

# **INTERNATIONAL TRANSPORT WORKERS' FEDERATION**

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ITF's written submission to the **Standing Committee on  
Transport, Infrastructure and Communities**

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**INTERNATIONAL  
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The International Transport Workers' Federation (ITF) is a global trade union federation made up of seven hundred affiliated trade unions from 153 countries and close to twenty million members working in the transport industry. The ITF exists to protect the rights of all transport workers through its network of affiliated trade unions worldwide. The ITF Railway section makes up 26% of the overall ITF membership, with 146 affiliates from eighty-four countries, this includes The International Brotherhood of Teamsters and Unifor in Canada.

Having reviewed the testimony presented to this committee on November 6, 2023, we note the consensus regarding the benefits of the high-frequency rail project: the obvious benefit to passengers, the economic advantages of creating jobs, and the environmental benefits of rail's low carbon emissions. The ITF strongly supports public investment in improving and expanding railway systems; however, we share the concerns previously raised by Unifor regarding the public-private partnership (PPP) model.

The ITF has experience of the different funding and operating models present in the railway sector globally. Through our affiliates, we observe the reality of how PPP models function in practice, not just in theory, and how they compare to railway systems that are under full public control. Global research conducted by ITF further analyses how different financing models impact workers, passengers, and communities. This is the expertise we wish to share with this committee today.

In general, the ITF has found that privatization has led to fragmented and inefficient rail systems. Public-Private Partnerships (PPPs) in major national and international transport services have involved significant financial losses. Unrealistic bids made by the private sector to win contracts have led to failures on major routes, and governments have had to bear the financial burden, with failure leading to significant subsidies drawn from taxpayers and passengers. Private sector financing has proven more expensive than the public sector alternative, with profits siphoned off to shareholders, leading to underinvestment in services. The failure of privatization and PPPs has led to rail services being renationalized or run as joint government ventures (as in the case of the Figueres-Perpignan highspeed rail line between France and Spain).

There are also concerns about the lack of accountability on the companies bidding for the HFR project when they operate in other locations. French-owned Keolis has presented serious challenges for passengers and workers when operating in other countries. In 2019 it had contracts terminated in Germany for chronic understaffing in their train services, leading to the local transport authority in Rhein-Ruhr VRR to take over operations of the service<sup>1</sup>. As recently as September, Keolis in the United

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<sup>1</sup> <https://www.railwaygazette.com/passenger/keolis-operating-contract-terminated-because-of-driver-shortage/54611.article>



States was found guilty of breaking labour laws by the National Labor Relations' Board (NLRB)<sup>2</sup>.

Similarly, RENFE, the Spanish operator which is also part of one of the consortiums bidding for this project has gone through a corruption scandal as recent as last year, which led to the dismissal of its CEO, due to malpractice in subcontracting the provision of infrastructure needed for the rail lines in Northern Spain<sup>3</sup>. RENFE has also been part of the much-delayed HSR project in Texas, which has stalled due to the lack of public funding and ever-growing associated costs with the project<sup>4</sup>.

Private sector financing, including PPPs, often entails social costs such as poorer working conditions and risks to the health and safety of workers, passengers, and the affected communities. This has been reported by our affiliated unions operating in railway systems globally. Private interests often overlook the importance of impact assessment and community consultations, particularly with Indigenous communities whose land the railway traverses. Furthermore, private investment in and operation of rail systems often leads to the subcontracting of work. This removes the responsibility of rail companies to ensure workforce equality and diversity, leading to safety problems, employment instability and downward pressure on wages and conditions, reinforcing labour market inequalities based on race, nationality, and gender.

A 2012 study of rail PPPs globally found that these projects are only successful when public authorities guarantee profits for private concessionaires; rail projects where concessionaires assumed the financial risk themselves have failed<sup>5</sup>. The Asian Development Bank flags up the high failure rate of PPPs worldwide and especially in Asia, where the transport system is most affected. Its analysis is based on the World Bank's private participation in infrastructure database. Between 1991-2015, there were 6,273 PPP projects, of which only 216 were completed while 259 PPPs were cancelled by the private sector, and sixty-seven were stressed (meaning either the public sector partner or the private sector operator requested a contract termination or international arbitration to settle a dispute). In other words, between 1991 and 2015, more PPPs in Asia failed than have succeeded<sup>6</sup>.

