



7th Florence Rail Forum

Current Challenges of Rail Regulation in Europe: The European Regulators' View

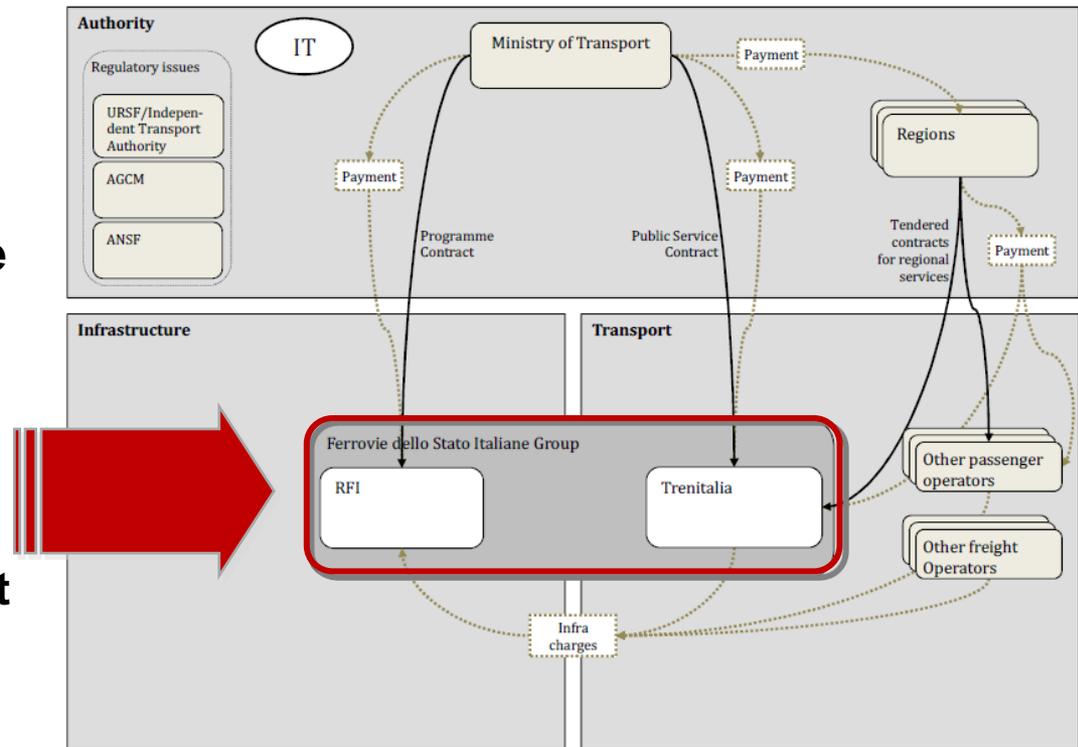
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Organizational structure of the Italian rail sector

Open-access competition within a Holding model

- ❑ The Italian IM (RFI) is a **separate legal entity in charge of network capacity allocation according to the rules and deadlines set in the Network Statement**, and in compliance with EU principles of transparency, fairness and non-discrimination.
- ❑ **Network Statement** is subject to the binding opinion of the national regulatory authority



Market liberalization: the Italian overtaking

Italian market was one of the first European market to be liberalised

This level of liberalization has been achieved in a context of:

- 1. weak incentives for modal shift**
 - ▶ the road transport is strongly subsidized
- 2. scarce and decreasing public contribution, especially for PSO contracts**
 - ▶ public services, operated by Trenitalia, were and still are in some case undercompensated
- 3. weak regulation to avoid cherry picking**
 - ▶ although there is the first case in Europe of competition on High Speed

Local passenger transport

Competition FOR the track

Region can choose between tendering procedures and direct awarding of contracts. Since 1997, only few Regions launched tenders



Medium/Long distance passenger (and freight) transport

Competition ON the track

For international and national transport (since 2001)



In this regulatory framework, FSI Group had to implement actions:

