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The Voice of European Railways

20 Years of Rail Liberalisation in Europe: Key Lessons and Future Prospects

A View from CER

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Freight market entry: market share of non-incumbents, % t-km, selected MS (source: RMMS)

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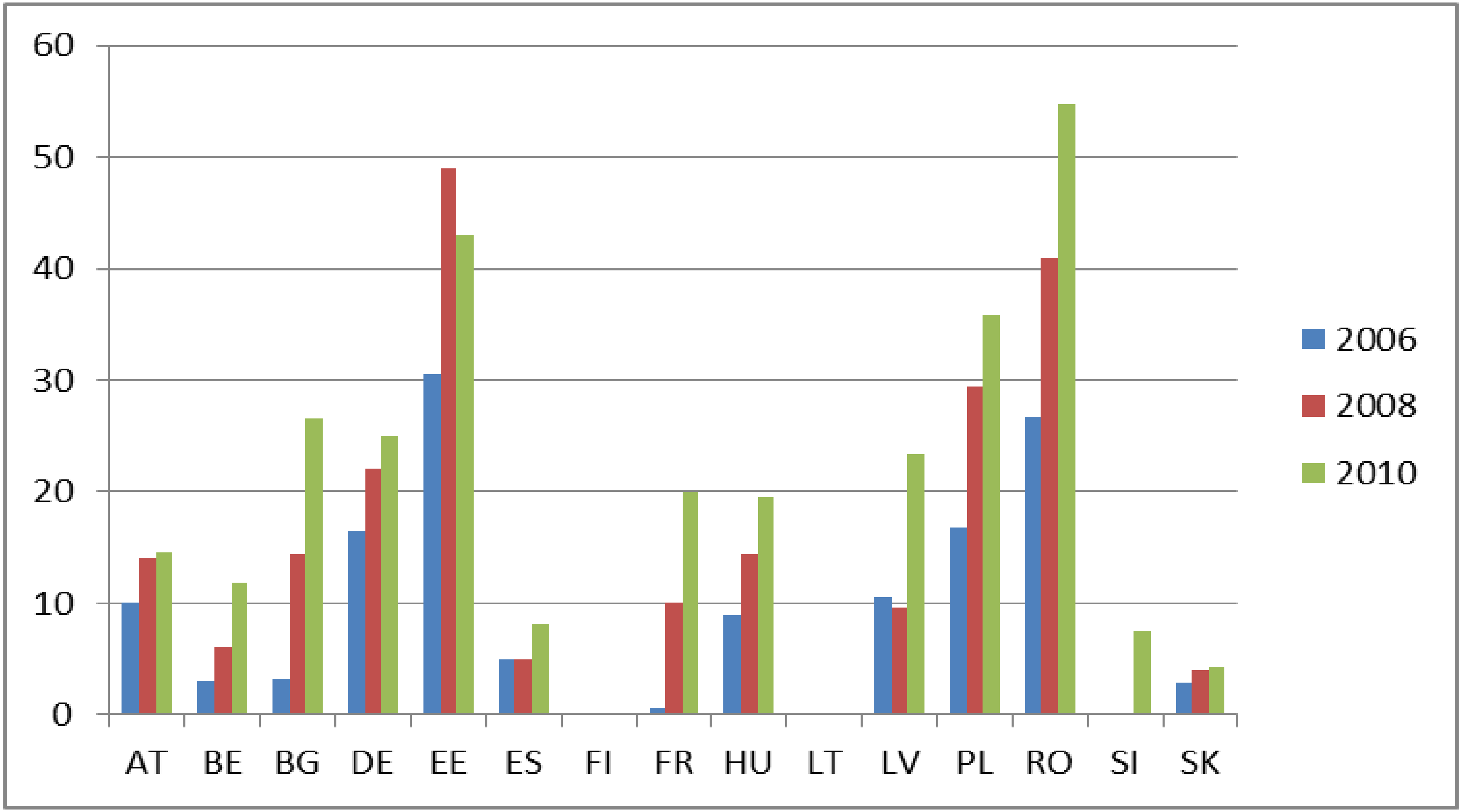

Acquisitions in European rail freight, selected cases 2005-2011 (Source: RMMS; media reports)

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Company	Acquisitions
DB Schenker	RBH (DE); EWS (UK); Transfesa (ES); NordCargo (IT); PCC (PL); PTK Holding (PL)
SNCF	ITL (DE); Geodis (FR); Veolia Cargo (DE, IT, NL) (<-- Rail4Chem, DE)
Trenitalia	TX Logistik (DE)
Rail Cargo Austria	Linea (IT); MAV Cargo (HU)
Eurotunnel (Europorte)	Veolia Cargo (France); GB Railfreight (UK)
Jeroen Le Jeune (BE)	Crossrail AG (--> Babcock&Brown)
OKD Doprava (CZ)	Viamont Cargo (CZ)

Market integration and strategic consolidation through acquisitions and alliance-building

