

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.

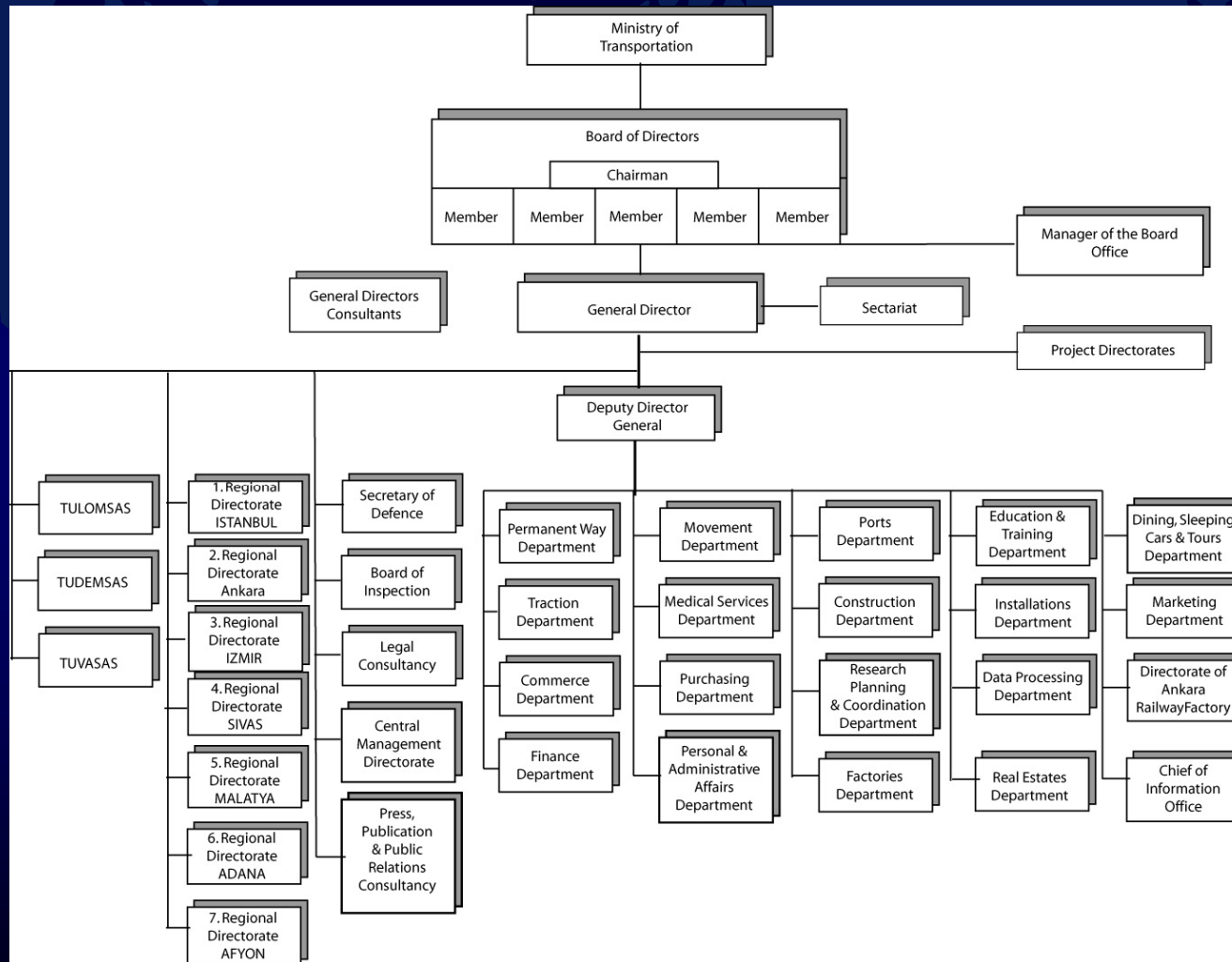
# Agenda

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

# Congratulations: Great Progress

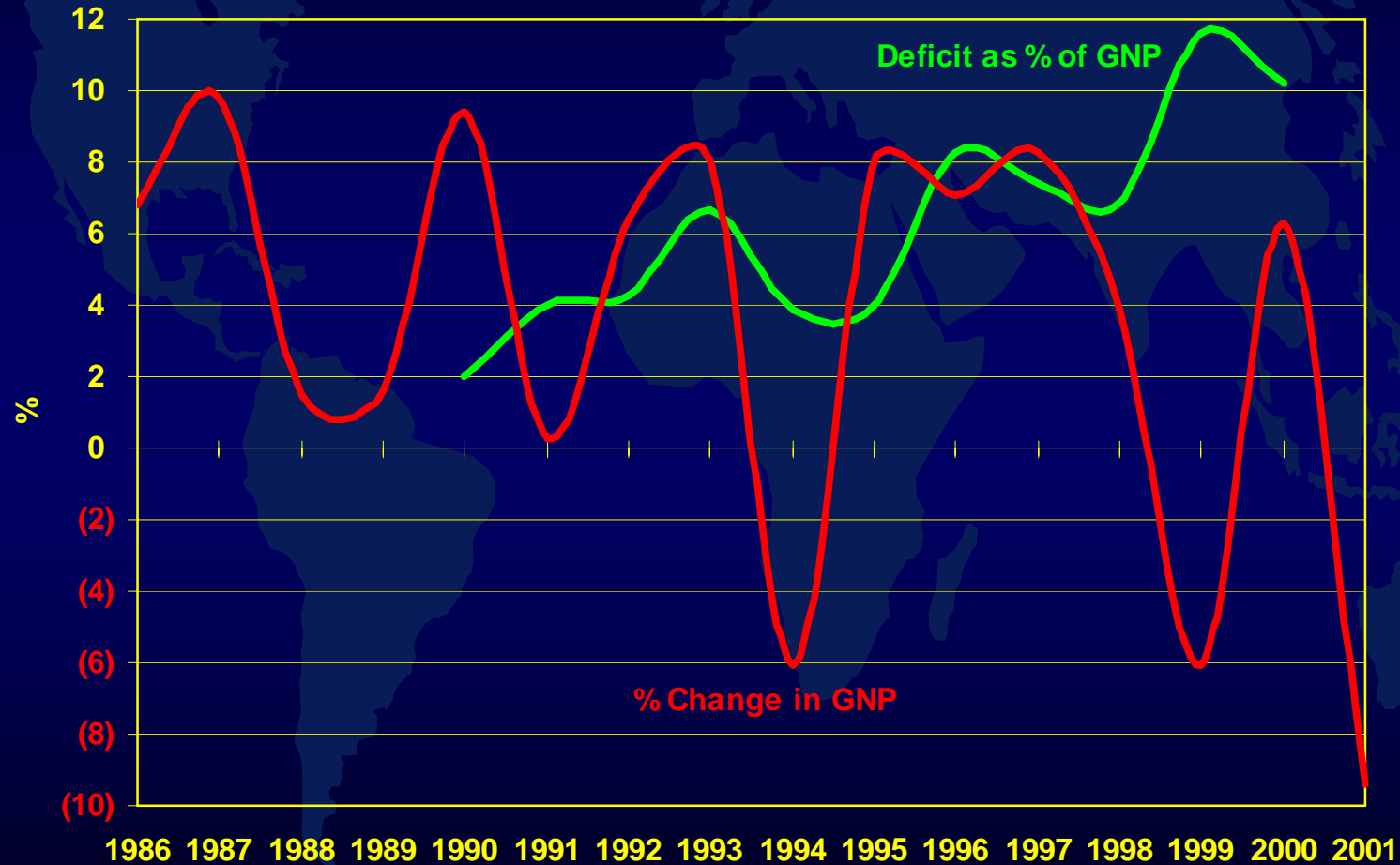
- Completed a number of studies
  - Restructuring Strategy Study (BAH)
  - Options for Reform (World Bank)
  - Gap Analysis (EU)
  - Organization Structure Reform (TCDD)
  - Freight and Passenger business planning studies (TCDD)
  - Reorganization Plan (TCDD)
  - Strategy and Proposed Changes in Transport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

