

INFRASTRUCTURE

SLOW TRACK: A
train enters Warsaw's
Wschodnia station
REUTERS/KACPER PEMPEL

Brussels promised billions of euros to revamp eastern Europe's
railways. Only 10 percent has been spent

Signal failure

BY ANTHONY DEUTSCH AND MARCIN GOETTIG

BRUSSELS/WARSAW, JUNE 21, 2012

It was meant to be one of the great rewards of membership. As the European Union expanded eastward over the past decade, Brussels set aside billions of euros to improve infrastructure - especially the fading communist-era railways - in 10 new member states.

But a Reuters investigation has found that just one in 10 euros up for grabs since 2007 has been used, raising questions about Europe's grand plans to stimulate economic growth, reduce traffic deaths and cut carbon emissions.

Infrastructure spending has always been one of the carrots to lure countries into the European Union. Brussels spent billions in Spain, Portugal and Greece in the 1980s and '90s. When the former eastern bloc countries joined the EU in 2004 and 2007, they too were promised a cash injection.

Few areas were as ambitious as railways. The European Commission allocated 14.9 billion euros (\$18.62 billion) to the so-called "cohesion fund" for 2007-2013 to finance railway projects in entrant countries and create a competitive, pan-continental system dubbed the "Trans-European Transportation Network" or TEN-T.

The spending is meant to connect Europe, but is also a key part of Brussels' long-term targets to reduce carbon emissions by 60 percent, halve conventional car use and shift 50 percent of long distance freight onto trains and ships by 2050.

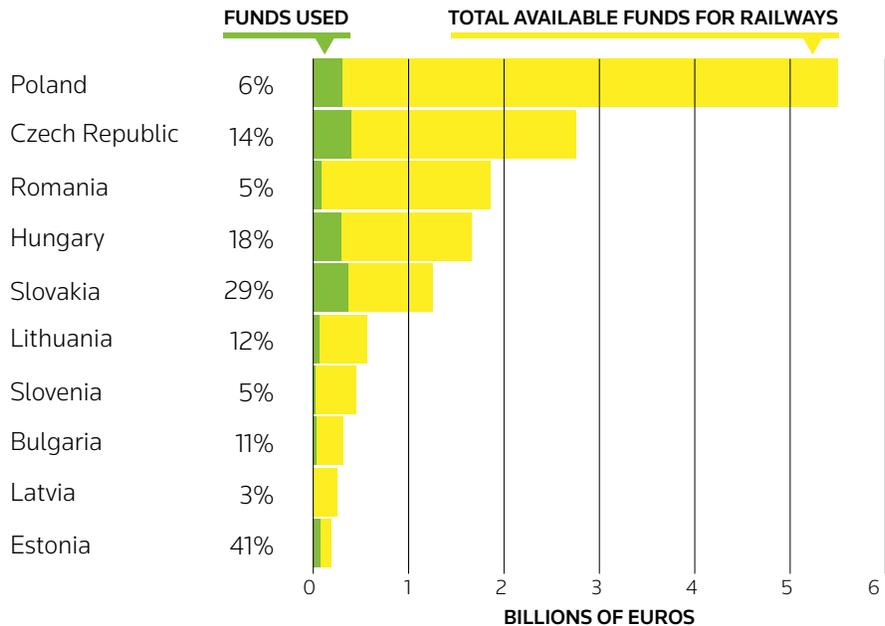
The Trans-European Transportation Network foresees a massive overhaul of the way Europe's people and goods move about. The target is to put every business and more than 500 million citizens within 30 minutes of the core network.

So far, though, only 1.65 billion euros (\$2.06 billion), or about 11 percent of the fund has been used, according to calculations by Reuters based on data provided by the European Commission and governments.

Beyond the failure to fully utilise this first wave of EU funding there are potentially serious consequences. It casts doubt

EU cohesion funds for railways

EU countries have failed to build much new infrastructure despite the billions on offer from Brussels between 2007 and 2013



Source: European Commission and governments

on the bloc's ability to meet a greater challenge - spending 500 billion euros, or 33 times that amount, which the EU says is required for its transportation network.

By 2020, the Commission estimates, more than 250 billion euros will be needed to achieve its first phase: connecting 120 major ports and airports to railways, upgrading 15,000 km (9,300 miles) of rail tracks to high speed and removing 35 key cross-border bottlenecks.

"Transport is the lifeblood of the European economy. And if it does not flow smoothly, our economy will weaken and fail to grow," Transport Commissioner Siim Kallas said in a speech in Brussels, detailing plans to spend an additional 31.7 billion euros in transportation infrastructure over the next eight years.

Europe's railways are an "inefficient patchwork," he said. There are seven gauge sizes for tracks, only 20 major airports in 27 countries are connected and major in-

frastructure projects "are not getting built."

So far, though, the promised billions of euros has not improved Europe's ability to change that.

"It is obvious that in these countries, while the integrated railways have asked for many, many years for a lot of funding, this is in total contrast to the capacity to absorb this money," said Monika Heiming, executive director of the European Rail Infrastructure Managers organisation.

"The absorption rate of EU funds, especially railways, is extremely low, much lower than we thought."

A high-level EU official, who spoke on condition of anonymity, said the absorption rate was low partly because funds are paid by Brussels after projects are completed. New member states lack the administrative capacity to implement multi-billion euro projects and, in contrast to Commission objectives, have prioritised roads over railways.

"The technical issue certainly makes the

numbers look a lot worse than they actually are, but at the same time, certainly I wouldn't want to disguise the fact that, particularly on the absorption of rail funds, they haven't done everything we would have wanted," the official said.

"The 11 percent makes that issue sound rather worse than that it is. Even in an ideal world we would only be looking at an actual, final payment rate at this stage of 20-25 percent."

