

RAIL BALTIC: Minor details could get in the way of a major railway

Until recently, even invoices of €5,000 for the nearly 6 billion euro railway project required an approval of a council comprising the representatives of three states

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When the national audit authorities of the three Baltic States submitted a critical joint audit report to the central company in Latvia leading the construction of the railway, RB responded somewhat reproachfully, that “the report does not focus on the current status of the project and is rather looking at its history.” In some sense, paradoxically, this is the right way to go. For example, the 1.35 billion planned as the cost of the Estonian section of the railway, which is still referred to everywhere in the public domain, has become history.

If we’re talking about today, then as at October 2019, the budget for the Estonian section was estimated at 1.662 billion euros, i.e. the estimated cost of the Estonian section has already increased by 312 million euros, thus by a quarter. This was ascertained from the presentation by the Estonian company for Rail Baltic at the State Budget Control Select Committee of the Riigikogu a month ago. But this may be just the beginning.

If the audit report indicates a need for a more efficient control, it refers precisely to the symptoms that may hinder the construction of the entire joint railway going forward. After all, the management of RB Rail, too, understands that it is difficult to complete a more than 870 km railway costing a minimum of 5.7 billion euros if every invoice greater than 5,000 euros has to be approved by the council that meets once a month.

This is micro-management, getting wrapped up in minor details. Yes, it’s true that this arrangement was fortunately dropped in the spring of 2018. But micro-management is also present in decisions in which RB Rail is required to request the permission of the council to hire additional labour. These two moments have been highlighted by the management of the company themselves. These are tactical and operational decisions, not strategic choices for which the intervention of the council is essential. The project is too big to coordinate every single detail between all the parties involved. However, Rail Baltic procurements continue to drag on because the council has to approve every last detail.

A deadlock may be dire

More specifically about the future: disagreements go hand in hand with every project involving several parties, but this is not the issue. The issue is that when disagreements come to a deadlock and parties for some reason are no longer willing to compromise, then that’s it. If the council does not reach a decision, the decision can be delegated to a steering committee comprising the representatives of the states. And if the steering committee is unable to reach a consensus either, RB Rail has to be dissolved and the whole project will be left without a leader. This possibility has to be taken into account in human affairs, and the ability to make decisions has to be ensured even in case of management crises. And this was one of the main messages of the national audit offices of Estonia, Latvia and Lithuania.

It’s far from a hypothetical scenario. For example, with regard to the survey of Pärnu freight terminal and the survey of Ülemiste-Vanasadama tram line, the parties were, for a long time, unable to agree on whether the surveys should be procured by RB Rail or the Estonian national contractor. An argument is still ongoing on how to finance the central company RB Rail situated in Latvia. The Baltic States also haven’t been able to reach an agreement on the best solution for managing the infrastructure once the railway is completed and operational. By the European Council Implementing Decision, the deadline for approving the

infrastructure management solution was set as June 2019, but the states failed to meet this deadline. No agreement has been reached.

It is therefore a very topical issue, not digging in the past – very important substantive decisions and costly expenditure are dependent on the answer to the question of how and who will manage the infrastructure. How will the organisation of rail traffic be carried out along the entire route? Who and when will use the rail, how is railway capacity arranged? And in longer terms when it comes to operating – should the train driver be changed at each country's border when a state decides that, for example, only a person who is sufficiently proficient in the national language of that state is permitted to drive a train on its territory? Or if a state starts to insist, referring to the law, that only a specific company owned by that state is permitted to manage the railway? Should each state procure their own machinery and special technology to maintain the route? Or is this in the hands of a central caretaker who can plan repairs and efficiently use technology exactly where needed based on the necessity and taking the operation of the entire route into consideration? And so on.

RB Rail further replied to the national audit offices that “the title of the report could give rise to an expectation that the report provides an overview of the actual status of the implementation of the project for the general public,” advising against creating unnecessary hopes. When it comes to the actual status, we know that the whole venture is behind schedule and over budget.

We must be realistic

Not that there is anything unusual about this. Delays and going over budget are fairly common in projects of this magnitude. Compared to the plan, the delay is, on average, a year and a half, and there are operations that are lagging behind the schedule by five years. Yes, there are operations that are ahead of schedule. But I don't think that anyone would be willing to put their head on the line that Rail Baltic will actually be functional by 2026 as specified in the contract.

The increase in costs is undoubtedly a problem. As such, a certain risk factor is present that the years further ahead are still unresolved when it comes to financing the project. Depending on the state, three to five year plans are available, but the construction will take longer and there are no binding promises to ensure the financing of the project until the completion from there on. There are also no formal scenarios in case the project becomes more costly than estimated and/or EU co-financing turns out to be smaller than expected.

We want to be optimistic about the realisation of Rail Baltic. But we can be even more optimistic if all parties clearly see all the possible predicaments and know how to avoid them. And it's better to admit reality than to force yourself to claim that we can get the project done with the budget and schedule initially planned.