

Introducing Competition in the Passenger Railway Sector
Open Access and Competitive PSO Tendering

June 15, 2017

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Expectations are high...

European Commission

- “Competition in rail passenger service markets will encourage railway operators to **become more responsive to customer needs, improve the quality of their services and their cost-effectiveness.**”
- The market pillar is expected to **deliver more choice and better quality of rail services [...].**”
- “Main impacts of the combination of PSO tendering and open access [are among other things] **downward pressure on fares** in commercial services and increase of rail services – better usage of infrastructure.”

OECD

- “[...] results in a **creative product offering, technological innovation, and downward pressure on costs and prices.**”

Competition is beneficial...

... if there is competition.

(or at least the threat of it)

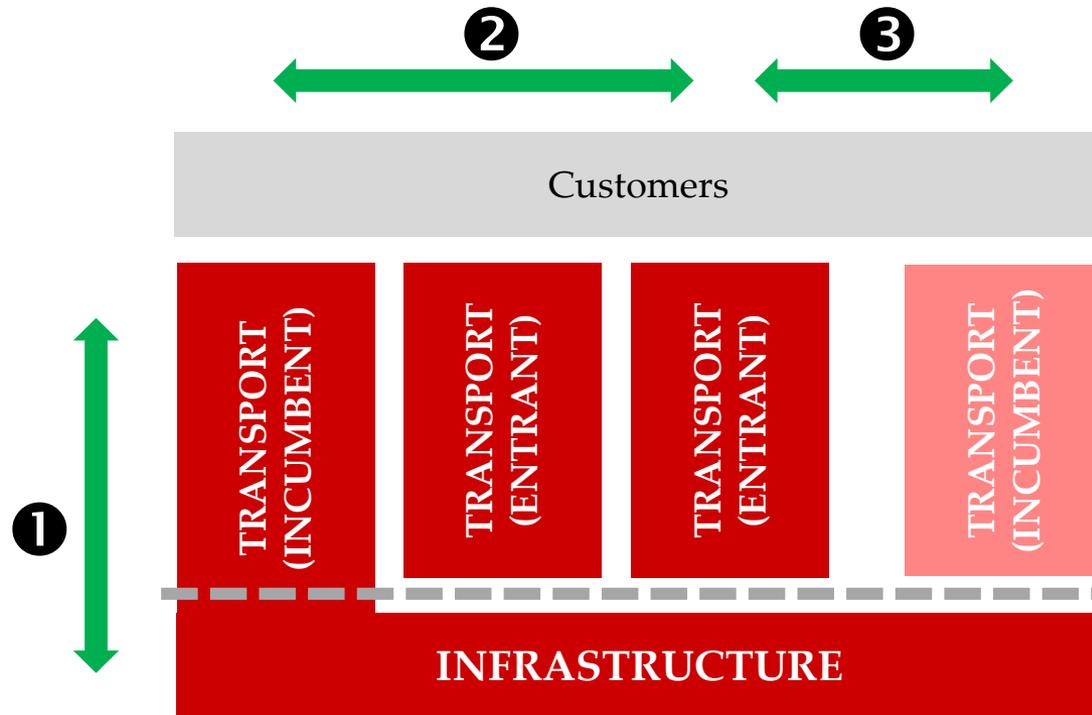
... if the price mechanism works.

(excludes some customers and inefficient firms)

... if firms maximize their profits.

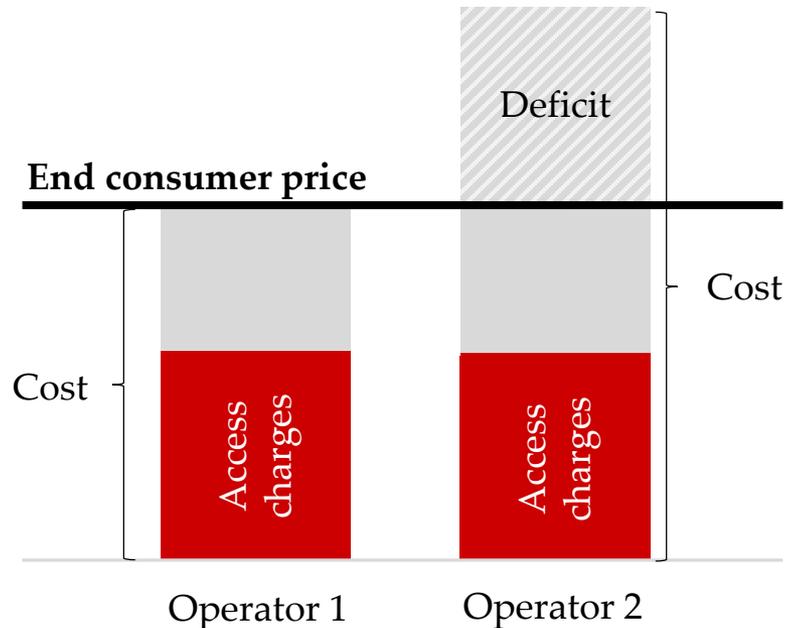
Regulation as a framework and substitute for competitive pressure

