Introduction and background to the

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

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CER Study on vertical separation

- 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
Organisation of the study

- 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*
Winning proposal: contents (1)

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