

Low speed rail. Delays in the implementation of the Rail Baltica project

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Alongside Via Baltica, Rail Baltica (RB), which involves the construction of a high-speed railway (HSR) connecting the Baltic state's capitals, has been the most important infrastructural venture carried out by these states since they regained independence. Due to mounting costs, the high rate of inflation recorded in recent years, the expansion of the scope of work and bureaucratic problems, its implementation is at least five years behind schedule. An almost four-fold increase in its cost, from €5.8 bn to €23.8 bn, is the biggest challenge, as now the project's funding is in excess of the financial capacity of Lithuania, Latvia and Estonia. RB has been included in the Trans-European Transport Network (TEN-T), as a result of which the Baltic states are obliged to complete the investment by 2030. Although Lithuania, Latvia and Estonia have mainly financed its implementation from EU funds (85% of the eligible costs), these sums are highly insufficient. If the Baltic states fail to obtain further EU funds for this purpose, there is practically no chance of completing the investment, that is constructing all the planned sections and adjusting these to the required HSR parameters, in this time frame.

The characteristics of Rail Baltica

RB is a project involving the construction of a double-track railway line stretching over 870 km connecting the Baltic states, Poland and Finland. In line with political declarations, it is of paramount importance to Lithuania, Latvia and Estonia, which operate a Soviet-era broad-gauge railway infrastructure (with 1520-mm gauge tracks). Ultimately, RB will run through Kaunas, Panevėžys, Riga, Pärnu and Tallinn, and will connect in the south with a railway line running to Białystok and Warsaw, and in the north will continue in direction of Helsinki via an undersea railway tunnel (this would be the longest such facility in the world). Plans have also been made to construct extensions running to Vilnius, Klaipėda and Ventspils, as well as seven main railway stations and three multimodal terminals¹: in Kaunas (Lithuania), Salaspils (Latvia) and Muuga near Tallinn (Estonia).

¹ Multimodal terminals allow for transshipment of cargo from various transportation vehicles (for example from a railway car or a semi-trailer to a container) using more than one means of transport (in this case rail and road).

The Baltic states first considered the construction of a standard-gauge railway (with 1435-mm gauge tracks)² as early as the 1990s. When they joined the EU, this concept was included in the TEN-T priorities, and in 2014 a joint venture company, Rail Baltica AS with its registered office in Riga, was established. The 2017 signing of a trilateral agreement which enabled the three Baltic states to jointly apply for funding from EU financial facilities should be viewed as a turning point in the project's implementation. This was also when the project's time frame was set. The initial stage, which will not be completed within the planned deadline (by 2025), involves the construction of a rail link between Tallinn and the Polish-Lithuanian border, while the investment as a whole was to be finished within a decade, that is by 2030.

RB involves the construction of a standard-gauge HSR line with a maximum planned speed for passenger trains of up to 249 km/h. Not only would this reduce the journey time between the Baltic capitals by half (from 7 to

” Rail Baltica’s construction could enable the Baltic states’ ports to compete – mainly with Polish harbours – for the Polish, Czech and Slovak markets, as well as other markets including Ukraine and the Scandinavian countries. It could also contribute to the development of intermodal carriage operations.

3.5 hours for a journey from Vilnius to Tallinn) and enable a resumption of railway traffic on some lines, it would also improve the efficiency of Poland-bound cargo carriage which would no longer require transshipment from broad-gauge to standard-gauge track. Ultimately, Lithuania, Latvia and Estonia intend to operate two systems. Along the north-south axis they will build a new railway with standard-gauge tracks (RB), while maintaining the broad-gauge railway infrastructure which forms the basis for the railway network in all three Baltic states.