# TCDD Now Has Many Functions

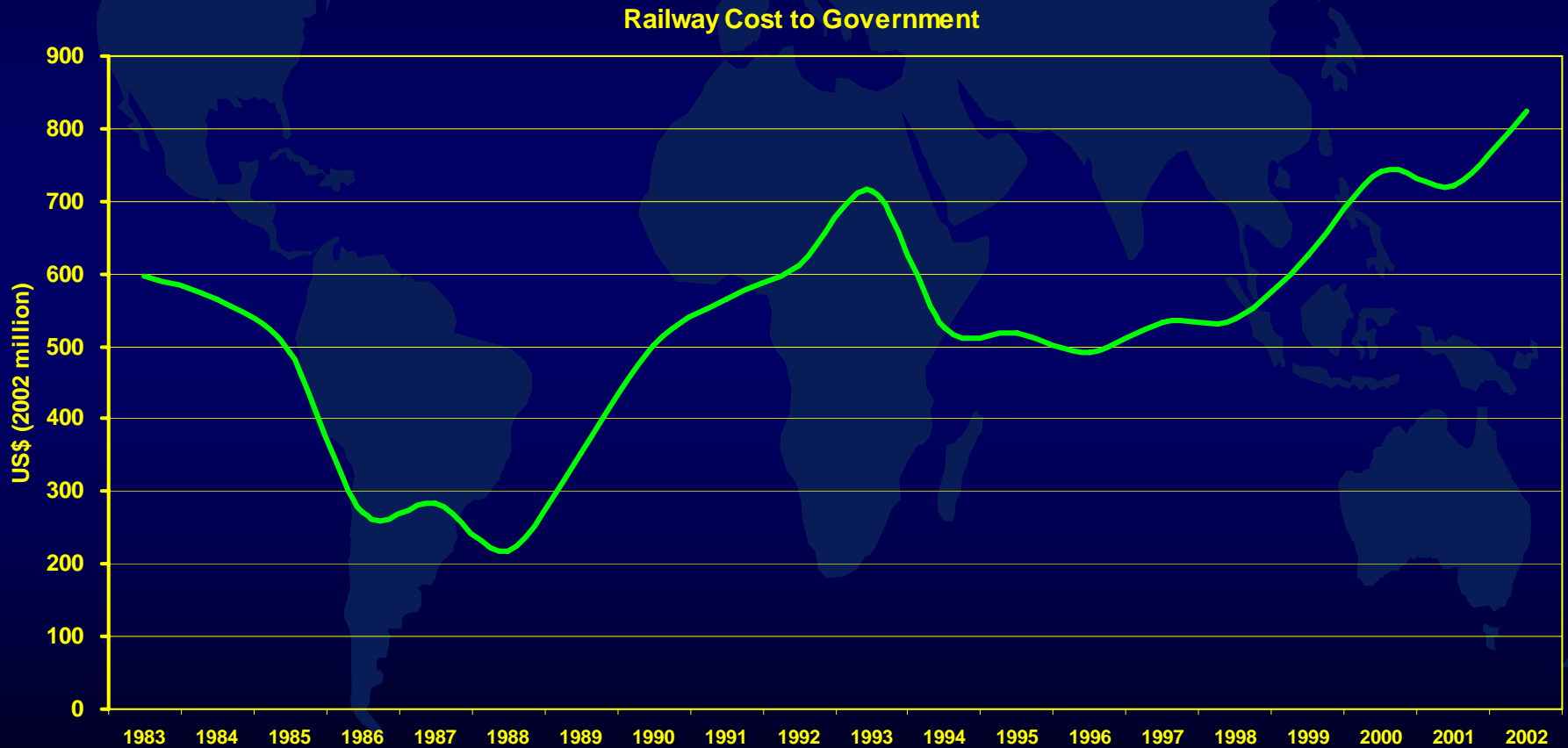


# Large Swings in Economy

## Budget Deficit And GNP

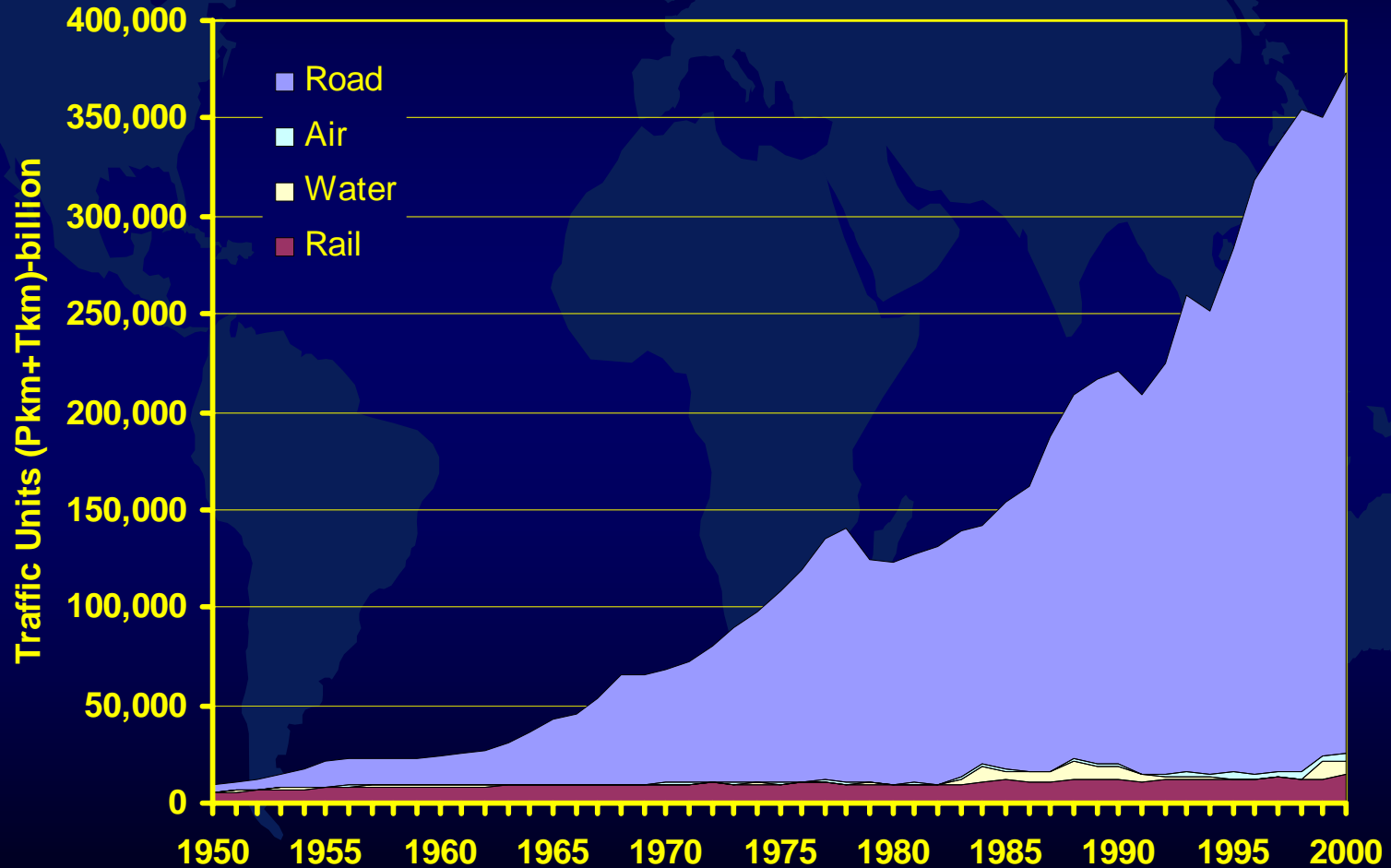


