

Avalikult Rail Balticust

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Ms Baiba Rubesa
RB Rail AS
K. Valdemāra iela 8,
Riga, Latvia, LV-1010

Re: Issues regarding Rail Baltica CBA

Your ref. 6.1/2017-343
Our: 31.07.2017

Dear Ms Rubesa,

thank you for your reply and express of appreciation for the input we have provided for making Rail Baltica project stronger and more viable. Both our organizations share the opinion that Rail Baltica is the most important cross-border project for our countries. The scale of the project requires unprecedented transparency and attention from all parties to all details. We are sure you have read the European Commission reply to us that was also copied to your college. Mr Dirk Beckers emphasized the full responsibility of the solid and reliable CBA that lies on all three Baltic States as beneficiaries. We hope that we both share the opinion that getting the grant from EU is not enough. Joint forces should be mobilized to avoid risk of recovery caused by errors in CBA and even more important to ensure project will be feasible in reality and subsidizes to keep project viable will not be tenfold higher than forecasted today. This is why our citizen movement and publicity of Estonia carefully follows every action.

As also stated in the letter from European Commission issues we discovered in Rail Baltica CBA should be adequately answered by the beneficiaries and they disagree such discussion is out of the scope of official correspondence. In case your experts prefer to meet with us we are open and welcome such meeting although it does not replace the written answer. Also, since we are acting on a voluntary basis we would appreciate if RB Rail teams can come to meet us in Tartu.

In your letter, you have suspected our biased conclusions due to implementing ambiguous emission reduction on lorries and forgetting innovation in rail. This seems to be a misunderstanding. Four billion error in socio-economic benefits is derived from current standards and existing lorries.

We are not arguing if the forecasts are right or wrong, we agree that long term forecasts are difficult to make. However, the experience shows that major infrastructure projects tend to overestimate

the benefits; particularly railway projects in average have a 40% demand overestimate (<https://arxiv.org/ftp/arxiv/papers/1303/1303.7402.pdf>). We have serious doubts about the goods transport estimate in EY CBA study, but this is not the issue we are raising. Our main concern is the unbalanced accounting for environmental costs and benefits in the study. There are costs that have been omitted from the calculation and there are benefits that are calculated using incorrect values. Altogether this shows a biased calculation towards the proof of concept rather than an attempt to critically assess the project viability.

While the long term developments are difficult to estimate, the current status is known (lorries on the roads) as well as the short term developments which shouldn't be simply ignored. Electric or other new technology lorries that most likely will be there during CBA period would mean further decrease in socio-economic benefits, but this has not been considered in the CBA calculations. You have probably noted that countries have started to put deadlines to phase out on combustion engine production as environmentally harmful technology.

We would still appreciate your concise answers to our particular questions regarding CBA calculations:

1. What is the type of vehicle and considerations for assumption „Heavy Truck Fuel % OPEX: 25%“ (pg 147)?
2. On what considerations lower excise tax rate is used in assumptions than is valid today and why this rate is assumed not to grow together with the forecasted real growth of the GDP per capita as all transport external costs used in calculations?
3. What is the type of vehicle and considerations for assumption air pollution rate 0.10 €/vkm “Outside city” and 0.22 €/vkm “Within city” (pg 146)?
4. What proportion of “Outside city” and “Within city” is used in the calculation of total air pollution costs caused by trucks?
5. The CBA does not consider railway construction time environmental costs, permanent environmental costs, neither electricity production emissions that are required to run the electric locomotives. Please explain how this is in line with the EU CBA guidelines.
6. Have you submitted CBA to DG Move or DG Regio?
7. Please advise the names and titles of the experts who have approved the CBA as stipulated in your reply 8.07.2017.
8. Has CBA got approval from EY internal quality checking? If so please provide the copy of the certificates. The report is lacking the QA/QC information.

Following is a brief summary of the major issues we have explained in attached document (this document was also sent to European Commission):

1. The largest issue concerns the truck air pollution rate in motorways (10 €/ct/km) that is used in the calculation of the socio-economic benefit. The total undiscounted value obtained from this assumption is 3.3 billion euro, about 20 percent of the total socio-economic impact.

According to the referenced source, such an air pollution rate corresponds to EURO I or EURO II trucks. During the time 2026-2055, it would be reasonable to expect EURO VI or better trucks to be used. The emission rate for these trucks is 25 times lower, as shown in the referenced source (0.4 €ct/km). This correction results in a 3 billion euro reduction of the socio-economic benefit.

2. The correction of the long-haul road transport vehicle type reduces the undiscounted socio-economic benefit by 220 million euros.
3. The correction of the predicted fuel excise growth decreases the undiscounted socio-economic benefit by 930 million euros in addition.
4. We notice that direct GHG emissions and other environmental impacts caused by the construction process and the new railway corridor have not been considered in the socio-economic impact calculations thus presenting the project more favourable than it actually is.
5. The cost savings of the rail freight on page 179 (table 77) and on page 75 (table 26) of the CBA shows example calculations of terminal to terminal rail freight costs, comparing them with door to door road freight costs. This fails to consider the costs it takes to ship freight from a customer's door to the railway terminal and from the destination railway terminal to the customer's door. Failure to account for door to terminal and terminal to door costs of rail transport overestimates the benefits i.e. cost savings of the rail freight and expected operator fees.

These are only a few of the issues, but unfortunately, they show that Rail Baltica project might be not viable in current shape and cost level as 4.1 billion euro as minimum of socio-economic revenues have no ground. In addition to these, there are quite a number of smaller issues that have been made available online: <https://goo.gl/hMhaEw>. Behind the link is the CBA report in Dropbox where all comments from the voluntary experts can be seen.

We are sure that it is in the interest of RB Rail AS and your stakeholders to take due care and adequately answer all concerns before submitting the CBA to INEA.

With best regards

Priit Humal
member of the board

Karli Lambot

Illimar Paul

Raul Vibo

Attached:

Major mistakes in Rail Baltic CBA made by EY