The construction of RB would also create prospects for reviving transshipment operations at the Baltic states' harbours which have recently been experiencing a hiatus as, due to the war in Ukraine, they ceased to serve their main markets (Russia and Belarus) which have convenient broad-gauge connections with these ports. LTG Cargo, the Lithuanian state cargo carrier, has pinned particularly big hopes on this project. This carrier is present on the Polish and Ukrainian markets and has recently begun to operate in Latvia and Estonia. In addition, it is the only Baltic state-controlled carrier to operate a 1435-mm gauge rolling stock, which puts it at an advantage. The implementation of the RB project would also enable this company to continue its expansion and to handle cargo transported from or to harbours located in the Baltic states.³ As a consequence, it would enable the local ports to compete, mainly with Polish harbours, for the so-called disputed base, that is the Polish market (its eastern and central parts), the Central European markets (such as the Czech Republic, Slovakia), as well as other markets including Ukraine and the Scandinavian countries. It would also contribute to the development of international intermodal carriage operations.

RB is also strategically important from the point of view of military mobility. A railway link based on a standard-gauge track running to Poland, and further to Germany, would facilitate military logistical operations. Alongside this, rail transport is the most efficient and at the same time the cheapest method for relocating troops and military equipment. In wartime, it could serve as an extra route for military transport.

² The normal, standard, European or Stephenson track gauge is the most popular track gauge in those countries, where the pace of railway development was the fastest. It is the dominant track gauge in Europe, North America and China.

³ M. Raimondi, 'LTG Cargo launches first cross-Baltic service', Rail Freight, 14 March 2024, railfreight.com.

Rail Baltica's financial problems

Implementation of the project has faced enormous problems. Its initial stage will be completed at least five years late, mainly due to the increase in the construction costs and inefficient management. A major public debate regarding its future arose when state auditors from Lithuania, Latvia and Estonia publicised information on the investment's problems and actual progress.

In a joint report published in June 2024, the three Baltic states' audit offices argued that over the years the project's cost estimate increased more than four-fold, from €5.8 bn in 2017 to €23.8 bn in mid-2024.⁴ At present, the investment requires another €19 bn, although this sum could be reduced to €10 bn by slashing the project's scope. This would be the reduced cost for the construction of a railway link between Tallinn and the Polish-Lithuanian border. Additionally, the auditors discovered that the investment's implementation is at least five years behind schedule. The report, which was compiled between December 2023 and June 2024, was intended to identify and organise the problems which occurred during RB's construction but which were only superficially covered by the media in recent years.

EU funds are the basic source of financing RB's construction in the Baltic states. They account for 85% of the investment's total eligible costs.⁵ They mainly come from the Connecting Europe Facility (CEF

” Due to insufficient funding available from the Baltic states' budgets, the investment will not be completed on time. Moreover, systemic problems have been revealed regarding the implementation of large infrastructural projects.

Transport), however, in line with this facility's rules they cannot be used to fund all the costs of purchasing plots of land and buildings, or of forced sale operations, which forms the biggest problem for Lithuania, Latvia and Estonia.⁶ Other problems result from the fact that CEF Transport was designed to co-fund the modernisation and construction of infrastructure located along the TEN-T network, although at a smaller scale (such as the construction or modernisation of selected sections, the development of intermodal terminals). Its budget for 2021–7, which amounts to €25.8 bn, will mainly be spent on cross-border projects and actions to combat climate change in all EU member states, as well as in Ukraine and Moldova (since 2023). This means that using CEF Transport's funds to finance the cost of RB's construction would use up a major portion of its seven-year budget. Moreover, using this facility is not very convenient in the case of large infrastructure projects because it requires the applicant to apply for funding for specific sections of the railway separately.

The European Commission (EC) continues to strongly support RB and views it as the most important investment carried out as part of the North Sea–Baltic corridor.⁷ It has recognised that, due to strategic reasons, the Baltic states should be better connected with the rest of the EU. According to the results of another call for proposals announced in July, the EC has allocated a further €1.2 bn to this initiative (around €370 mn will go to Estonia, around €346 mn to Latvia and around €458 mn to Lithuania).⁸ This was the biggest sum allocated to a specific individual project in the recent call for proposals. So far, taking into account the funds allocated by the EC in July and those contributed by

⁴ *Review on the Rail Baltica project*, National Audit Office of Lithuania, 11 June 2024, valstybeskontrolė.lt, p. 13.

