

# ON HIGH-SPEED RAIL'S FINANCIAL SHELL GAMES

## Brief Note #10 – June 25<sup>th</sup> 2011

From the authors of *The Financial Risks Of California's Proposed High-Speed Rail Project* and six Briefing Papers. Available at <http://www.cc-hsr.org/>

### **Finding: High-speed rail's profits are an illusion built on false accounting**

**Background:** AB3034's sponsor, Assembly Member Cathleen Galgiani, the CHSRA's Board's Chair, its CEO, and its Deputy Executive Director all claim high-speed rails' profitability.<sup>1</sup> A 2007 Congressional hearing will clarify why they might want to reconsider those claims.<sup>2</sup>

**France** – In 1997 the state-owned railway company, Société Nationale des Chemins de fer français (SNCF), transferred the national rail infrastructure assets to the Réseau Ferré de France (RFF), a non-operating state-controlled finance agency. SNCF still operates the nation's rail system, including the Train à Grande Vitesse (TGV). The state grants SNCF \$2-\$3Billion annually for "tariff and public service contributions, concessionary fares and various other services" and pays a retirement supplement to SNCF "which is not shown on SNCF's income statement."<sup>3</sup> Since the French Government appoints twelve of the eighteen Directors of both SNCF and RFF, the Board has the latitude to move monies between what are essentially government agencies' accounts to make SNCF appear profitable.

**Japan** – the national government pays two-thirds, and the proximate local prefecture(s) one-third of the costs of building new Shinkansen lines. The relevant 'private' Japan Railway (JR) operator then pays a usage fee to the government.<sup>4</sup> Plus: "The annual Federal subsidy for the Shinkansen in 2006 was . . . a little less than \$1.3Billion, and the local government subsidy was . . . \$633Million."<sup>5</sup> With four of the JRs still being government-owned, the other three probably receiving concessionary usage fees, and the government annually granting the 'private' JRs another \$2Billion, these subsidies certainly indicate the Shinkansen is not profitable by any generally accepted accounting methods.

**Spain** – RENFE, the national rail carrier and operator (RENFE-Operadora) of the high-speed network is a government organization, controlled by Spain's Ministry of Public Works (Fomento).<sup>6</sup> As of 2007, before the Madrid Barcelona line, RENFE had allocated \$55Billion for construction of high-speed lines and another \$1.8Billion annually for operations and maintenance. With the national government funding construction and subsidizing operations, Spain's high-speed rail system can hardly be considered profitable.

**Conclusions:** Section 2704.08(J) of AB3034 (Galgiani) disallows the proposed California system an operating subsidy. The probability of governments' legerdemain in building and operating European and Japanese systems is very high and substantiated above. Governments have had decades of making these systems look profitable, when they actually depend on central government policies and largesse. Shell game anyone?

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<sup>1</sup> Member Galgiani claimed during June 3 2011 hearings on AB415: "The high-speed rail system in France runs with a profit margin of 25 percent and the one on Japan at 50 percent . . ." See: [The Daily Journal](#) from Associated Press, June 3 2011. CHSRA's Chairman Tom Umberg made that claim in a [Wall Street Journal](#) Op-Ed on June 6 2011. On February 25<sup>th</sup> at the Seventh Annual Regional Farm Bureau Conference, CHSRA CEO Roelof Van Ark said "Everywhere in the world, real High Speed rail can be positive and profitable." CHSRA Deputy Executive Director Jeff Barker made the 'profitable' claim during a KQED Forum radio program on May 23 2011, which was immediately corrected by State Senator Alan Lowenthal as being a false claim.

<sup>2</sup> See: International High-Speed Rail Systems: a Hearing before the Subcommittee on Railroads, Pipelines and Hazardous Materials of the Committee on Transportation and Infrastructure, House of Representatives; April 18, 2007. [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110\\_house\\_hearings&docid=f:34799.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110_house_hearings&docid=f:34799.pdf).

<sup>3</sup> Ibid. pgs 5-6.

<sup>4</sup> Four of the seven JR operating companies, JR Hokkaido, JR Shikoku, JR Kyushu and JR Freight, are still owned by Japan's government. See: <http://www.facebook.com/pages/Japan-Railways-Group/108300505858185>

<sup>5</sup> Op. Cit Hearing; page 10

<sup>6</sup> Op. Cit Hearing; pgs 10-11