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FLORENCE SCHOOL OF REGULATION

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Open Access Competition in Passenger Railways in Europe

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Background: 25 Years of Railway Reform in Europe

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Directive 91/440 (1991)

- Management independence
- Accounting unbundling
- Financial restructuring
- Access for freight (corridors)

1st Railway Package (2001)

- Independence of the IM; accounting unbundling
- Track allocation rules, unbundling
- Opening of freight market (freight networks)
- Independent Regulatory Authority

2nd Railway Package (2004)

- Full opening of freight market (2007)
- Interoperability rules
- Harmonization of safety rules
- European Railway Agency

Rail Freight Transport: 2007 ✓

3rd Railway Package (2007)

- Opening of international passenger transport market, incl. cabotage (2010)
- Certification of drivers
- Passenger rights
- [PSO tendering (1370)]

International passenger transport (including cabotage): 2010 ✓

4th Railway Package (2015)

Technical Pillar

- Interoperability
- Safety
- Strengthening of ERA

- Opening of national passenger transport market (access) by 2020

National Passenger Transport:
For PSO: 2024
For Open Access: 2020

Different models of Railway Governance

Separation of infrastructure from operation

Complete separation	Holding company	Separation of key powers
Britain	Austria	Czech Republic
Finland	Belgium	Estonia
Denmark	France	Hungary
Lithuania	Greece	Luxembourg
Netherlands	Italy	Slovenia
Norway	Latvia	
Portugal	Poland	
Slovakia	Germany	
Spain		
Sweden		

Table based on Nash, 2008

Open Access Competition in Railways

Competition *in* the market

=

Competition between train operating companies with regulated access to infrastructure (Open Access Competition)

- **4.8%** Market share of non-incumbent railway undertakings (2015)

Competition *for* the market

=

Competitive tendering for Public Service Obligation (PSO) or exclusive rights (*franchising)*

- **36.4%** Market share of non-incumbent railway undertakings in PSO (2015)

Effects of Open Access Competition in Railways

- There is overall an observable **positive impact** for the passengers:
  - Lower prices
  - Better service
  - Higher frequencies

- Negative impact on the system: financial strain on operators and infrastructure managers:
  - Question about financial sustainability given the large amount of public money in the railway system

Case Study: Czech Republic

Timeline

- 1994 formal Market opening
- 2003 Unbundling of incumbent operator
- 2011 End of subsidies for Prag-Ostrawa line
- 2016 “price war” between three open access competitors on the Prague – Ostrawa line

Regulatory Challenges

- Infrastructure Capacity (access charges, priority rights)
- frequent disputes of operators
- Anticompetitive Behavior (predatory pricing)
- Lack of Regulator *(Regulatory Body established April 2017)*