⁵ 'Finances', Rail Baltica, railbaltica.org. The eligible costs do not include elements such as return on capital and dividends paid by the beneficiary, as well as debt and debt service charges. *Guidelines on the Eligibility of Costs under the Connecting Europe Facility*, European Commission, Innovation and Networks Executive Agency, December 2018, inea.ec.europa.eu.

⁶ Funds available from the Cohesion envelope, from which this project is funded, can cover up to 10% of the total eligible costs of the action (15% for derelict sites and sites formerly in industrial use).

⁷ 'North Sea – Baltic corridor', European Commission, transport.ec.europa.eu.

⁸ 'EU to invest record €7 billion into sustainable, safe and smart transport infrastructure', European Commission, 17 July 2024, ec.europa.eu.

the Baltic states (15% of the eligible costs), a total of more than €4 bn has been earmarked for the construction of RB.⁹

The fact that RB is being developed as part of the TEN-T network means that it should be completed by 2030. On the one hand, this opens new opportunities for obtaining EU funds for this purpose, but on the other it commits the countries involved in the implementation of specific investments to carry them out within the planned time frame. At this point it is certain that the investment as a whole will not be inaugurated on time. Although this is mainly due to insufficient funds contributed by the Baltic states, the audit has revealed several more complex systemic problems which tend to occur in the implementation of large infrastructural projects.

Large investments and the problems encountered by small states

The disclosure of a major shortfall in the initiative's funding triggered a debate in Latvia, Lithuania and Estonia regarding the degree to which it genuinely is a strategic project. The debate is most heated in Latvia, which established a parliamentary investigative committee for the development of RB¹⁰ and carried out a series of disciplinary employment contract terminations at the ministry of transport.¹¹ In Estonia, the debate was more public and focused on the purpose of the investment. It also formed an element of the general criticism of the Reform Party's rule.¹² In Lithuania, the debate was limited to official comments offered by President Gitanas Nausėda and transport minister Marius Skuodis regarding the need to accelerate work on RB. Skuodis has also accused Riga and Tallinn of making insufficient progress.¹³

Officially, the RB company has announced that the direct and indirect benefits which the Lithuanian, Latvian and Estonian economies will draw from the project are expected to outweigh the cost and will ultimately stand at €48 bn. However, opposite opinions have also been voiced (mostly in Estonia). Anvar Salomets, director general of RB Estonia, has publicly stated¹⁴ that the Estonian part of the investment will be unprofitable and the Estonian state will need to co-fund the infrastructure's maintenance, though he did not cite any calculations to prove this claim. It should be noted that it is almost impossible to calculate the real long-term return on such a large investment because, aside from real profit resulting from an increased number of cargo and passenger service operations, it is also necessary take into account certain less measurable social benefits. Due to their vague nature and expected occurrence over a long period of time, combined with high running cost of the investment, there is no political pressure to accelerate the project's implementation.

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Another important challenge regarding RB's development involves issues linked with project management. So far, no detailed technical designs have been drawn up and this should have been done in 2020–1.¹⁵ As a consequence, problems have occurred regarding the completion of the process of purchasing plots of land¹⁶ following the forced sale from their former owners.¹⁷ These problems are

⁹ W. Urbanowicz, 'Kolejne 1,2 mld euro z CEF na Rail Baltikę w krajach bałtyckich', Rynek Kolejowy, 18 July 2024, rynek-kolejowy.pl.

¹⁰ 'Darbu sāk "Rail Baltica" parlamentārās izmeklēšanas komisija. Kas pārrunāts pirmajā sēdē?', TVNET, 11 July 2024, tvnet.lv.