- ❑ to improve its economic and financial situation;
- ❑ to face increasing competition;
- ❑ to enhance service quality;
- ❑ to make investments (e.g. in new rolling stock for PSO)

Focus on the Italian Railways: a significant development of competition

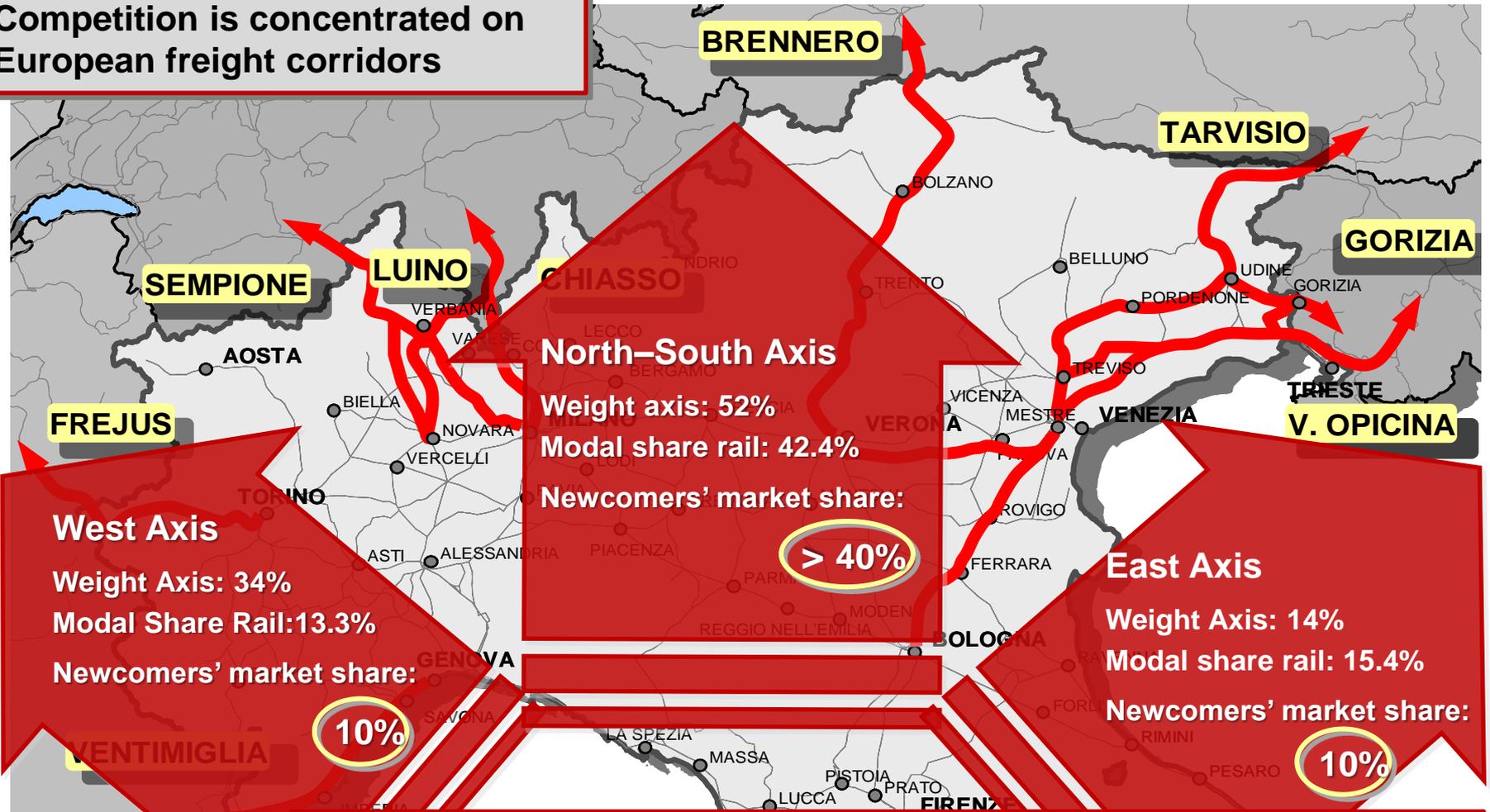
The Italian regulatory framework led to a significant development of competition