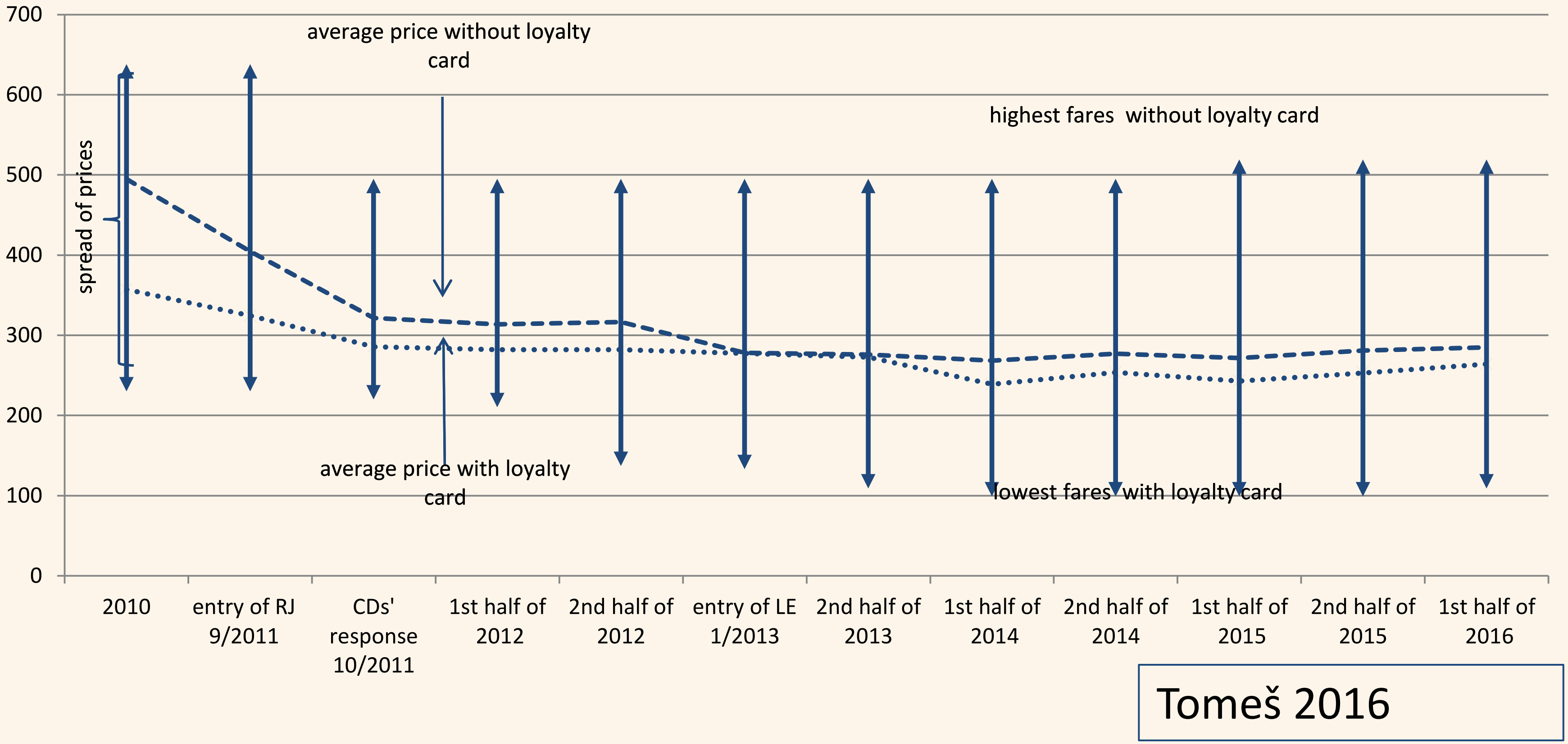
Other Challenges

- Unprofitability of operations
- Less trains during off peak times

Tomeš, 2016

Case Study: Czech Republic

Prices (in CZK, 1 EUR = ca 27 CZK)