# TCDD Cost \$10 Billion Over 20 Years



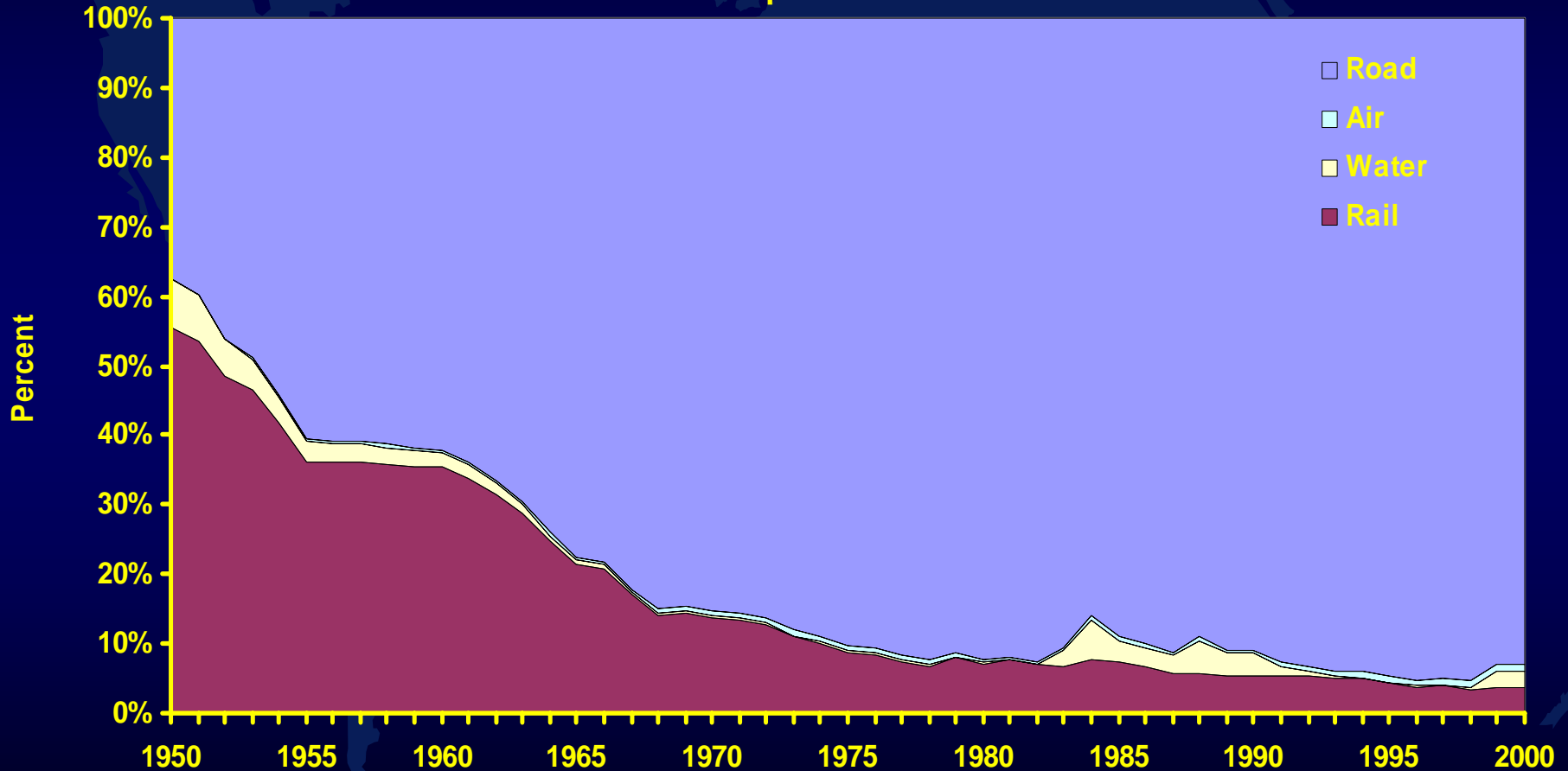
# Rail Becoming Less Important

Transport Market Size