- *Acquisitions*
  - DB Schenker far ahead
  - Other majors: SNCF, Trenitalia, Rail Cargo Austria, Eurotunnel (Europorte)
  - Overcome barriers – develop pan-European services
    - E.g. UK-Poland, Germany-Lithuania services (DB Schenker)

- *Alliance-building*
  - European Bulls: an alliance of new entrants (active 2005-2008)
  - X-Rail: market integration alliance of (mostly) dominant players

Passenger services: market entry (1)

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- *Domestic: competitive tendering (competition for the market)*
  - Entry of new private operators (e.g. Great Britain)
  - Entry through joint ventures, e.g. Govia (UK, 3 franchises), a joint venture of Keolis (35%) (majority SNCF-owned) and Go-Ahead (65%) (private)

- *Domestic: open-access (competition in the market)*
  - More challenging, e.g. compare % new entrants in Germany between long-distance passenger (open access) and regional (tendering)
  - E.g. Hamburg-Köln Express (HKX) (RDC + Locomore, with Veolia Transdev) still waiting for EBA's safety approval
  - In service: Regiojet CZ, Westbahn A

- *Cross-border (excluding high-speed)*
  - Joint ventures, e.g. Thello (Veolia Transdev + FS) for France-Italy services

Passenger services: market entry (2)

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- *Cross-border high-speed segment (examples)*
  - Thalys and Eurostar (both majority-owned by SNCF)
  - DB plans to offer London-Frankfurt and London-Amsterdam services

- *Domestic high-speed segment*
  - Southeastern (UK): regional high-speed services on HS1 since 2009
  - NTV (Italy, fully private) should start HS services in Italy in 2012

Passenger market: structural issues (1)

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- *Many segments require a critical mass for successful entry*
  - Large historical operators acting alone or through joint ventures
  - Few new entrants can cope (so far) – joint ventures often the solution
- *Market (re-) consolidation in favour of large historical operators*
  - E.g. DB acquisition of Arriva
    - Except Arriva Deutschland (now Netinera) → to FS
- *Divestment and restructuring among new entrants*
  - E.g. Veolia Environnement to divest from Veolia Transdev
    - Veolia Transdev to re-concentrate its portfolio

Passenger market: structural issues (2)

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- *Multi-modal operations / integration*

  – The major historical operators are already multi-modal (also in freight)
    → logistics & mobility providers, as opposed to just rail operators

  – Major private groups as well, e.g. Veolia Transdev, Keolis, Arriva
    →all provide rail, light rail, and bus services

  → Good potential for provision of full door-to-door mobility concepts

- *Question*
  – Competition separately between segments, to be integrated through partnerships and standardisation efforts, AND/OR
  – Competition between providers of integrated multi-modal services?

4th Railway Package: Further Opening of Domestic Passenger Markets - framework conditions

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Draw on experience of freight liberalisation

for successful liberalisation, other economic conditions play a major role

- infrastructure funding
- infrastructure charging
- taxation
- handling of historic debt

Adapt to the specificities of the domestic passenger market

- PSOs, the biggest part, partly paid by the public authorities
- need to keep the consistency of services with multiple actors
- social dimension / social rules

4th Railway Package: Further Opening of Domestic Passenger Markets: PSO under-compensation

Problem

Under-compensation of PSO services

- State-owned **historical operators** ordered to deliver PSOs at loss
  - Too weak to bid for other PSOs elsewhere
  - Too weak to launch new open-access services
- **New entrants** lose the bids as too costly, or stay away from the tender

Solution

Making sure that PSO contracts truly deliver by...

- **Ensuring that existing legislation is enforced:** public authorities must duly pay for the services they buy
- **Allowing for subsidiarity** with respect to the granting of exclusive rights: for some segments, this can ensure higher profitability and lower public funding

4th Railway Package: Further Opening of Domestic Passenger Markets: ensuring consistency

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Problem

More actors, more interfaces, more coordination

- More cost (McNulty report)

Solution

„Network Schemes“ to ensure service consistency?

- Regulation, licensing, safety certification, PSO tendering...
- Harmonisation of timetables
- Complaint handling, settlement of compensations...
- Settlement of ticket revenues
- Information to customers
- Interfaces between information systems of different operators, etc...

In light of the McNulty report,
Network Scheme evaluation is needed.

Question

Who should pay?

- End-users (risk of lowering rail competitiveness)
- Public authorities (conflict with increasing public budget constraints)

Concluding remarks

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- CER supports the opening of domestic passenger markets to competition
- Market opening has been a success in several Member States where it has encouraged better performance
- Re-concentration in favour of large historical operators is inevitable: rail is a capital-intensive business

However

- The real competition is **with the other modes**
- Framework conditions radically modify economic outcomes
- **The cake has not grown bigger everywhere: market opening is not enough**
- Infrastructure capacity and quality and relative prices drive modal choice
- Infrastructure financing, PSO compensation, and historical debt levels are good predictors of rail business performance

Thank you for your attention!

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