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European Rail Policy – some comments from a British perspective

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Three major issues in implementation

- How to introduce competition throughout a railway dominated by passenger services with strong public service obligations?
  - Does this require comprehensive competitive tendering?
  - Is this compatible with open access competition?
- How to ensure that a publicly owned monopoly infrastructure manager is efficient and responsive to customers
- How to ensure system-wide optimisation of costs in a densely used rail system
  - Evidence that this is a problem for densely used railways (EVES-rail study, 2012)

All seem very relevant questions to the Netherlands

Introduction of competition

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- Most of Europe has retained a publicly owned passenger operator responsible for core services, with varying degrees of open access for commercial services and competitive tendering for public service contracts
- Britain placed (almost) all passenger services (profitable or not) in 25 train operating companies and subjected them to competitive tendering mostly by central government but with gradual devolution
- All passenger services required to participate in a common fares system with through and inter-available tickets

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Outcome in Britain

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- 90% growth of demand since tendering introduced
  (mainly due to exogenous factors?)

- 72% increase in real costs of infrastructure operations, maintenance and renewals

- 25% growth in real unit costs of train operation

- Competition and Markets Authority argues that problem is lack of competition; more on track competition is needed (from open access or overlapping franchises)

Impacts of open access competition

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- Lower fares
- Improved services
- Reduced costs despite loss of economies of density?

But

- Reduced profitability of franchisees
- Less well integrated timetables
- Poorer use of scarce capacity
- Need to replace fixed charges by mark ups
- Reduced effectiveness of alliances

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Infrastructure manager efficiency

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Broadly three approaches

1. Targets and penalties set as part of multi annual contract with the state
   - e.g. Germany
2. Regulatory regime with periodic review and targets and penalties set by the regulator
   - Britain
3. Incentivising the infrastructure manager by cost and revenue sharing with train operators
   - Holding company model in Germany
   - Deep alliances in Britain

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Optimising systems costs

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- Problem that no-one has an incentive to minimise systems costs rather than simply their own (McNulty, 2011).
- Can this problem be overcome by appropriate track access charges and performance regimes?

To give correct incentives to train operator track access charges would need to reflect

- marginal costs of infrastructure maintenance and renewals (for individual vehicle type) and
- congestion and scarcity (for time and location)

Britain (alone of EU rail systems) has such charges.

But still will not incentivise infrastructure manager (incentives perverse)

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Deep alliances

Deep alliance between train operating company and infrastructure manager in the region/corridor involves

- Shared management team
- Shared costs and revenue

Infrastructure manager nationally remains 'systems operator' responsible for capacity allocation and track access charges

Pioneered on SW Trains

- But needs a long franchise to overcome problem of short time horizons
- What if there are other significant train operators on the same infrastructure? (e.g. East Coast Main Line)

Conclusions

1. There are many choices to be made in implementing European rail policy, and the balance of advantages and disadvantages will vary with circumstances.
2. Circumstances in Britain (esp SE England) and the Netherlands seem to be sufficiently similar that lessons may be transferable.

Conclusions continued

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Lessons from British experience

- In a dense passenger network, comprehensive competitive tendering is the best way to introduce competition, with open access limited

- But the tendering authority needs the expertise and resources to play a major role in planning and integrating services.

- Cost control is a problem and needs tight regulation plus close working with train operators (vertically integrated franchises or deep alliances)

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