In Europe, the UK has been at the forefront of rail privatization and its failure. In 1998, the government initiated a public-private partnership (PPP) to modernize the London tube system, whose oldest parts were over one hundred years old. While the underground's assets stayed in public hands, two private companies were

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<sup>2</sup> <https://www.atu.org/media/press/2023/nlrb-finds-keolis-violated-federal-labor-law-again-at-loudoun-county-transit-revokes-settlement>

<sup>3</sup> <https://elpais.com/economia/2023-02-20/la-secretaria-de-estado-de-transportes-y-el-presidente-de-renfe-dimiten-por-el-escandalo-en-los-trenes-de-asturias-y-cantabria.html>

<sup>4</sup> <https://www.texastribune.org/2022/08/30/texas-high-speed-rail-dallas-houston/>

<sup>5</sup> Dehornoy, PPPs In The Rail Sector: A Review Of 27 Projects, Munich Personal RePEc Archive, 2012: [https://mpra.ub.uni-muenchen.de/38415/1/Dehornoy\\_Review\\_of\\_rail\\_PPPs\\_2012\\_.pdf](https://mpra.ub.uni-muenchen.de/38415/1/Dehornoy_Review_of_rail_PPPs_2012_.pdf)

<sup>6</sup> Asian Development Bank, Hazard Analysis On Public-Private Partnership Projects In Developing Asia, 2018



contracted to attract investment and conduct the work. In 2007, the PPP failed, and its liabilities were underwritten by the government, leaving the British taxpayer with losses estimated in billions of pounds<sup>7</sup>. The UK's national railway services stand as another example. The infrastructure and track are owned and maintained by the public, while private companies make a profit from the operations. Not only is it well-documented that costs rose after privatization of British Rail, but the licensing system was manipulated in a way that allowed public subsidies to be paid out to shareholders, while company debts rose to unsustainable levels and eventually required a bailout by the public. Under the UK system, a company – as in the catastrophic case of the East Coast Line – can walk away from a franchise without serious penalty, despite overly optimistic projections on which the contract was won. Moreover, McKay and Moore's report (2017) on the consequences of outsourcing in UK rail, found considerable evidence that the outcome for workers, passengers and wider communities was overwhelmingly negative.<sup>8</sup>

When the Eurotunnel was built, the overestimates on ridership as well as escalating construction costs meant liabilities had to be restructured in 1997 and 2007. The concession had to rely on public support in the form of an extension to the contract from 55 to 99 years as well as the application of a "minimum usage charge" as a revenue guarantee, this cost was borne by the French national railways (SNCF) and the British Government<sup>9</sup>.

In October 1995, Spain and France signed an international agreement to construct and operate the cross-border section of the high-speed rail (HSR) line to connect both countries by rail across the Pyrenees. The Figueres-Perpignan line is 44.4 km long, of which 19.8 are in Spain and 24.6 in France. In terms of construction, the most challenging section was the 8.3 km twin-bore tunnel (Perthus Tunnel), and for it, the countries sought private sector involvement. Several contractual sweeteners were added to attract a private contractor. For example, it was agreed the company would receive subsidies from both states, as well as from the EU. The concession holder would also be granted the right to charge a toll for traffic on the line (of mixed passenger-freight services) and receive a guarantee of a minimum threshold of traffic in the long term. In 2003, the TP Ferro group was awarded the contract for the construction and operation of the HSR line. Two private construction companies jointly owned TP Ferro: Spain's ACS (50 percent) and France's Eiffage (50 percent). The concession term period was 50 years.