* CZK per one way ticket

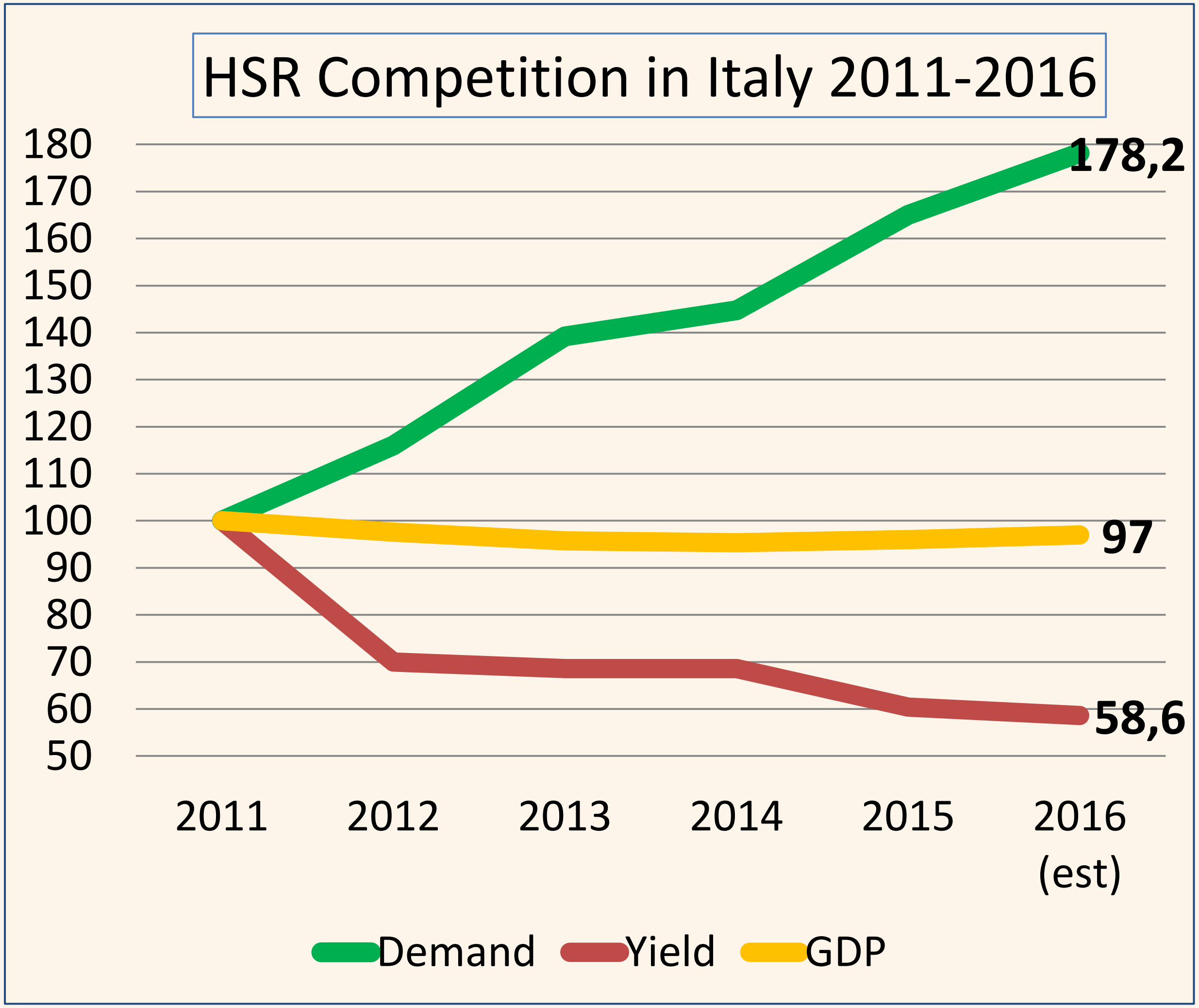
Case Study: Italy

- 2012: NTV enters market, starts operating Rome-Milan route (after several years of proceedings to obtain licence)
- 2013: NTV reaches market share of 20-25% in the High Speed market, significant increase in overall demand for rail transport and modal shift
- 2013: New transport regulator (ART) takes office
- 2014: Reduction of track access charges by 30%

Complaints put forward by NTV:

- Discrimination in path allocation process
- Limited access to (essential) facilities
- Predatory pricing by Trenitalia

Case Study: Italy



Competition has a double positive effect:

- Increase of the Demand (+78% in PKM)
- Reduction of the ticket price → Yield (40%)

Giuricin, 2016

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Case Study: Sweden

- Sweden among the most open markets in EU,
- End of incumbent monopoly for commercial services 2010
- significant open access competition since 2015, when MTR began operations on Stockholm-Göteborg line

