,
- Create a forum for discussion and decision making
- Develop integrated financial and operational analysis with all business units and long time horizon
- Analyze alternative restructuring strategies and iterate with TCDD/Government forum till agreement is reached
- Then define legal and regulatory framework

Analyze Changes in Detail

- Use analytic process to evaluate service and operating effects in detail, some are counterintuitive
- Develop accurate long-term analysis of employment, investment, operating costs
- Analyze investment priorities including market and financial implications

Define New Role of Government

- Detailed analysis of employment and service changes by region, along with mitigation measures
- Develop understanding of regulatory processes needed and role of Government
- Work with Government to define new regulatory structures and legislative changes

Culture Change Program Needed

- Existing culture, whatever it is, must change
- New culture oriented to commercial performance and competitive environment
- Best to have a vision of the culture you want and find ways to implement it rather than let one evolve on its own

Next Steps ...

- Appoint a restructuring Champion with mandate
- Create a mechanism for unambiguous dialog with Government
- Define goals and objectives
- Develop the integrated planning process
- Iterate plans till agreement is reached
- Develop changes needed in legal and regulatory environment
- Develop plan for implementation and start