Initially, the budget for the project was EUR 952 million (USD 1.1 billion), but its final cost was EUR 1184 million (USD 1.3 billion). Most of the funding came in the form of direct grants from the governments of France and Spain, and both governments

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<sup>7</sup> Centre for Public Impact, The London Undergrounds failed PPP, January 2018

<sup>8</sup> McKay and Moore, The Consequences Of Outsourcing in The Railway Sector: A Report for the RMT, 2017

<sup>9</sup> Dehornoy, PPPs In The Rail Sector: A Review Of 27 Projects, Munich Personal RePEc Archive, 2012



contributed additional funding to ensure the viability of the concession. The other main finance came in the form of debt and equity (the shareholders' contribution). It is noteworthy that equity in TP Ferro represented less than 10 percent of total construction costs, and that more than 50 percent of the equity came from third-party loans. The construction work began at the end of 2004 and was completed in February 2009, but the implementation of the contract was poor. The lack of connections with domestic lines caused compensation payments to the concessionaire and the extension of the concession of three additional years. However, in 2013, it became clear that the forecasted demand for the line was overly optimistic. While TP Ferro had expected to run twenty-four trains a day on average in the first year of operation and then eventually thirty trains a day, only twelve trains per day ran in 2014's high season. It was, therefore, unsurprising that, more than a decade after the concession was awarded, TP Ferro entered financial difficulty declaring financial losses of EUR 112.8 million (USD 128 million). Again, the Spanish company ACS (the effective leader of the PPP) sought compensation from the Spanish government in the form of EUR 80 million (USD 90 million) and a 25-year extension on the concession (until 2082). However, both governments refused to grant this. In 2016, TP Ferro went into liquidation, the concession was cancelled, and a new joint venture involving the French and Spanish governments took over the international high-speed rail link between the two countries.

High-frequency rail projects in Africa have also raised the same concerns. In 2017, Kenya opened a standard gauge railway (SGR) to link the capital, Nairobi, with the coastal town Mombasa. Constructed and operated by the China Railway and Bridge Cooperation (CRBC), the 472 km project had a cost of USD 3.2 billion. The railway was financed through a concessional loan from the Exim Bank of China, which included a condition that the engineering, procurement, and construction contract would be awarded to a state-owned Chinese corporation. Failure to conduct public consultation in Kenya left informal transport workers, operating in the area, displaced. Road transport workers were affected by the drop in ridership and had to relocate to other districts causing a knock-on effect for small businesses that relied on their trade. Following construction, the CRBC was supposed to operate the line for 10 years. The contract (which came under heavy scrutiny for lack of transparency) placed the commercial risk on the state, which had to ensure sufficient traffic of passengers and cargo were available for the operator to transport. However, the operator ran up expenditure that far exceeded its revenue and in 2021, just 4 years into the 10-year period, the Kenyan Government was forced to renegotiate the deal, arranging for the state's takeover of SRG's operations from 2022.

Conversely, Switzerland provides an example of an efficient, publicly run rail system. The main railroad lines are operated by Swiss Federal Railways and owned by the Swiss Confederation. Switzerland's system is built on a model of public ownership and democratic control. Public funding for public transport is drawn from general



budgets as well as passenger fares. The Swiss population has a direct say over public transport budgets at federal, cantonal, and communal levels. Citizens repeatedly back the financing and extension of public transport. In 1998, for example, people voted in favour of the Federal Decree on Construction and Financing of Public Transport Infrastructure Projects (FinPTO). This enabled Switzerland to significantly expand its rail infrastructure through large-scale projects. The projects included Rail 2000, the New Railway Link through the Alps (NRLA), a new connection to the European High-Speed Rail network (HSR), and rail noise reduction. The four projects' combined cost of CHE 31.5 billion (around USD 34 billion; 1995 prices) was financed through a combination of a heavy goods vehicle charge, revenue from mineral oil tax, and VAT (0.1 percent). Additionally, in 2016 the Swiss electorate backed a proposal to use the entire proceeds from the mineral oil tax to fund public transport rather than road building. This signifies a significant amount of funding, as taxes on petrol have risen consistently (by 178 percent between 1990 and 2012) and make up almost half of Switzerland's retail petrol price. Currently, public transport generates enough revenue to cover more than half of its costs. The rest is drawn from public subsidies and infrastructure contribution.