Competition and Policy Issues



- ❶ Potential discrimination in infrastructure access → Separation, open access
- ❷ Competition between rail operators → Competition law, regulation
- ❸ Provision of public services → PSO tendering

Competition between Rail Operators

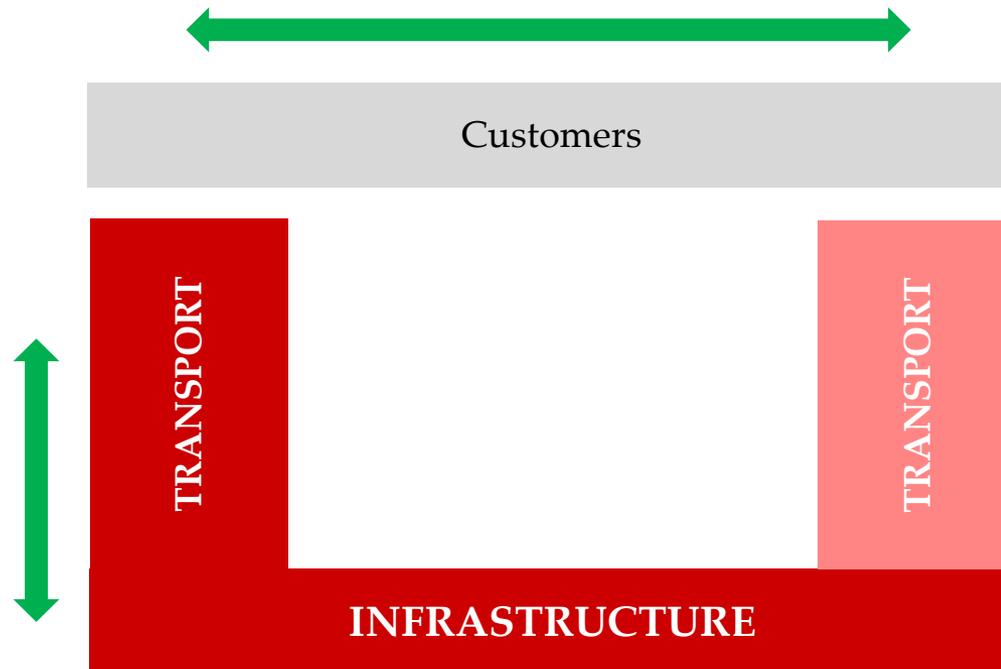


- The most efficient operator might be dominant (→ competition law applies)
With non-discriminatory access charges, non-excessive prices may be effectively exclusionary
- If the entrant is more efficient: Is an exit of the historical national operator politically acceptable? → Public “expectation management” needed
- There is a fine line between desirable and illegal cooperation