¹¹ 'Satiksmes ministrijas valsts sekretāri atbrīvo no amata', TVNET, 17 July 2024, tvnet.lv.

¹² M. Salu, 'Rail Baltic kui sajandi pettus', Postimees, 13 July 2024, postimees.ee; J. Holm, 'Tangible railway needed instead of glossy images and false hope', Eesti Rahvusringhääling, 12 June 2024, news.err.ee.

¹³ D. Biržietis, G. Gaidamavičius, 'M.Skuodis dėl „Rail Baltica“ vėlavimo kaltina „RB Rail“ ir „Lietuvos geležinkelius“', 15min, 12 June 2024, 15min.lt.

¹⁴ 'In Estonia: Rail Baltica will not pay off financially', Baltic News Network, 21 December 2023, bnn-news.com.

¹⁵ *Review on the Rail Baltica Project, op. cit.*

¹⁶ *Ibidem.*

¹⁷ An interactive map of Rail Baltica's implementation after: 'Rail Baltica interaktīvā karte', edzl.lv.

likely due to a shortfall of competent administrative staff at the central level of government, which for example results in wrong decisions being made in the process of selecting sub-contractors (it turned out that the sub-contractors who were ultimately selected became overwhelmed by the tasks entrusted to them).¹⁸ This, in turn, has led to delays in design operations and bureaucratic procedures, which has resulted in a situation in which the Baltic states receive their consecutive instalments of EU funds too soon, meaning when they are not yet authorised to spend them.¹⁹

Other difficulties are linked with the cross-border coordination of the investment (due to a varying degree of determination and efficiency of the administration apparatus) and also with efforts to establish joint institutions. Exam-

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ples of these problems included the procurement of a 1435-mm gauge rolling stock (multi-system locomotives, HSR passenger trains, railroad cars) and the debate on who should be managing it. No decisions have been made to date since they are being postponed due to additional budget costs amounting to several billions of euros. According to state audit offices, if these decisions are made in 2024, then the completion of that procurement process would last more than eight years. This in turn suggests that the new rolling stock could be put into service as late as 2032, that is two years later than the investment completion date required by the EU.

Vertical project coordination in specific states is another problem. Non-transparent and chaotic project management at the central, local and cross-border levels has blurred political accountability for possible mistakes, in particular delays. As a consequence, this accountability is split between the three states and several organisations (such as the RB special purpose company), various railway companies and individual ministries.²⁰

Each Baltic capital pursues different political goals: Vilnius has given priority to the construction of tracks, while Riga and Tallinn view railway stations as the most important elements. It is evident that Lithuania is determined to complete the construction of RB in the direction of Poland, while the link with Latvia is less important. Riga has not adopted any clear strategy that would give priority to the construction of the capital city's ring rail line or of tracks running to Lithuania. Estonia has focused on the construction of a railway hub in the northern part of the country and has given priority to railway sections located in the vicinity of Tallinn.²¹

From Warsaw to Tallinn in eight hours? Not in this decade!

The completion of the construction of RB's section leading from the Estonian capital to the Polish-Lithuanian border by 2030 would be proof of the effectiveness of individual Baltic states and of their ability to cooperate in carrying out large strategic projects. At present, it should not be expected that the investment as a whole will be completed by the end of this decade. It seems more likely that a reduced version of the project will be implemented, one that would make it possible to meet the political goal set by the EC of building a standard-gauge railway connecting Lithuania, Latvia and Estonia with the rest of the EU. In this version, some of the planned sections would not be built and those which would be completed would most likely have lower quality technical parameters.

¹⁸ 'Noskaidrots uzņēmums, kurš galvenokārt vainojams "Rail Baltica" projektēšanas darbu kavējumus', TVNET, 28 September 2023, tvnet.lv.

¹⁹ 'Viceministrē: pagrīdinē „Rail Baltica” problema – ne pinigai', Verslo žinios, 10 July 2024, vz.lt.