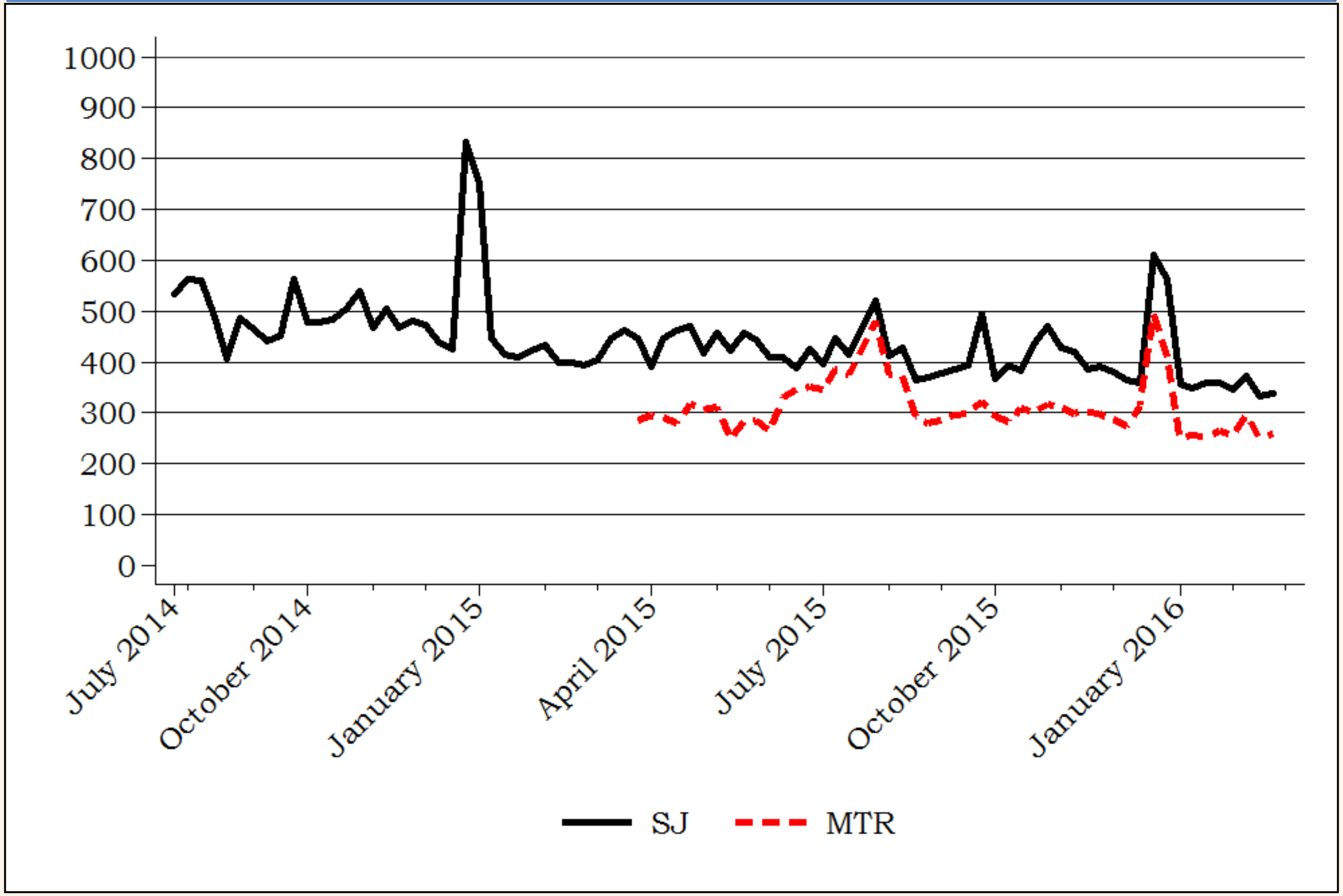
Issues:

- Capacity and path allocation
- Initial dispute about access to ticket vending platforms solved by decision of Competition Authority (2014)

Alexandersson, 2017

Case Study: Sweden

Average weekly price Göteborg-Stockholm line



Vigren 2016

Conclusions

- Competition is limited to a few lines and a few competitors
- There is overall a positive impact for the passengers: lower prices, better service and higher frequencies
- Negative impact on the system: financial strain on operators and infrastructure managers
- Frequent disputes new conflicts between the actors in the railway system
  - ➢ **Need for better regulators**
  - ➢ **Need to redefine financing of the system**

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Thank you for your attention!