



DISCUSSING THE 4TH REGULATORY PACKAGE

Session 2. Liberalization of National Passenger Markets
– which way forward for competitive lines and PSO?

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Challenges to the Single Railway Area

The Single European Railway Area is a shared goal.

It faces challenges unknown in other network industries:

1. Infrastructure is a natural monopoly.
2. Infrastructure requires public finance.
3. The industry has objective limits to competition.
4. Limited role for competition in PSO services.
5. Interoperability.

Single European Railway Area

- Single European Railway Area is a widely shared objective:
 - ✓ Continental operations allow economies of scale are exhausted (costs reduced).
 - ✓ Competition ensures cost reductions are passed to consumers.
- National monopolies perceived as a structural obstacle to Single Area.
- Liberalization is a requirement for the creation of single area, as well as a policy to increase consumer welfare.
- Experience in other network industries, but railways pose particular challenges that require particular solutions.

Challenge nº 1

Rail infrastructure is a natural monopoly.

Infrastructure to be managed at a national level, under exclusive rights.

Competition in service provision requires non discriminatory access to infrastructure.

Vertical separation is an inconvenience, is it necessary?

- From a purely national perspective, probably not.
- From a European wide perspective, probably yes.

It is a paradox that operators benefiting the most from the Single Railway Area oppose to full vertical separation in their home markets.

Challenge nº 2

Full cost of infrastructure cannot be passed to service providers

- Full cost of infrastructure cannot be passed to service providers: it requires public finance.
- Existing access price regulation creates uncertainty on all players, but particularly on potential new comers.
- Competition in commercial services might attract new traffic, which would allow infrastructure managers to increase revenue.

Challenge nº 3

Objective limits to full competition

Obstacles to introduce full competition at national level.

Since there is no EU harmonization, different liberalization models:

- Competition for the market.
- Full competition/open access in the market.
- Duopoly .

Lack of reciprocity is an obstacle to reform at a national level: “Last will be first”.

Difficulty to scale-up by providing services in more markets.

The *status quo* is not sustainable. The process of reform has to be completed.

Challenge nº 4

Limited role for competition in PSO services

Significant proportion of services under PSO with no possibility for competition in the market.

“Competition for the market” is feasible. It could reduce the burden of PSO on public budgets.

Barriers to entry:

- Duration of the contract: between investment recovery and fossilization.
- “Size” of the contract.
- Rolling stock (private ROSCOs, public ownership).

The Single Area would reduce risk for new comers, as risk could be spread around more services.

Challenge nº 5

Interoperability

Single European Railway Area requires interoperability of services across MS:

- Requirement to increase cross-border services.
- Requirement to create cross-border operators, both in commercial services and in PSO services (same rolling stock can be used in PSO tenders in different MS,)

Tension, as interoperability:

- is a cost in the short term.
- For a benefit in the long term.

Conclusions

The Single European Railway Area will bring benefits in the long term, but it imposes costs and uncertainty in the short term.

Short term challenges for the system can be balanced, at least partially:

- Cost reduction for the national budget in terms of infrastructure management due to increase in traffic in commercial services.
- Cost reduction for the national budgets in terms of PSO compensation due to tendering of PSO contracts.

Uncertainty for railway undertakings has to be balanced with real incentives to reform, no political obstacles and the possibility to expand to other geo markets (often through consolidation).

“The firsts will be firsts”.