²⁰ 'Briškens: Rail Baltica management has 'built-in conflict of interest'', Public broadcasting of Latvia, 20 June 2024, eng.lsm.lv; M. Salu, 'Rail Baltic kui sajandi pettus', *op. cit.*

²¹ 'Rail Baltica Webinar: Supplier Engagement Opportunities in 2024', Rail Baltica, 14 May 2024, youtube.com.

This means that it should be expected that the Latvian and Estonian sections of RB will contain just one track instead of two, which will have a negative impact on the quality of passenger service and the capacity of cargo carriage operations. It cannot be ruled out that these tracks will not be connected with port infrastructure at the harbours of Riga and Tallinn on time. Additionally, the planned speed standards for passenger service will most likely be reduced and the ultimate speed of 249 km/h will only be achieved following the completion of further investment projects in the next decade. The situation will be similar for the port connections.

Although the reduction of the project's scope will make it possible to slash its budget from €19 bn to €10 bn, it will be necessary to boost its cost effectiveness and to find new sources of external funding. In the coming months, the governments of the Baltic states are likely to carry out numerous reforms in the institutions which are responsible for the project's implementation. In addition, efforts to obtain additional funding from the next multiannual financial framework will be highly important. The EU's present seven-year budget ends in 2027, which exactly coincides with the launch of the most intensive construction work on RB's main line. If this prospective funding is not much higher than that already obtained, the implementation of the investment as a whole will be highly uncertain. Theoretically, depending on their political determination, Lithuania and Estonia could cover a portion of the deficit using loans secured against future return on the investment. Latvia would probably be less interested in using this option due to having a worse public finance situation. However, the Baltic states do not seem willing to accept the risk of significantly increasing their debt, which would consequently expose them to the EU's excessive deficit procedure.

From Poland's perspective, the delays and problems in the construction of the Baltic section of RB are of minor significance, at least in the economic aspect. The Polish section forms an element of the national rail link development plan and will thus play an important role in operating the passenger train service in north-eastern Poland. The impact of the delays in RB's construction on military mobility is unclear and should be taken into account for example in NATO's regional defence plans. This issue may help to persuade Brussels to allocate funds for the completion of the investment. It could also serve as an argument in the internal debates ongoing in the Baltic states. Among the three Baltic states, Lithuania is the most interested in the completion of the modernisation of the Polish section of RB because it wishes to connect to the rest of the EU as soon as possible and to become capable of transporting both bulk goods (such as grain) and container cargo between the port of Klaipėda and Ukraine without having to carry out transshipment operations switching between a broad-gauge railway and a standard-gauge one. However, this will only be possible once the RB's branch running to Klaipėda is completed. Until then, cargo will need to be transported via the Kaunas Intermodal Terminal.

APPENDIX

The state of the project

Work is most advanced in Lithuania, where as early as 2015 a standard-gauge track was built between Kaunas and the Polish-Lithuanian border and an intermodal terminal was established in Kaunas. Currently, construction work is ongoing north of this city. According to a declaration by the Lithuanian ministry of transport and communications, another railway link with Poland will be built by 2028, and work on the Latvian section will last until 2030.

In Estonia, initial preparatory construction work in the north of the country did not commence until this year. Fully designed sections of the railway, which can be subject to public tenders, start in the southern suburbs of Tallinn and end south of Rapla. Preliminary work is only underway in Kohila municipality and in the vicinity of the Ülemiste railway station in Tallinn. Estonia has announced that

contracts enabling the launch of preparatory work on a section totalling 50 km will be signed by the end of this year.

The progress of the investment is slowest in Latvia, where initial construction work is being carried out on an approximately 15-km long section near the town of Iecava. RB's construction in Latvia mainly involves infrastructure in Riga, where modernisation and expansion of the capital city's main railway hub, that is the central railway station, alongside work to connect it to the airport, have been ongoing since 2020.

Map. Rail Baltica's planned route



Source: railbaltica.org.