# Rail Now Less Than 4%

Transport Market Shares



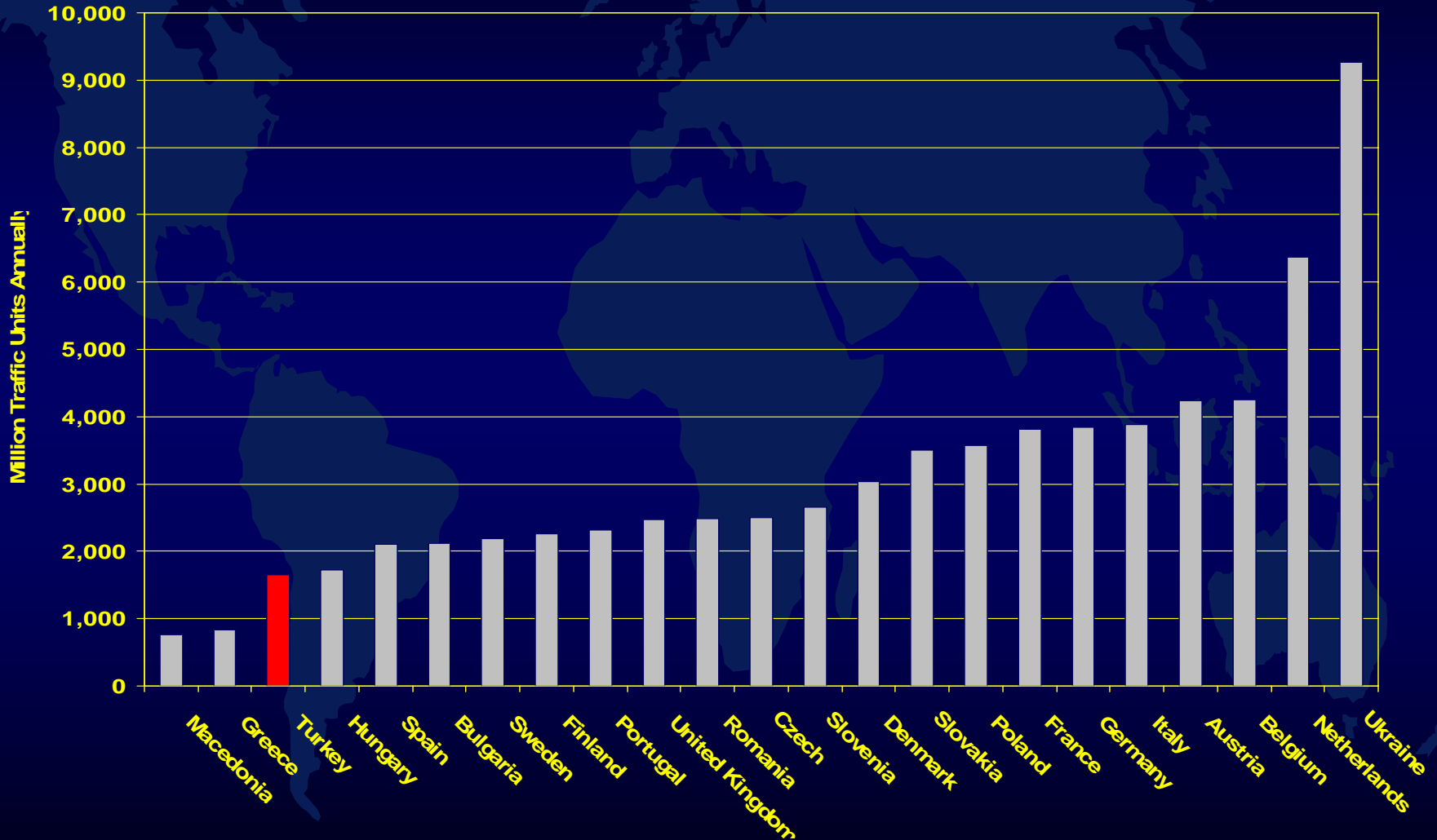


# TCDD Has Light Density Network