Provision of Public Services

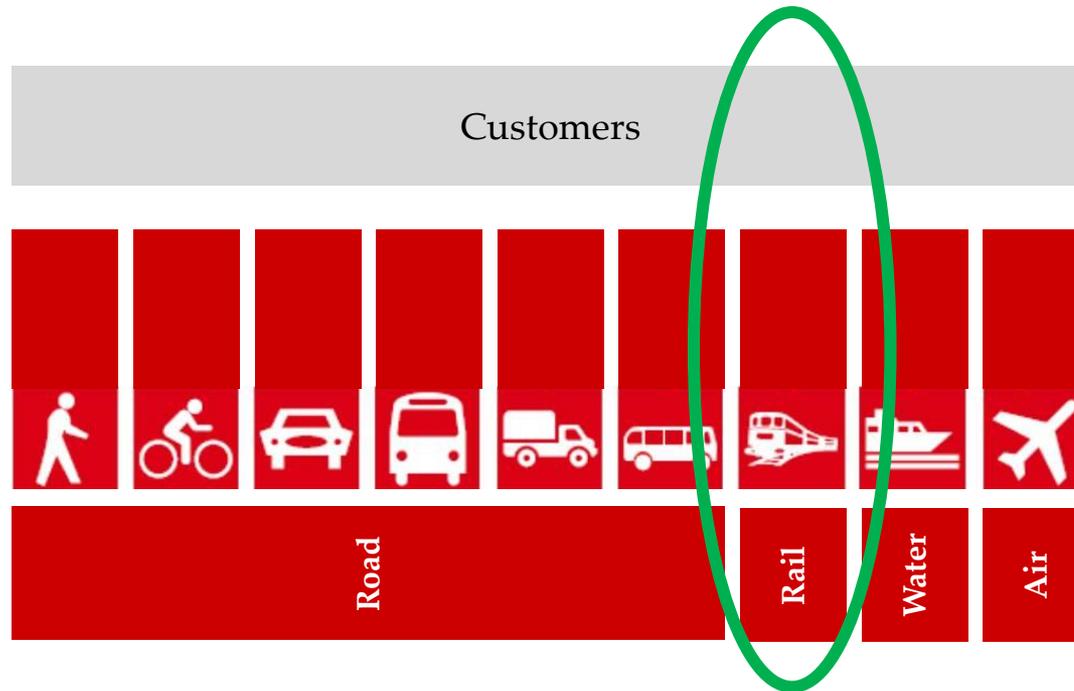
- Public service tendering: Allocation mechanism to determine the net cost/price of PSO and to find the most efficient provider
→ Competition **for** the market
- Potential issues:
 - Incomplete definition of the PSO's scope
Winner's curse (becomes more severe with increased competition for the market) and winner's moral hazard
→ Renegotiations are likely necessary
 - Lack of interest due to inappropriate franchise size, duration, contract design; upward pressure on cost to increase compensation
- Ways to mitigate issues with PSO tenders:
 - Clear and stable regulatory regimes allowing to estimate the costs and revenues of PS and anticipating renegotiations
 - Tender procedures that do not favor the incumbent (e.g. neutral definition of public services and requirement of experience)

Financing of Public Services



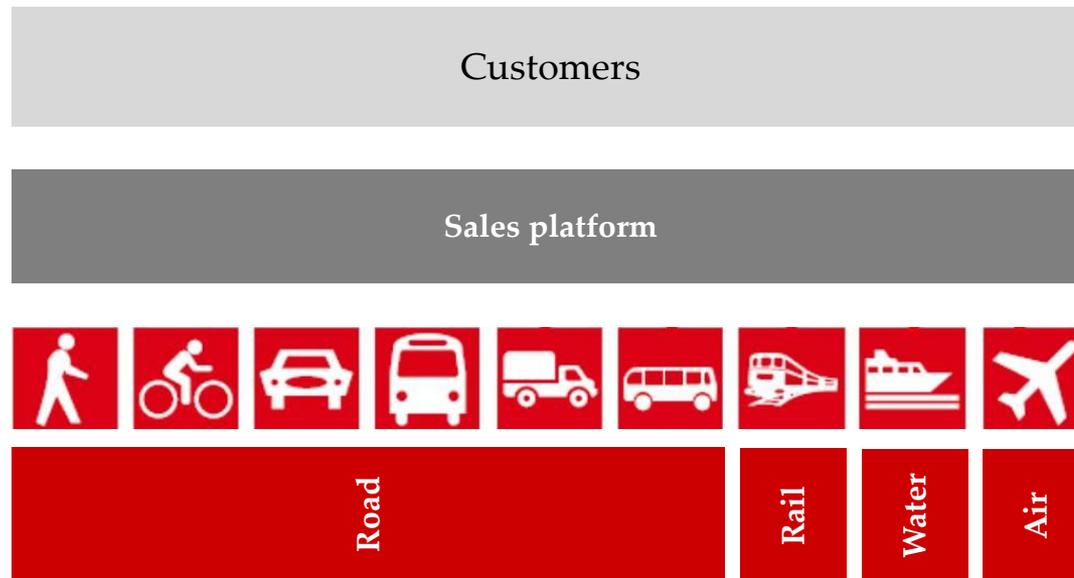
- Integrated monopolies are able to cross-subsidize
 - between profitable and unprofitable lines
 - between infrastructure and transport services
 - A fully liberalized market requires a subsidy for unprofitable lines
- More efficient, but financing may be shifted from users to taxpayers (again, public “expectation management” needed)

Sector vs Market Perspective



The fourth railway package still deals only with the rail sector while the market encompasses also other modes of transport

Sector vs Market Perspective



Intermodal competition and the emergence of digital sales platforms might be more important topics in the future of rail.

Outlook

How do we measure the success of competition in the rail sector?

- Prices
- Quality
- Frequency

What are the drivers of success?

- Market opening
- Intermodal competition
- Privatization

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