- The opening to competition is occurring fairly rapidly, as witnessed by the increasing number of operators active on the market, especially in freight
- The entry of NTV on the HS market is an «Italian first» in terms of opening: no other EU country has so far witnessed open-access on this segment of the market to competitors

The level of competition is not extending throughout the network homogeneously: new-entrants choose to operate services only on profitable rail routes

Freight transport

Competition is concentrated on European freight corridors



In cross border markets with higher remuneration (stronger demand, trains at full capacity and higher prices) the average newcomers' market share is about 30%  They are mainly EU incumbents

Medium/Long distance passenger transport

The first case in Europe of a private operator on High Speed Rail

□ In April 2012 a private company called Nuovo Trasporto Viaggiatori (NTV) (operating under .italo) entered the market to connect major Italian cities.

□ NTV is a private Company (but French National Railways (*SNCF*) owns a 20% share)



SNCF, the monopolistic incumbent in France, will entry in the Italian rail market



Trenitalia can not entry in the domestic French market because it is still closed to competition

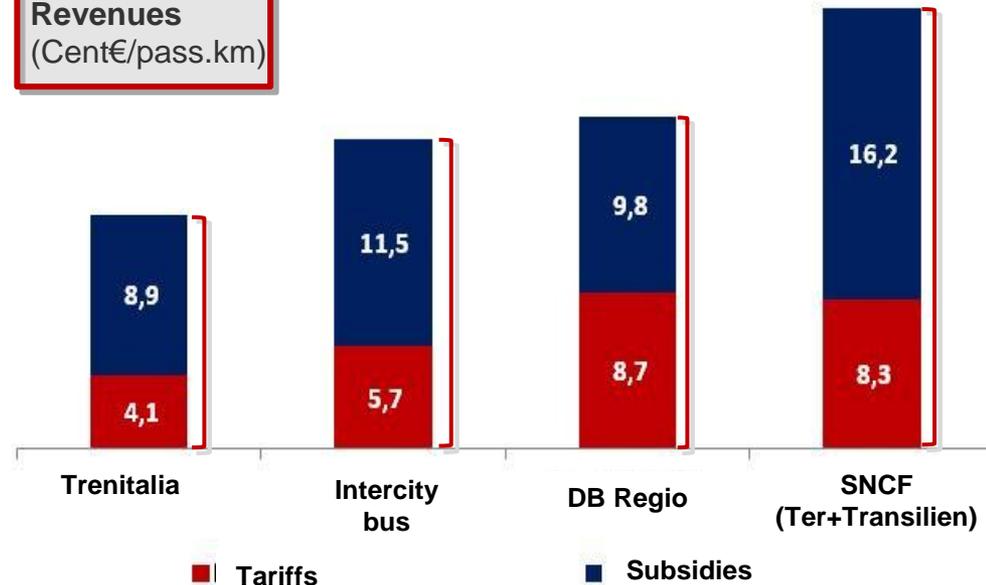


Local passenger transport

- ❑ Public Service Contracts to be awarded by competitive tendering since 1999, but only few Regions launched tenders
- ❑ Region can choose between tendering procedures and direct awarding of contracts since 1999, but only few Regions launched tenders for universal services will no longer be allowed
- ❑ In Italy the liberalization process, broader than elsewhere, was combined with weak PSO contracts and low subsidies and tariffs
- ❑ Public services, operated by Trenitalia, were and still are in some case undercompensated