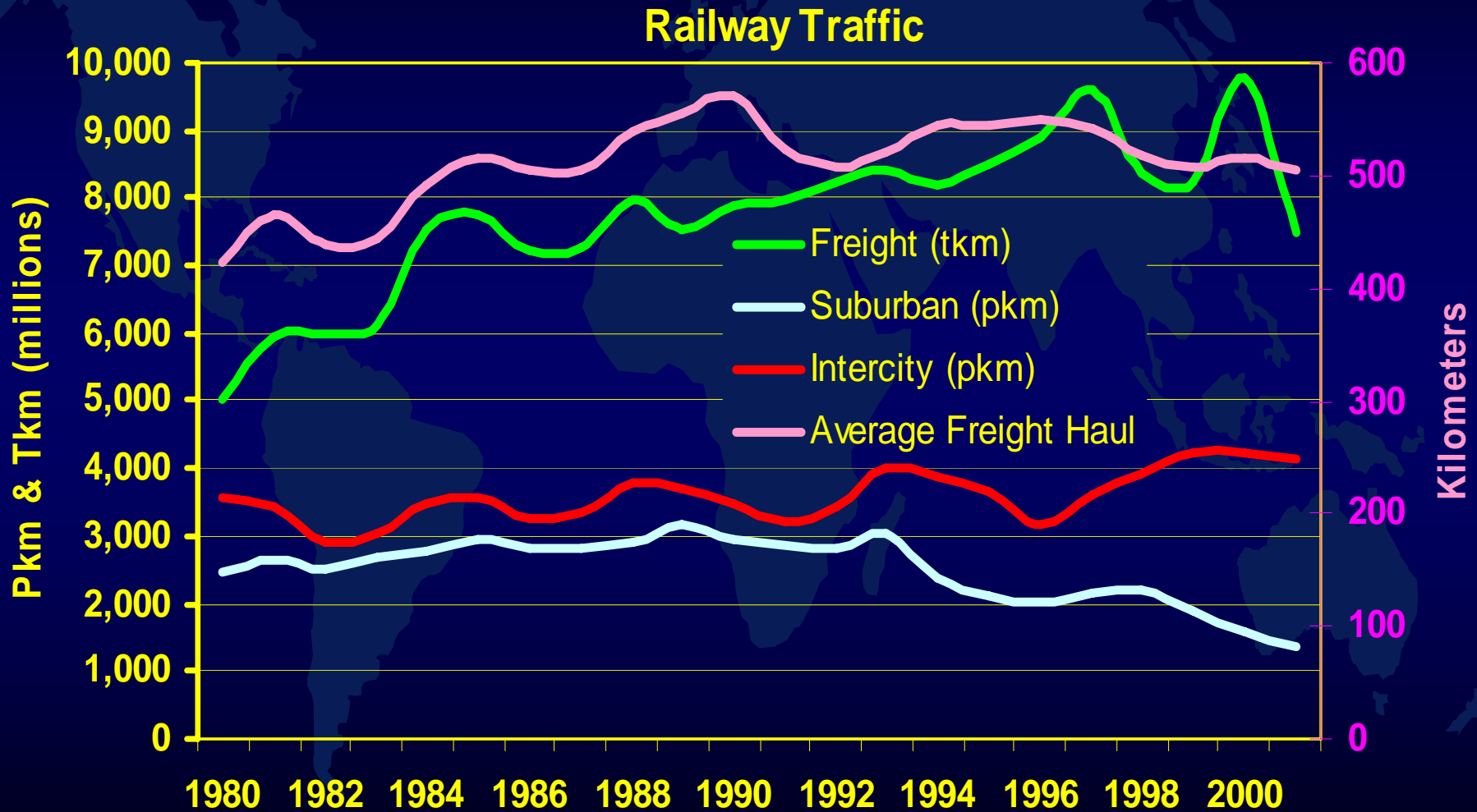


- Highest density is 20 mt/km; highest density freight is 4 mt/km

# Average Density Less Than 2 mgt/km

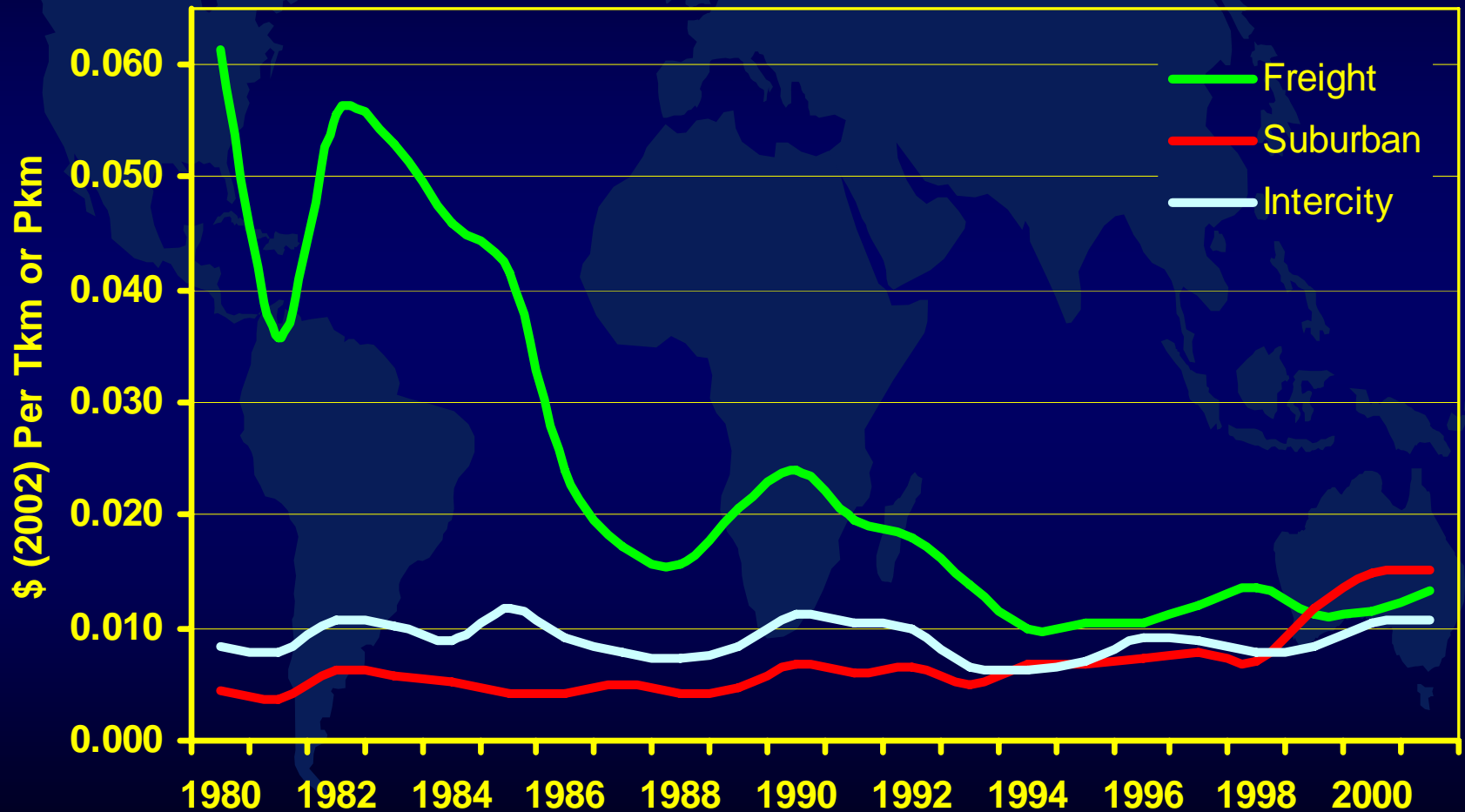


