

Introduction and background to the

## ***EVES-Rail Study: Economic Effects of Vertical Separation in the railway sector***

Edward Christie  
Senior Economic Adviser, CER

[Edward.Christie@cer.be](mailto:Edward.Christie@cer.be)



- Political background: 4RP and national discussions on vertical separation
  
- Scientific starting point:
  - Do we know what works best?
  - What does the existing literature say?
  
- CER decided to commission a study to accompany the Impact Assessment of the European Commission

- CER office → drafting of Terms of Reference
- Support group: CER Economics and Taxation Group
- Selection procedure for the research consortium: closed call on **9 well-known economics consultancies** (leading to 8 submissions)
- Influence of CER member companies:
  - On the Terms of Reference: supported without changes
  - On the candidates for the call: broadened, no removals
- Choice: recommendations from the CER Econ Group + CER office view
  - Majority, and CER office, in favour of Inno-V consortium
  - Some CER members in favour of less academic choices: overruled
  - **Dominant criteria: scientific quality and data collection feasibility**

- I. Literature review
- II. Econometric assessments
  - I. Structural model and economic efficiency
  - II. Structural model and modal share
- III. Qualitative rail sector modelling
  - I. Flow-chart modelling of the rail value chain under different structural models
  - II. Understanding the ‘target functions’ of IMs and RUs
  - III. Understanding the issue of ‘alignment of incentives’ between IMs and RUs
- IV. Non-discriminatory access under different structural models
- V. Cost-benefit analysis of probable structural reforms
- VI. Analytical conclusions
- VII. Policy recommendations

*Modifications over project life-time: very minor - added short section on value-for-money for state budgets*

- Consortium:
  - Lead: Inno-V (NL)
  - Partners: ITS at Univ. Leeds (UK); VU Amsterdam (NL); Civity Management Consultants (Germany); Univ. Kobe (Japan); Univ. Fukuyama (Japan)
  
- Econometrics (Part 1):
  - *Extend approach and data-set of*
  - Mizutani F. and Uranishi S. (2012). “Does vertical separation reduce cost? An empirical analysis of the rail industry in European and East Asian OECD Countries”, Journal of Regulatory Economics, April.
  - Model: Total Cost = F ( Control variables, Test variables)
  - Controls: cost of input factors LMK, output volumes pass/freight, route length and train density (train-km per km of route)
  - Test variables: vert sep, horiz sep
  - Econometrics: translog, panel of 23 OECD countries over 14 yrs
  - **For the study: inclusion of Great Britain, extension of time series to 2010, additional control variables**

- Econometrics (Part 2 - modal shares)
  - Modal Share = F ( Control variables, Test variables )
  - Control variables: energy/fuel prices; structural indicators; competition
  - Test variables: structural variables: Vert Sep, Holding; Horiz Sep
  - Sample: EU + CH, TR - 1994-2010
  
- Rail sector modelling
  - Pre-existing work of Inno-V - flow-chart models of national rail sectors
  - Documentation of 'misaligned incentives' - inter alia, what did McNulty mean?
  - Innovative research - major part of the study
  
- Short chapter on competition and non-discrimination
  - To be based on a small number of country case studies to highlight how different structural models cope



The Voice of European Railways

**The EVES-Rail Study will be published and launched in Brussels  
on 5 November 2012**