

Aleksandra Kuczyńska-Zonik

## **Rail Baltica Slows Down – Problems Growing Around the Investment**

**The goal of Rail Baltica is to integrate the Baltic states into the European rail network. In addition to the mobility, the quality of rail services and the improvement access to them, the project is also expected to contribute to the development of business and tourism, and the increase of goods exchange within the region. However, an audit published in December 2019 questioned, the possibility to complete the project within the assumed time. Currently, Lithuania, Latvia and Estonia have to focus on improving project management efficiency, tender procedures and ownership structure. Increased mobilization will be fostered by the fear of funding being reduced in the next long-term EU budget.**

**From idea to implementation.** Rail Baltica (RB) is the largest Baltic-region infrastructure project in the last 100 years. For the first time, the idea for the project appeared in the 1990s during Pan-European transport conferences in Prague, Crete and Helsinki. In 1994, the concept appeared in the joint policy document “Vision and Strategies around the Baltic Sea 2010” as an important element for spatial development in the Baltic Sea region, and in 2003 in the list of priority projects in the proposal submitted to the European Council by the European Commission. Finally, in 2008, the European Commission decided on Trans-European Transport Network (TEN-T) co-financing for Latvian, Lithuanian and Estonian projects. October 28, 2014, the three Baltic Prime Ministers signed the Joint Statement in Riga and the RB Rail AS was established, which is responsible for the implementation of RB. The national shareholders are Rail Baltic Estonia (Estonia), Eiropas Dzelzceļa līnijas (Latvia) as well as Rail Baltica statyba and Lietuvos geležinkeliai (Lithuania).

**Modern, safe and environmentally friendly.** RB is a new, fast, double-track electrified railway line with maximum design speed of 249 km/h for passenger trains and 120 km/h for freight trains, on the route from Tallinn through Pärnu – Rīga – Panevėžys – Kaunas to the Lithuanian-Polish border, with a connection from Kaunas to Vilnius (213 km – Estonia; 265 km – Latvia; 392 km – Lithuania; total – 870 km). Today most rail freight traffic transported by railway in the Baltic states originates from CIS countries, in particular from Russia, using the existing 1520 mm gauge system which, makes it difficult to interconnect the region with the rest of the EU states via Poland (most EU states have the 1435 mm gauge system). The project will ensure the integration of Lithuania, Latvia and Estonia in the homogeneous European rail network. RB will be fully electrified and built using the most up-to-date technologies and materials. The line is planned so that it avoids the Natura 2000 protected areas as far as possible and without significant impact on other environmentally sensitive protected areas. Wherever necessary, noise protection barriers will be installed and special animal passages will be built through the embankment. RB will conveniently connect airports, road network, and a system of new and rebuilt stations will facilitate the access to rail services for passengers.

The total estimated construction cost of the project is 5.788 billion euro. The implementation of the project is financed by Estonia, Latvia and Lithuania, and co-funded from the European Union up to 85% of the total eligible costs, in particular in the framework of the Connecting Europe Facility (CEF) funding instrument. So far, three Baltic states have received three grants of a total value of 824 million euro (Estonia – 235 million euro; Latvia – 303 million euro; Lithuania – 286 million euro).

**Deadlines missed.** According to the project timeline, the RB construction works started in 2019 (the construction phase should be implemented in 2019–2026), but it is already known that it will be difficult to meet the assumed deadline. According to the most pessimistic scenario, the RB implementation may be completed as late as 2030. In December 2019, the findings from the audit of the RB project implementation were presented. The joint audit,

conducted by state control institutions of Lithuania, Latvia and Estonia, has revealed a number of the project management, scheduling and budget risks. The published report has indicated that some activities of the project are several months behind the schedule agreed in the funding agreements. As a result, the total costs of the existing contracts have increased by several dozen million euro, mainly due to the project expenditure growth in Latvia and Estonia. In addition, the audit has unveiled many difficulties in mutual cooperation, conflicts of interest between the RB Rail shareholders (including the infrastructure management model in the future), a lack of an effective decision-making mechanism at different stages of the implementation of the project, as well as the inability to solve deadlock situations when the beneficiaries could not agree on a common solution. The Baltic states have had different visions for the project governance and infrastructure management. Additionally, the Baltic states have been criticized because none of them has officially approved plans for re-financing in case project costs increase or if the EU funding turns out lower than planned. The audit recommends to eliminate irregularities and to develop more effective procedures for the implementation of the project.