# While Rail Traffic Grows Slowly...



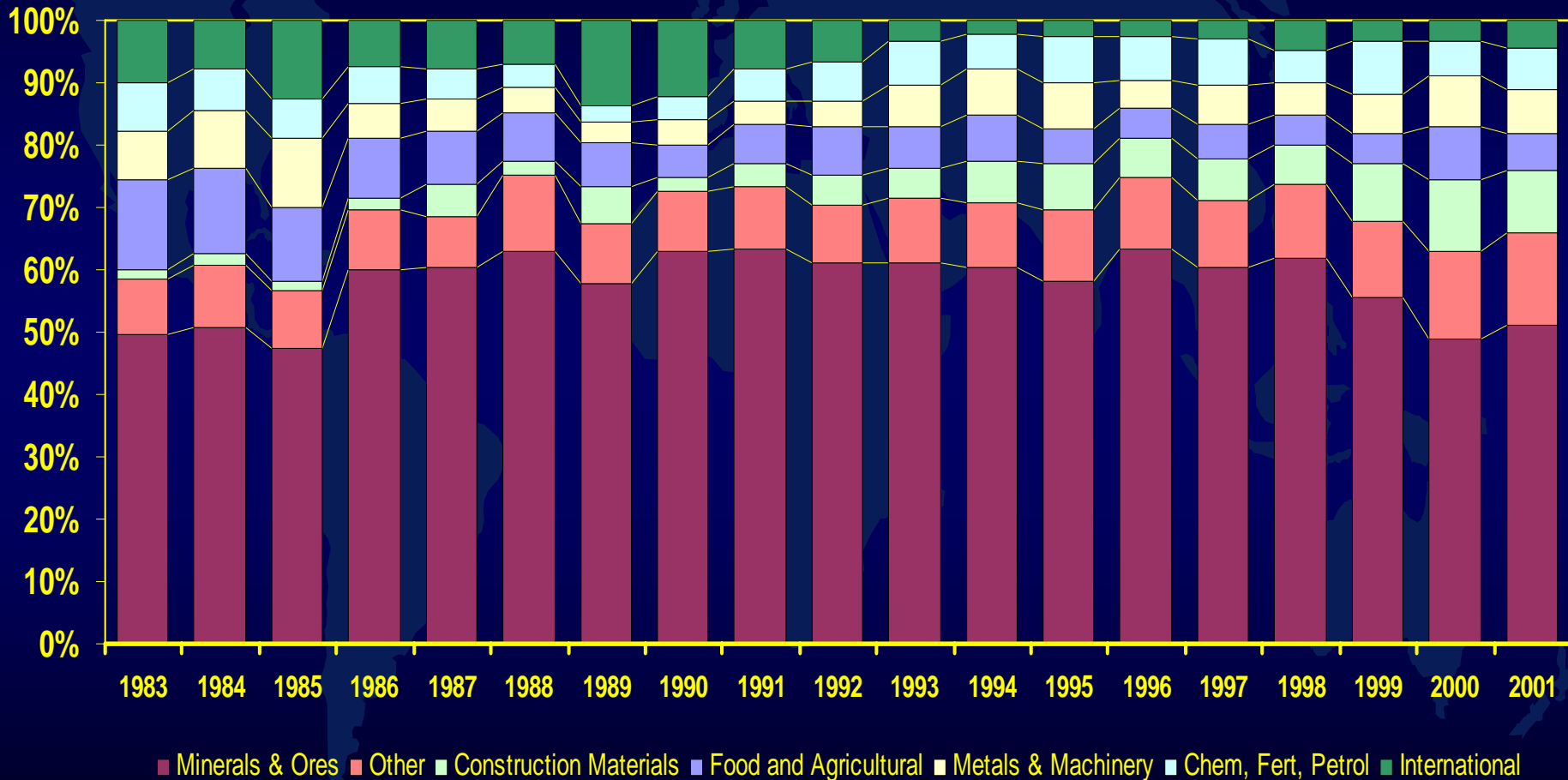
# Unit Prices Have Declined

Unit Revenue (real)