The Commission is working with local governments to build administrative capacity, he said, and "once they've got the people who have the ability to plan and deliver the projects, I think it's much more reasonable to expect the kind of things we are hoping for the future."

In the meantime, the money will sit in an EU account. If unused by 2015, it will be returned to the overall EU budget.

MOVING BACKWARDS

In some places, public transport has gotten worse.

Take Poland, the EU's largest new member. The country of 38 million people boasts one of the bloc's strongest economies; Poland was the only EU country to avoid recession during the global crisis in 2008-2009.

But train travel times on some routes have actually slowed in the two decades since the fall of communism.

Despite a boost in infrastructure spending, dozens of railway improvement projects have been postponed or delayed. As of May this year, Poland had received just 5.5 percent, or 303 million euros, out of 5.5 billion euros available under the EU cohesion fund budget, the ministry of regional development said.

Construction sites dot Poland's capital. A new fast rail link takes travellers from Warsaw to the airport, the central train station was renovated and a second underground line is being built.

But the signs of overall decline after two

decades of weak spending following the fall of the communist regime are all too obvious. The average age of a Polish passenger carriage, at nearly 30 years, is almost twice that in the United Kingdom. Thirty percent of railway tracks are unsuitable for high speed trains, while 70 percent of wooden sleepers need to be replaced.

"We have moved backwards, not developed," said Janusz Wdowiarek, a retiree who as a Boy Scout in postwar Poland used to nap on the four hour train ride from Warsaw to the main port city of Gdansk, 300 kilometres north.

More than half a century later, the same trip takes 90 minutes longer and many peo-

“Travelling by train used to have its charm. Now all the pleasure has vanished. Once you could depend on the railway, now you can't.

Janusz Wdowiarek
A passenger

ple prefer the bus because of delays, poor service and run-down, dirty carriages.

A 3.4 billion euro (\$4.25 billion) plan to electrify and upgrade the Warsaw-Gdansk line, including new carriages, began eight years ago and was meant to be completed for this month's Euro 2012 football championship, which sees matches in both cities. Gdansk, the largest Baltic coast port, is of huge importance to Poland's economy.

But at the current rate of construction, the job will likely be completed four years late, in 2016, and only a fraction of the EU funds will be used.

VANISHED PLEASURE

On a recent spring morning, the train to Gdansk pulled out of the capital and stopped two minutes later due to construction work. Modern conveniences offered in most Western European trains - such as electrical sockets and Internet - were notably absent.

"Travelling by train used to have its charm. Now all the pleasure has vanished. Once you could depend on the railway, now you can't," Wdowiarek, a 65-year-old



NEXT PLATFORM: Warsaw train commuters look forward to improvements, but other parts of Poland's network desperately need updating. REUTERS/ KACPER PEMPEL

retired science teacher, recalled while travelling with his wife, Jadwiga. “I dream of going to France and taking the TGV.”

Railways were a strategic priority for Poland’s communist regime, with its obsession for heavy industry, but after the arrival of capitalism in 1989 they became an unpopular relic of the past.

Many Poles now prefer cars to rail. A new car is one of the most powerful symbols of prosperity in Poland.

Officially, the government is keen to get more people on trains. But it’s struggling to put those words into action. Building roads has been politically popular and necessary to alleviate growing congestion.

Maria Martisiute, a European transportation expert at the infrastructure managers’ organisation, said that eastern European states have not built more railways “because of a lack of institutional capacity and experience”. As a result, Warsaw has dropped some railway projects and asked the Commission to shift 1.2 billion euros to roads, which are faster and easier to build.

Brussels, which is committed to reducing carbon emissions, rejected the request.

“They must focus more resources on actually implementing the projects that we funded them to do and they accepted to do,” the EU official said.

LATVIA SUSPENDED

The EU is getting even tougher on other new members.

Estonia has had the greatest success in absorbing the Brussels funds. It received 76 million euros (\$95.6 million), or 41 percent of its allocated budget of 185 million euros.

By contrast, Latvia has absorbed just 2.8 percent, or 7 million euros out of 256 million euros available. Brussels suspended Latvia’s payments in January 2012, citing weak controls over how the money was being spent, the country’s finance ministry said.

Like other members, Latvia has com-



PAST PRESENT: Old Polish State Railways emblem on a locomotive at a railway museum in Warsaw. **REUTERS/KACPER PEMPEL**

plained about the time-consuming and complex process for receiving EU funds, which requires states to pay for projects upfront and meet tough technical and environmental requirements. Reimbursement often takes months and sometimes years.

“We were not able to generate sufficient cash from our operating activities to pay the invoices,” said Zbigniew Szafranski, former head of the state railway administrator, complaining it took two years to set up an accounting framework. “If we hadn’t announced tenders independently and obtained independent sources of financing... we would not have been able to launch many projects.”

Brussels has given Latvia three months to work out a plan to eliminate shortcomings. The country’s finance ministry sent out its action plan on April 26 and the European Commission says it will review the

suspension in the next few weeks.

Deutsch reported from Brussels, Goettig from Warsaw. Additional reporting by Francesco Guarascio in Brussels, David Mardiste in Tallinn, Tsvetelia Tsoleva in Sofia, Radu Marinus in Bucharest, Sandor Peto in Budapest, Jan Lopatka in Prague, Aleks Tapinsh in Riga, Martin Santa in Bratislava. Editing by Simon Robinson

FOR MORE INFORMATION

Anthony Deutsch, Infrastructure Correspondent

anthony.deutsch@thomsonreuters.com

Simon Robinson, Enterprise Editor, Europe, Middle East and Africa

simon.robinson@thomsonreuters.com

Michael Williams, Global Enterprise Editor

michael.j.williams@thomsonreuters.com