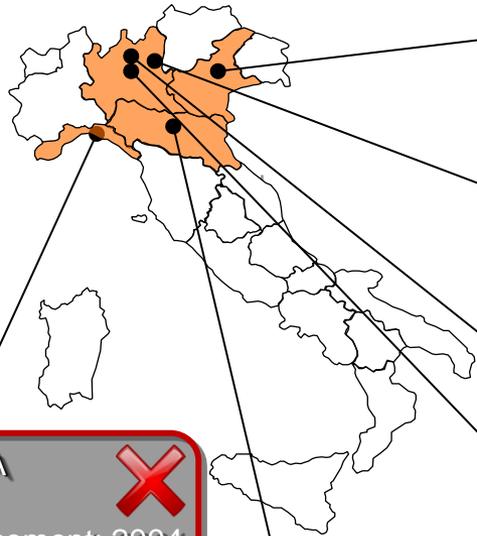
Insufficient resources for services and investments

Revenues
(Cent€/pass.km)



If tenders fail because of resource scarcity will Trenitalia be forced to continue to provide public services?

Local rail transport: without adequate resources competitive tenders are impossible



VENETO (Lotto2) ✓
Announcement: 2004
duration: 6 years
Mil €: 70.41 per year
beginning : 12/05
winner :Trenitalia/ST

LOMBARDIA (Lotto3) ✗
Announcement: 2004
duration: 7 years
Mil €: 84.8 per year
beginning : 12/05
suspended

LOMBARDIA (Lotto2) ✗
Announcement: 2004
duration: 9 years
Mil €: 93.6 per year
beginning : 12/06
suspended

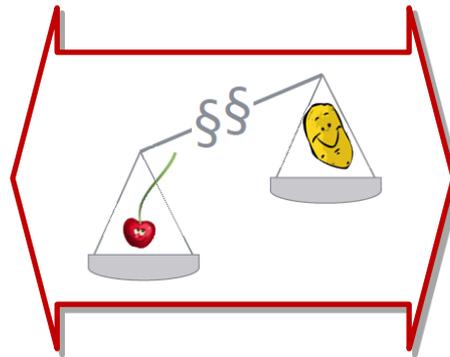
LOMBARDIA (Lotto1) ✓
Announcement: 2004
duration: 9 years
Mil €: 6.54 per year
beginning : 2nd semester 08
winner : Trenitalia/FNMT/ATM

LIGURIA ✗
Announcement: 2004
duration: 9 years
Mil €: 65.53 per year
beginning: 12/06
winner: cancelled

EMILIA ROMAGNA ✓
Announcement: 2005
duration: 3+3 years
Mil €: 93.79 per year
beginning : 12/06
winner: Trasporti Integrati Consortium (TI// local consortium)

Cream skimming and universal services

New-entrants choose to operate services only on profitable rail routes



Cross subsidisation to finance the universal services will be no more possible for the incumbent

- Without a clear definition of universal services and a coherent model of contribution by all RUs and/or public financing, the universal services will be reduced

A co-financing system for universal services should be introduced, through royalties on higher profitable passenger transports

- The role of Regulator should be to guarantee fair competition and social services