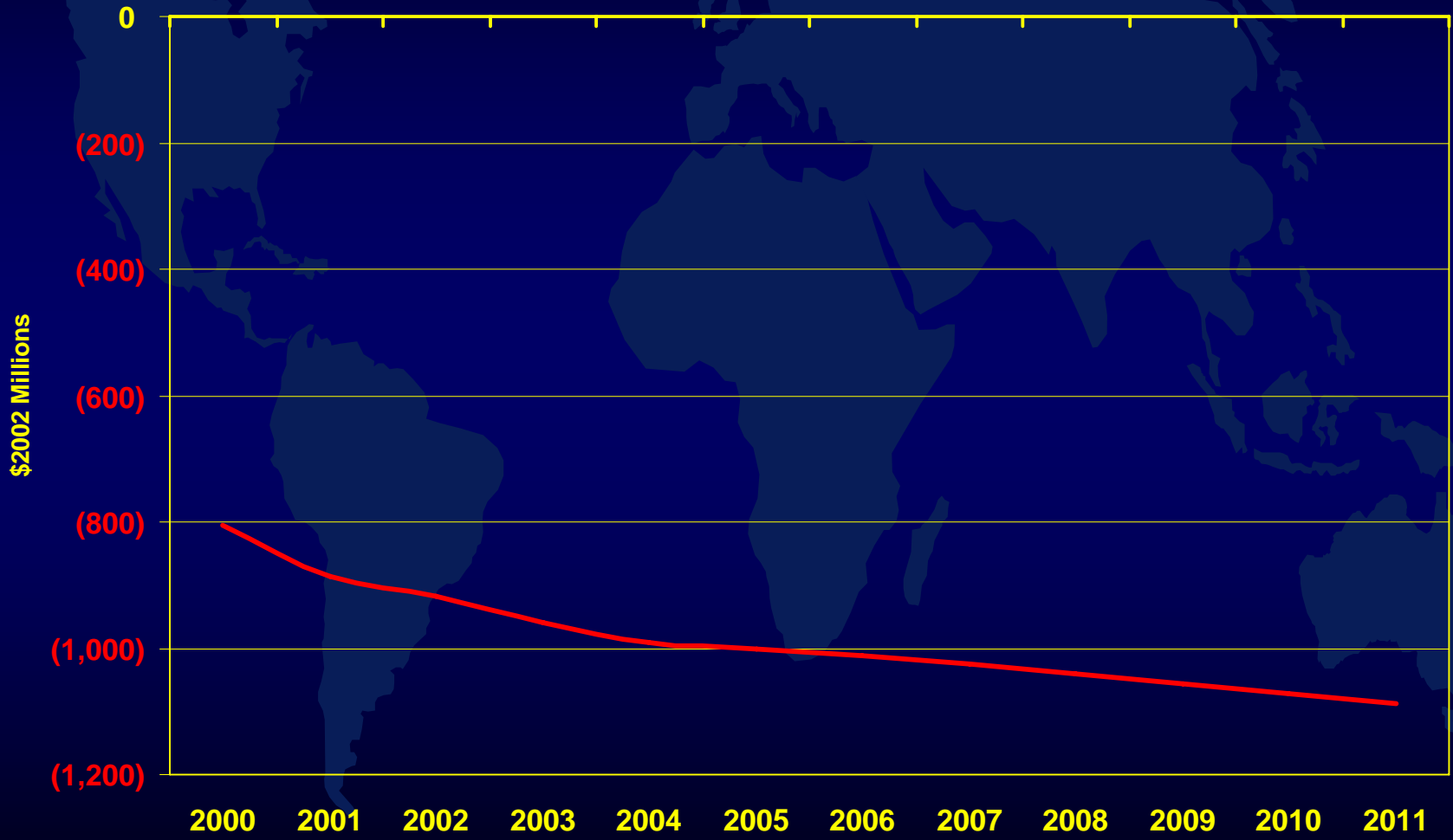
# Freight Traffic Mix Similar

TCDD Freight Commodity Shares



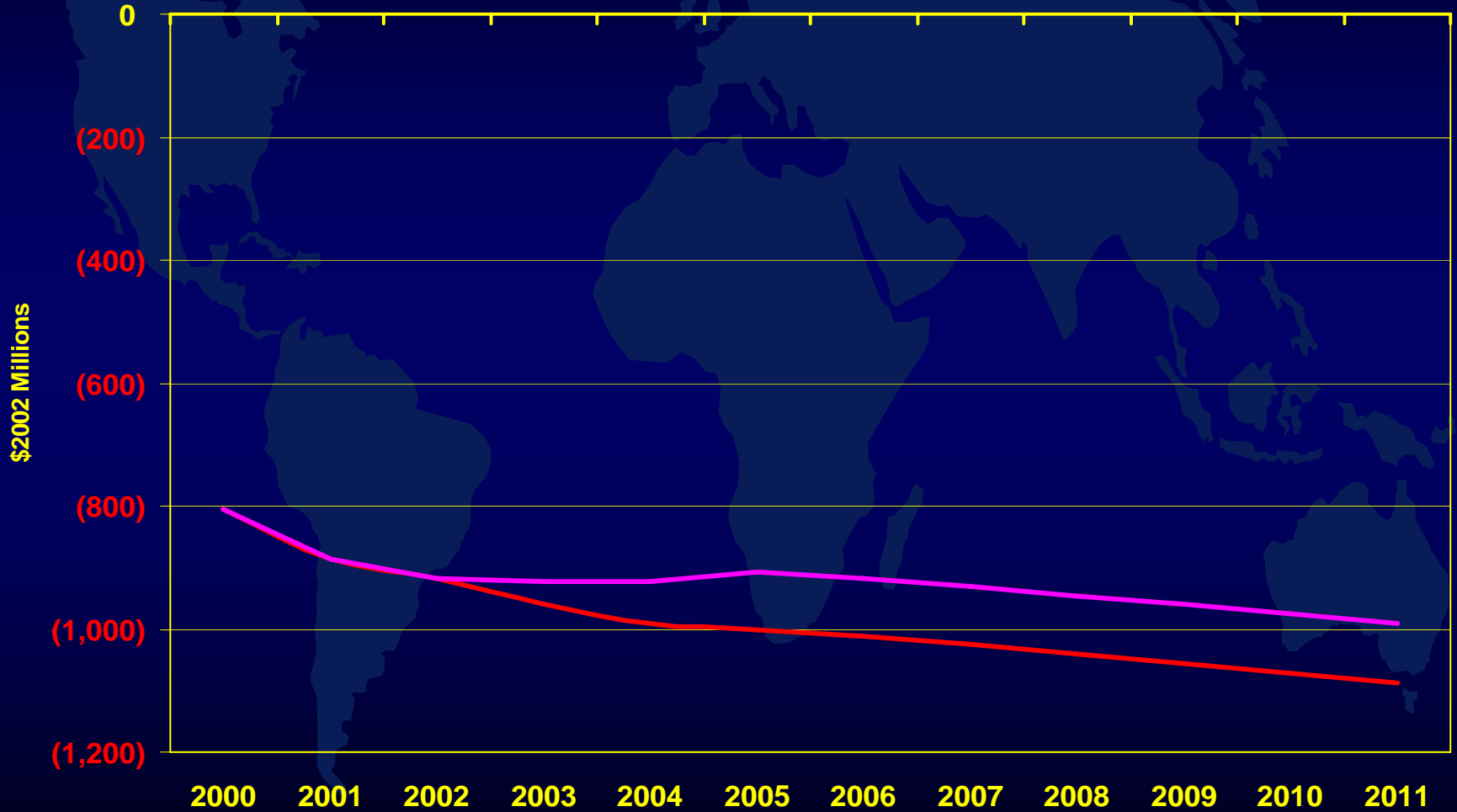
# TCDD Would Cost \$10 Billion

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



