Restructuring Options
For Reform of TCDD

World Bank Rail Restructuring Seminar

27 May 2003
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

Deficit as % of GNP

% Change in GNP

TCDD Cost $10 Billion Over 20 Years
Rail Becoming Less Important

Transport Market Size

- Road
- Air
- Water
- Rail

Traffic Units (Pkm+Tkm)-billion

0 50,000 100,000 150,000 200,000 250,000 300,000 350,000 400,000

Rail Now Less Than 4%
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

Million Traffic Units Annually

- Greece
- Turkey
- Hungary
- Spain
- Bulgaria
- Sweden
- Finland
- Portugal
- United Kingdom
- Romania
- Czech
- Slovenia
- Denmark
- Poland
- France
- Germany
- Italy
- Austria
- Belgium
- Netherlands

WORLD BANK RAIL RESTRUCTURING STRATEGIES SEMINAR
While Rail Traffic Grows Slowly…

Railway Traffic

- Freight (tkm)
- Suburban (pkm)
- Intercity (pkm)
- Average Freight Haul

Pkm & Tkm (millions)

Kilometers

Unit Prices Have Declined

Unit Revenue (real)

$ (2002) Per Tkm or Pkm

- Freight
- Suburban
- Intercity

Graph showing trends in unit revenue from 1980 to 2000 for different types of transportation.
Freight Traffic Mix Similar

TCDD Freight Commodity Shares

Minerals & Ores  Other  Construction Materials  Food and Agricultural  Metals & Machinery  Chem, Fert, Petrol  International
TCDD Would Cost $10 Billion

Net Operating Loss of Railway

$2002 Millions

Existing Strategy Helps a Little

Net Operating Loss of Railway


$2002 Millions

- (1,200)
- (1,000)
- (800)
- (600)
- (400)
- (200)

- 0
Consider Alternative Strategies

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

TCDD Network Capturing 90% of 2001 Traffic Units

WORLD BANK RAIL RESTRUCTURING STRATEGIES SEMINAR
Subsidy Needs Can Be Reduced

Operating Cost of Railway

- Concessioning
- Efficient Core
- Core Network
- 90% of Traffic
- TCDD Strategy
- No Change

$ Millions (2002)

$0

($200)

($400)

($600)

($800)

($1,000)

($1,200)

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