Transportation Sector Overview

Overview of the framework conditions and
challenges facing public transportation companies

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Introduction

Public transportation in Switzerland is very well developed. The rail network covers around 5,400 km, and the public road network over 21,000 km. The public transport companies (TUs) make a significant contribution to meeting the diverse mobility needs of the Swiss population. The latest figures published by the Federal Statistical Office at the end of 2020 showed a total of 460 TU in public transport and can be divided into the following categories:

- **Railway (standard gauge & narrow gauge) 81**
- **Buses 140**
- **Ships 28**
- **Cableways & funiculars 211**

The basic service in regional passenger transport (RPV) comprises more than 1,550 lines from the agglomeration to remote valleys in the peripheral regions. In 2023, the public transport lines recorded roughly 27.5 billion passenger kilometers. The modal split (market share) of public transport in terms of passenger kilometers increased from about 18% in 2000 to 22.5% in 2023. However, the modal split of public transport has hardly increased for about 10 years, despite a significant expansion of services, because motorized private transport (about 70% share of passenger kilometers) increased equally. Rising demand has been recorded in particular for passenger transport between cities, commuters and inner-city traffic. It has been accompanied by a steady expansion of services. Even if the COVID-19 pandemic led to a marked drop in transport numbers, at least in 2020, demand is likely to remain strong in view of the population growth that is still expected (around 20% in the last twenty years), and thus the need for renewal of infrastructure and operating resources is also likely to remain high or even increase further.

General Conditions & Market Structures

Regional passenger transportation fulfills a development function and thus a basic service mandate. At the legislative level, the so-called ordering principle was already introduced with the revision of the Railway Act in 1996 and more broadly anchored with the adoption of the Passenger Transportation Act in 2009. The public sector plays several roles in state-controlled competition: as an purchaser, as an owner and as a regulator.

The services of the RPV are ordered and financed jointly by the federal government and the cantons as purchasers. They conclude a service agreement with the TUs for a two-year timetable period in each case, which regulates the service (timetable) and the compensation. These cover the difference between the operating costs expected by the TU according to the submitted offers and the expected traffic revenues, whereby by definition no profits must be made over time. If such profits are made, they have to be carried forward and are considered in the next bid agreement. With the exception of almost two dozen agglomeration lines, about 1,400 lines of the RPV do not cover their costs, which is why the federal government and the cantons subsidize them with about CHF 2 billion annually. The federal government pays half of this amount on average, with the distribution key being determined with the cantons every four years. The cantons, for their part, determine in cooperation with the municipalities whether and how municipalities on cantonal territory participate. Financial support from the public sector is of central importance in the transport sector. The ordering principle is intended to enable TU to cover its costs with the agreed payments. However, the financing guarantees are not suitable to cover the entrepreneurial risk comprehensively from the creditor perspective. In particular, in a competitive environment controlled by the state, the instrument of public tendering of transport offers poses the risk that the loss of several important lines in the transport network could jeopardize the operating basis of the company concerned. However, according to the Passenger Transport Act, a new provider must take over the operating resources acquired for these lines at residual book value as well as the staff necessary for their operation, which should cover the existing obligations of the previous provider.

With the FABI (Financing and Expansion of Railway Infrastructure) bill, which was clearly approved by the people and the cantons in 2014, a fund was created for an unlimited period of time, through which both the maintenance and expansion of the railroad infrastructure are financed directly by the federal government. In addition, expansion steps totaling roughly CHF 16 billion are to be implemented by 2035.

Since the end of 2010, the federal government has also been able to provide solidarity guarantees in the area of operating resources (rolling stock, buses, repair shops, etc.), which have made it possible for TU to obtain guaranteed financing on the capital market. So far, around CHF 2.6 billion of the CHF 11 billion credit line, which expires at the end of 2020, have been drawn down and a further CHF 900 million committed. The Federal Council's dispatch on the extension of the framework credit by a further ten years to 2030 is currently undergoing consultation. The Federal Council is also proposing to extend the maximum term of an individual surety from 25 to 40 years, which corresponds to the maximum depreciation period for rolling stock.

In the area of operating equipment (rolling stock, buses, workshops, etc.), the federal government has also been able to provide joint and several guarantees since the end of 2010, enabling guaranteed financing of TU on the capital market. The framework credit, which is limited until the end of 2030, provides for a volume of CHF 11 billion. The use of the joint and several guarantee by the federal government has so far saved more than CHF 10 million a year in interest costs. The Federal Council also requested an extension of the maximum term of an individual guarantee from 25 to 40 years, which corresponds to the maximum depreciation period of rolling stock. The Passenger Transportation Act defines a number of competencies and obligations for regional TUs. Among other things, they are obliged to participate in the national tariff community, i.e. passengers can - in contrast to many neighboring countries - travel on all lines of the TUs participating in the tariff communities with a single ticket or season ticket. About half of all adult residents in Switzerland are holders of a season ticket and can be considered "regular customers".

The promotion and financing of public transport as a counterpart to private transport are always controversial in the political debate, because the tight network and the dense timetable obviously have their price. The federal government, cantons and municipalities subsidize public rail and road transport with a total of around CHF 8 billion per year, which makes this budget item larger than that for healthcare. The degree of self-financing of public transport from tariff revenues is just over 50%.

Outlook

In view of the pressure to save money in the public sector and the already strongly exhausted productivity increases in the services offered by TU in many places, sustainable financing of public transport in the long term is not assured. The challenges in the transportation sector remain great in view of necessary capacity expansions with simultaneously increasing customer demands and limited financial resources. Added to this are exogenous special factors such as the COVID-19 pandemic in 2020 and 2021, the effects of which were still being felt in the public transportation sector in 2022. As a result of the slump in demand, public transport companies in particular suffered major financial losses. Consequently, the Federal Council requested various support packages to cover the Corona-related public transport deficits from 2020 and 2021 totaling around CHF 1 billion.

Future prospects for public transport are in any case closely linked to other important social issues such as area planning, the environment, sustainability, and general economic and population development. At the political level, a wide variety of measures to manage public transportation are the subject of controversial debate. Proposed solutions range from incentive taxes and mobility pricing to limiting immigration to Switzerland.

With the adoption of the FABI bill in 2014, the financing of rail transport was placed on a solid footing, at least for the time being, through the creation of the Rail Infrastructure Fund, and the prerequisite was created for implementing the guidelines for the future service with better connections and the elimination of bottlenecks adopted with the bill in the longer term.

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