

GCC Rail Infrastructure Projects: The Challenges and the Benefits

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In the current climate it is difficult to avoid concerns about the economics behind the plans. For instance, in the UAE it has been announced that the development of phase 2 of the rail network connecting Abu Dhabi, Dubai and onwards to Oman has been suspended. The knock-on effect as regards Oman is yet to unfold but there may also be a domino effect across the region. However, other projects remain on track and indeed have set records – the Doha metro (now 77% complete in terms of its tunnelling works) had 21 boring machines in operation at one stage.

This article examines why rail is critical to the future success of the GCC as its members seek to learn from the experience of other jurisdictions in developing their rail programmes.

Railways as Public Goods

The default position for most rail networks is one of public subsidy. Even where attempts have been made to impose some form of competition in the hope of making systems relatively more self-financing (perennially seeking the ultimate goal of a cost reflective tariff, through disaggregating the state utility and carving up the network into a whole new business ecology of track owning companies, track operating companies, passenger rail franchise holders, rolling stock lease companies and the like), the story of subsidy remains key.

The issue of subsidy has to be recognized. Railways are what economists call “public goods”. There is usually a consensus that the public want and need them. In Europe (and elsewhere) that is certainly the case. There is a deep culture of passenger rail in European countries. Public transport is a factor in everyday life and plays a vital economic role well in excess of any subsidy from which the system benefits. So, to a great extent, the subsidy directly applied to the network has an amplifying but indirect effect throughout the economy.

Looking further afield, it is arguable that the history of the United States (or at least the massive expansion into the west of the continent) is inextricably bound-up with the expansion of the railway network there, and although the Americans fell out of love with rail during the last century, there is now a marked renaissance in train projects in that part of the world (with all of the attendant benefits in the supply chain). India has a huge network and arguably a strong railway culture, as does China, which has embraced the opportunity of high-speed rail. Compare those cultures with the GCC region where there is (with the exceptions of the historic but now largely defunct Hijaz Railway and the Riyadh-Dammam passenger route) no widespread tradition of rail and many factors which, at first blush, appear to militate against it.

As engines of growth and regeneration there are few infrastructure initiatives which have the same impact as a railway network, and they often have other important benefits, including environmental factors such as improved air quality – a particular concern for residents in many GCC cities. Jobs are also important. According to the Oman Daily Observer (27 July 2015), Oman Rail is to employ 40,000 workers on the first phase of the national railway network. Up to 15,000 of those workers could be Omanis. It is envisaged that

the railway will create high in-country value (ICV) for Omani nationals through different construction operations related to the rail project. Typical measures creating ICV include the procurement of Omani products and services from Omani subcontractors, the creation of partnerships with Omani subcontractors, and the training and development of an Omani workforce.

In Saudi Arabia, education has been put front and centre of the rail programme. The Saudi Railway Polytechnic is one key element in that transformation. Working in partnership with Saudi Railways Company, international education provider TQ Pearson operates the new institution (which commenced training in April 2014). If this kind of approach is replicated across the GCC then it will provide tangible long-term benefits for the region as a whole.

Other Benefits

Aside from the transport benefits of the railways themselves, the scale of property development around new stations and the scope for investment should not be underestimated. A recent example of these benefits can be found in Birmingham, England, where the dilapidated and dark New Street Station (a hub of the UK rail network) has been redeveloped with a massive 435,000 sq ft shopping complex (named 'Grand Central') incorporating anchor tenant John Lewis. Contracts have now been exchanged on a 150 year head-lease of the shopping centre for a reported GBP 335 million (PropertyWeek, 22 January 2016) with property company Hammerson in advanced discussions to bring a 50/50 joint venture partner on board for the future ownership of Grand Central.

Railway stations therefore result in property and retail development opportunities too. Those developments will, in their turn, create more new jobs and growth in the economy. They also allow people more flexibility as to where they live and where they work, delivering net gains in higher paid jobs and leveraging lower housing, education and employment costs.

In the GCC region we can look forward to equivalent schemes based around iconic stations such as award winning architect Zaha Hadid's adventurous design for the King Abdullah Financial District metro station and the Olaya Street blue and green line metro interchange designed by Gerber Architekten in Riyadh. Dubai is also to benefit from a significant extension of its metro in advance of Expo 2020.

All of the above will require, among other things, financing and funding arrangements for the construction works; a complex web of EPC contracts (and efficient disputes resolution regimes; franchise concessions in respect of the lines themselves (and their subsequent renewal); rolling stock finance and lease agreements (which will have to dovetail with franchise procurement exercises); economic and safety regulation for the railway network; ticketing regimes integrating peak/off peak; zonal and bus connections; as well as leases for units in associated shopping malls. This all constitutes real economic benefits of the schemes. Because these schemes are in essence brand new businesses. The opportunity for supply chain and logistics providers is also significant, and it will be interesting to see whether and to what extent coordinated responses and approaches develop in this regard across the region.

Inter-City Travel

Aside from the urban metro projects there are also ambitious plans in the GCC region for inter-city travel. The Haramain high-speed line linking Jeddah with the holy cities will add speed and comfort to pilgrims' Hajj experience (the terminal station in Jeddah being similar to the large stations found in Europe, such as Birmingham New Street).

On the freight side, the advent of the Saudi land bridge, linking the Gulf with the Red Sea and the North-South line will (it is hoped) ease the passage of freight across the Kingdom, and provide a high quality alternative to traditional road freight. These are globally significant railway projects. They will change the culture of the region and offer a legacy of first-rate employment opportunities for locals and also monumental property development opportunities.

Integrated Systems

All of the schemes mentioned above are part of an integrated transport system where connections are relatively easy and the spread of the network takes people where they want to go quickly and cheaply relative to the alternative of driving or flying. There are certainly environmental benefits. But these benefits can only ever be realized if the network is sufficiently wide to optimize people's choices. That network connectivity also enables genuine measures in traffic calming to be taken (for example, it is doubtful whether London's congestion charging scheme would have been feasible without its public transport offering a viable alternative). A key element of rail projects is their inter-connectivity with other transport services, such as airports, ports and other local transport services including buses and taxis. This is especially important in the GCC where walking in the heat of summer for even a short period can be difficult.

Towards a Culture of Rail

Once the railways have been completed, the real challenge will start - that of developing a culture of rail. Without embracing that cultural change many of the transformational benefits described above risk being lost or dissipated. The GCC has the political will to achieve a real change in how transportation is viewed. In a period of sustained economic turbulence, even if some of the projects stall, there appears to be enough viable projects to ensure that this transformation in the region is secure, and will consolidate and even accelerate once the global and regional economic climates become more stable.