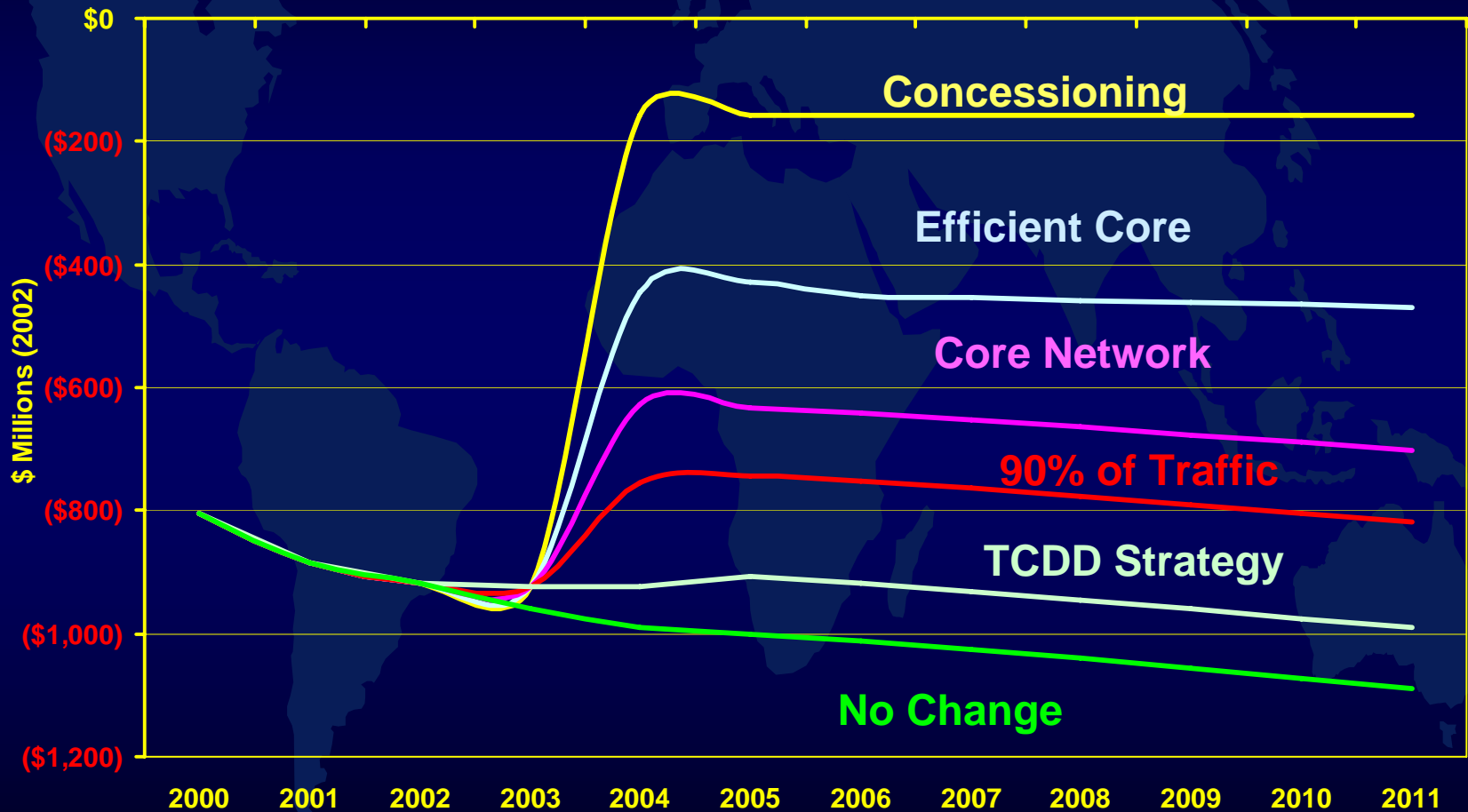
# The Core Network

TCDD Core Network



# Subsidy Needs Can Be Reduced

## Operating Cost of Railway



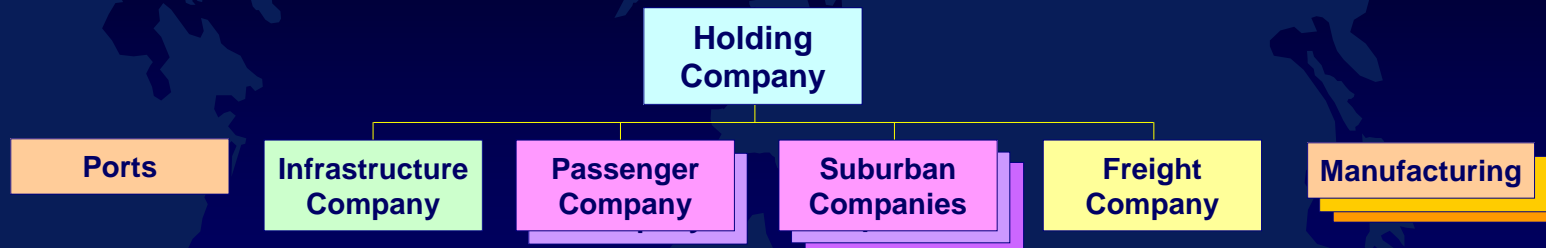
# Considering Bolder Plan

- 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