Several other countries around the world have successfully implemented publicly funded high-speed rail (HSR) systems, providing numerous positive examples.

Germany's high-speed rail system, known as the Intercity-Express (ICE), is owned and operated through Deutsch Bahn AG, the state-owned limited company responsible for most Germany's rail services. While Deutsch Bahn and its subsidiaries have a commercialised structure, they are public funded. ICE has been a success since its introduction in the early 1990s. It connects major cities within Germany and extends to neighbouring countries. The ICE has improved efficiency and competitiveness, making rail travel an attractive option for both domestic and international commuters.

Spain introduced its high-speed rail service, AVE (Alta Velocidad Española), in 1992. The AVE network connects major cities such as Madrid, Barcelona, and Seville. The HSR system has enhanced accessibility, reduced travel times, and promoted economic development in the regions it serves.

The KTX, South Korea's high-speed rail opened in 2004 and is operated by the public Korea Railroad Corporation. It has improved and reduced travel time for passenger travelling from the capital city Seoul west to Gangwon province and south to the Jeolla and Gyeongsang regions. The fare structure is simple compared to European railway systems and fares are kept at reasonable levels. The KTX also boasts one of the best records for on time arrivals globally. These achievements have been possible because trade unions and civil society have fought to keep the KTX in public hands despite government privatisation efforts. On the other hand, fragmentation through introduction of a second operator (SR) on the high-speed rail has led to inefficiencies and increased burden to the public purse in recent



years. These examples demonstrate that publicly funded and operated high-speed rail projects, when well-planned and executed, can lead to positive economic, social, and environmental outcomes, including reduced congestion, lower carbon emissions, and improved connectivity between cities.

There are several methods available to governments to raise the money needed for investment in public transport. As just one example the *Versement Transport* in France is a tax levied on employers in certain areas to fund public transportation services. The revenue generated from this tax is intended to support and improve the public transport infrastructure, including buses, trams, and other forms of urban transit. Employers with a certain number of employees in designated urban areas are required to pay *Versement Transport*. The tax is calculated as a percentage of the total payroll expenses of the employer. The specific rate may vary depending on the location and the number of employees. The funds collected through *Versement Transport* are dedicated to financing public transportation services within the relevant urban areas. This can include the maintenance, expansion, and improvement of public transit networks. The tax is implemented at the local level, and each local authority (such as a city or metropolitan area) has the authority to set its own *Versement Transport* rate within the limits established by national legislation. The regulations and guidelines for *Versement Transport* are outlined in French law, and any changes to the tax rate or its application are typically subject to legislative processes. France's TGV (Train à Grande Vitesse) a high-speed rail network was also publicly funded and has been successful in significantly reducing travel times between cities, making it a popular and efficient mode of transportation. The TGV has boosted economic development in regions it serves and has set a benchmark for high-speed rail worldwide.

Despite the well-reported problems with PPPs, it is surprising to see that governments continue to enter into PPP agreements for their public transport infrastructure and operators, and not just in developing countries where the capacity to mobilise sufficient public resources is often limited. One explanation for this is that PPPs are deeply ingrained in neoliberal policymaking, which assumes that market forces and competition will lead to efficiency, innovation, and growth, and that the government should, therefore, intervene as little as possible. As such, studies usually excuse the failures of PPPs by suggesting tweaks to the existing model rather than an alternative to it, even though very suitable and attractive alternative models do exist.

In conclusion, PPPs and other forms of privatization and contracting out often fail to lead to the savings proponents promise, and in many cases, simply fail. Recent studies done on the international and national level find limited or no evidence that PPP infrastructure projects, including in passenger transport, provide better value for money, but substantial evidence of problems such as “lack of public accountability



and transparency or poor governance.<sup>10</sup> ITF recommends that the government review the HFR structure and take bold steps in investing in a public passenger rail system, one that is publicly owned and operated, and democratically controlled. The ITF has undergone research into alternative financing models for public transport and will share its Public Financing Report , public transport funding papers and our recently published manifesto for the committee's consideration.

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<sup>10</sup> Lit review in Quiggin, "Franchising and privatization of public transport: a history of failure," 2019.





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