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Rail freight development in Europe: how to deal with a doubly-imperfect competition?

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Abstract

The development of rail freight is central to the European Union's transportation policy. As it has been the case for road and air transport and for other network industries (e.g. energy and telecommunications), deregulation and market opening have been the main policy options chosen by EU to promote rail freight. But rail freight is still facing a doubly-imperfect competition. On one hand, the intermodal competition is off balance between road and rail. On the other hand, intra-modal competition between railway operators is imperfect. Railway operators are not all alike, major companies exist and they play a structuring role that regulation must take into account. According to the HHI (Hirschman Herfindahl Index) the market structure is still characterised by a strong concentration. Therefore, the key roles played by the major companies as well as, in some countries, the remaining action of the state, have to be addressed, since both of them represent some of the key features of imperfect competition in the rail sector. Numerous entry barriers remain and market power manifest itself in many areas of rail freight. This should be given special attention by regulators or competition authorities. National regulators should also communicate with one another, as they will be confronted with major companies' market power.

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Keywords: Barriers to enrry, Competition; Concentation index; EU; Liberalisation, Road freight; Rail freight; Regulation

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0. Introduction

The development of rail freight is central to the European Union's transportation policy. The EU objective regarding rail freight development is mainly driven by energy-related and environmental concerns (e.g. improving road safety and reducing pollution, greenhouse gas emissions and other adverse environmental impacts of road freight transport). As it has been the case for road and air transport and for other network industries (e.g. energy and telecommunications), deregulation and market opening have been the main policy options chosen by the European Union to promote sustainable development in rail freight. The European Union's focus on competition and market opening is paramount, as it is a pre-condition for enhanced efficiency in the rail sector in general, and in the freight sector in particular. However, progress in the area of competition and market opening has been uneven across member states. This might be seen as an explanation of the remaining low modal share of rail freight in Europe.

Based on national case studies from Belgium, France, Germany, Italy and the United Kingdom (Crozet 2014), the paper shows in a first part that measures to establish competition are slowly but profoundly transforming the landscape of European rail freight operators (1). The "competitive solution" proposed by the EU, already tried and tested in many network industries, leads to significant changes (2). Market opening and intermodal competition have played a key role in changing trends, made possible by considerable organisational changes within companies (3).

But the market structure is characterised by a high degree of concentration, competition is still imperfect. Imperfect intra-modal competition does exist, but the rail freight operators are also facing an imperfect intermodal competition with road transport. Rail freight is therefore facing a doubly-imperfect competition. On one hand, the intermodal competition is off balance between road and rail. On the other hand, intra-modal competition between railway operators is imperfect. Railway operators are not all alike, major companies exist and they play a structuring role that regulation must take into account. Finally, addressing the regulatory issues, the paper describes the key challenges of regulators in a sector where numerous entry barriers remain and market power manifest itself in many areas. This should be given special attention by regulators or competition authorities. National regulators should also communicate with one another, as they will be confronted with major companies' market power (4).

1. EU, the competitive "solution" and the challenges of competition within the rail freight sector

Given rail freight's protracted decline, one option would have been to consider it as an obsolete mode of transportation, definitely and permanently surpassed by road, sea and air freight. This is more or less what has happened in many Western European countries. After World War II, public policy simply followed this activity's decline. In the 2001 and 2011 white books, the objective of the European Union was to reverse this trend.

With Directive 91/440 and the subsequent "Railway Packages", the EU has sought to extend rail freight's relevant perimeter by using the same logic as in other network industries. The goal was to put an end to traditional monopolies by what is called the "competitive solution". In what follows we describe the logic of this intra-modal competition but we have also to keep in mind the remaining intermodal competition with road haulage.

1.1 Rail and road: a radical intermodal imperfect competition

Compared to road haulage, where deregulation started almost 30 years ago, it appears that intra-modal competition does not manifest itself in the same form in both sectors. The major differences between the two are network access on the one hand, and the costs of market entry on the other:

- In terms of network access, road and rail are in radically different positions. Even in a scenario where each freight wagon were independently motorised and could come and go freely on the rail network, general open access remains a pipe dream for now. Rail traffic has to be planned, often several months in advance,