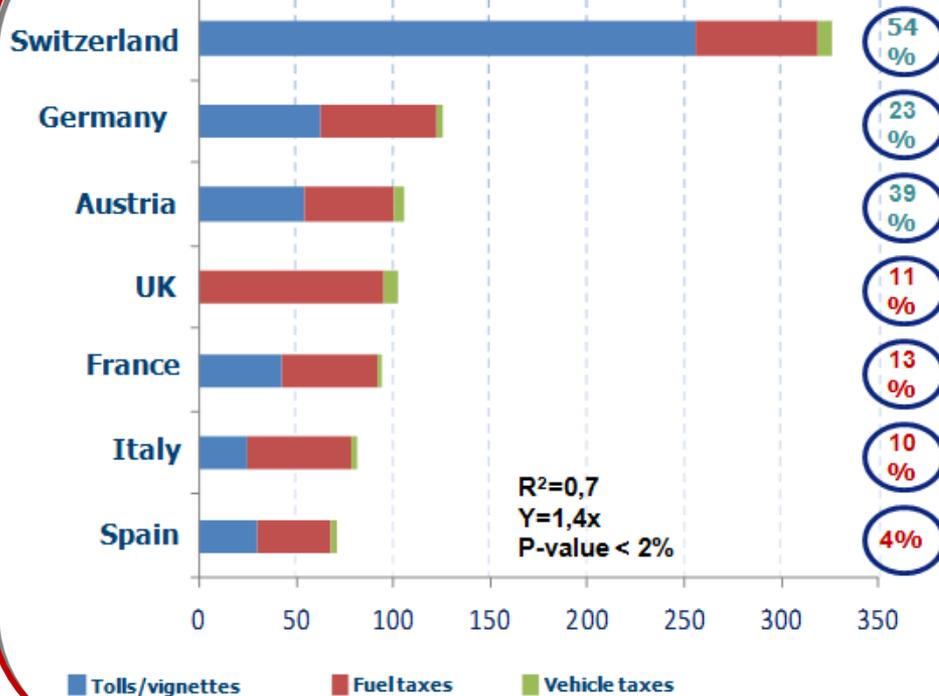
Regulatory framework – envisaged evolution

- ❑ **The liberalization process has been realized at a fairly progressive pace both in freight and passenger transport. In the next few months an independent Transport Authority – established at the end of 2011 – will be operative.**
- ❑ Its competences will be:
 1. guarantee equitable and non-discriminatory access to rail, port, airport and highway infrastructures
 2. define criteria for setting tariffs, fees and tolls
 3. define minimum quality levels for national and local transport considered to be a public service
 4. regulate access to rail infrastructure
 5. define public tender mechanisms to assign transport services and criteria for appointing tender commissions' members
 6. cooperate with Public Administration (PA) in identifying Public service obligation routes and support it in identifying the most effective methods to finance them

The new Authority should contribute to establish a more stable, clear and transparent regulatory framework. Being competent for all transport modes, it should define a better level playing field for intermodal competition, favoring the development and usage of the more sustainable ones

Road taxation linked to modal choice

Average cost HGV per day in Euro



- ❑ High spread of road taxation levels among Europe
- ❑ Lower road taxation levels generally lead to lower rail modal shares
- ❑ Countries that have introduced tariffs systems for road haulage have highest rail transport share quotas

Source: ITF Road Taxation Database and "EU energy and transport in figures" 2010

The “patchy” situation of EU rail market

The European rail liberalization process realized by **Directives**

flexibility in the application at national level

The current framework is characterized by a non-uniform implementation

Some Member States followed a policy oriented to the implementation of the “*minimum level*” necessary to “formally” transpose EU legislation in their national systems



A “patchy” situation

Some Member States proceeded towards the **market opening and elimination of barriers**



Different access conditions to national infrastructures and rail services in EU markets

The Fourth Package

FS Italiane has a clear position on the whole proposal of the Fourth Package which should be aimed at:

- Obtaining a truly open and liberalised European Single Market for railways by assuring at the same time a non-discriminatory access to the rail network
- Assuring a certain, equal and homogenous application of EU laws for all operators and in all Member States
- Deleting the existing technical and administrative barriers by fostering ERA: without the technical pillar, market opening would remain on paper!
- Maintaining an economically solid rail industry which can depend less on limited and always declining transfers from the public sector. Changes to the governance structure must not generate additional costs or unbalancing the rail system

Conclusions

Scarse resource for regional transport

A strong commitment changing competition rules among the different mode of transport is needed

Italy liberalized the most profitable market (High Speed)

Tenders could fail because of resource scarcity

Public services, operated by Trenitalia, were and still are often undercompensated. Which economic (and political) tools to secure funding?

The new Authority will be able to define a better level playing field for intermodal competition?

Competitors are not required to contribute to PSO contracts. How to ensure economic balance for the all rail sector?

Could Trenitalia be forced to continue to provide undercompensated public services?

Thank you for your attention!