**More and more doubts.** The report highlights the reasons for the RB implementation delays. Undoubtedly, they resulted from the problems of the real estate alienation process, particularly in Latvia and Estonia, where the expropriation process is protracted and more complicated. There have also been doubts whether the project corresponds with the local development plans in Latvia. Moreover, the investment was criticized by the landowners of the properties along the RB planned route, and the environmentalists according to whom the environmental and social costs would exceed the expected benefits of the project. There have also been doubts whether the investment is economically rational, and whether the existing communication routes could be used for the potential transport services in the future. Social resistance towards the implementation of the project was the most evident in Estonia, where voluntary groups opposed to the project and have been organizing numerous protests and demonstrations (among the most active group was Avalikult Rail Balticust – ARB). According to public opinion polls conducted in December 2019, only 22% of the Estonian respondents are in favour of a new RB route accepted by the government, while 18% are totally opposed. The latter would prefer modernisation of the existing rail networks. Latvia and Lithuania have not seen massive social protests against the RB, as the problems resulted from the insufficiency of the real estate alienation process and compensation for the landowners.

Efficiency and effectiveness of the investment implementation were also limited by changes in the management board. They resulted mostly from the replacement of high-rank officials as well as management board members. At the end of October 2019, RB employees sent a joint statement to the offices of the Baltic transport ministries, requesting immediate action because of the structural and organizational problems of the investment. They indicated “a critical situation” due to a conflict of interests, a lack of coordination of the project between public and private sectors on a national and regional level, as well as a lack of the inter-sectoral cooperation.

A particularly worrisome dispute arose on political issues of the investment. Shareholders in Latvia and Estonia have blamed the Lithuanian partner for the project delays. At the same time, the mainstream political parties in Estonia – Isamaa and EKRE – which form a coalition government have expressed low enthusiasm about the RB project from the very beginning. During the coalition talks, Mart Helme, the EKRE chairman, already indicated that he was looking for ways to stop the RB by examining the economic substantiation of the project, the impact on the environment or by the RB route change. Instead, he offers the modernization of the existing railway routes in Estonia.

**Conclusions.** Lithuania, Latvia and Estonia may derive many economic and social benefits from the RB investment. Local development plans provide many additional convenient connections, including safe communication from train stations to city centres. In addition, the Baltic states expect other economic benefits, such as: the real estate development, attractive jobs, urban areas revitalization, technology and innovation transfer, tourism development, and others. RB shall strengthen the synergies between North-South and West-East freight flows, creating new trans-shipment and logistics development opportunities along the European trade routes. Furthermore, thanks to the project of a railway tunnel between Tallinn and Helsinki, the RB would

contribute to a possible link between Europe and Asia via the Northern Sea Route (“IEŚ Commentaries”, No. 103). Although Finland decided to be involved in the RB project (February, 2019, a company Oy Suomen Rata AB was established), the cooperation between Finland and the Baltic states has slowed down recently. Broadly speaking, the RB is a project of a new economic corridor that may contribute to regional and global integration. Poland – as the centre of the new communication system – may become one of the main beneficiaries of its investments.

Lithuania, Latvia and Estonia confirm that their hitherto failures should not overshadow their common goal, and the losses should be minimized. Joint energy projects (gas connections) between the Baltic states exemplify the success of cooperation among them, and further projects are planned (an off-shore wind farm). According to the RB implementation, Lithuania, Latvia and Estonia announced the continuation of negotiations for a more efficient management system. During a meeting of the Baltic Council of Ministers as well as the transport ministers of Lithuania, Latvia and Estonia on 7 February 2020, the participants declared to move forward with the implementation of the RB railway, saying it would be ready by 2026. At the moment, the Baltic states have stressed the need to improve the structure and security management, new tax solutions, proper regulations for tender process, and the ownership structure. From the Baltic perspective, it is important to secure the RB investment to be included into the next EU 2021–2027 budget, when the most active the RB construction works will be taking place. Lithuania, Latvia and Estonia should support the investment more intensely in order to protect the project implementation from the delays and, ultimately, from the limitation of the EU funding.