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Open Access for Rail Passenger Services in Europe: Lesson Learnt from Forerunner Countries

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Abstract

The fourth railway package –still discussed today by the European institutions - plans to open the whole rail transport market to competition in 2022. Currently, only freight transportation and international passenger services are open to competition. According to the fourth package, the market for regional transportation should be organized around franchises and therefore competition “for” the market. On the contrary, competition for long distance services - at least for profitable services – should be “open access”.

This paper evaluates the potential consequences of this open access competition at the European level based on the consequences of open access competition in the seven forerunner countries that have already allowed for some form of open access competition. These experiences may give us some clues regarding the impact of open access in Europe. It inventories all the open access services that exist/have existed across Europe. Based on this database, we construct standard profiles and strategies of new entrants.

We found that it takes several years for open access competition to settle after legal opening of passenger transportation market. For most of the new entrants, the financial strategy is to minimize risk. Wide-scale entries with brand new rolling stock are extremely uncommon. Bankruptcy (or service interruption) are common. Therefore, it is unlikely that the fourth package implementation leads to a dramatic change in the functioning of the rail passenger transportation market.

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1. Introduction

The fourth railway package – still discussed today by the European institutions - plans to open the whole rail transport market to competition in 2019 and 2026.² As stated in the article 10, paragraph 2 of proposal of the European Commission for an updated Directive 2012/34 “*Railway undertakings shall be granted, under equitable, non-discriminatory and transparent conditions, the right of access to railway infrastructure in all Member States for the purpose of operating all types of rail passenger services. Railway undertakings shall have the right to pick up passengers at any station and set them down at another.*” Currently, only freight transport and international passenger services are open to competition. National passenger transport can still be a monopoly. However, some countries (Germany, Austria, Italy, Czech Republic, United-Kingdom and Sweden) already allow competition for passenger transport on their national network. These experiences may give us some clues regarding the impact of liberalization³ in Europe. In the proposed fourth package, competition for passenger transport in the market can take two forms. First, competition “for the market”⁴ for non-profitable in particular regional services. This market is planned to be opened in 2026. Second, competition “on the market” for profitable services. This market is planned to be opened in 2019. The likelihood of the emergence of an actual competition between service providers is indeed a key element for the success of the policy implemented by the European Commission. If no competitors or only a handful of them enter the market, an alternative scheme of competition (namely competition for the market) should be considered.

Economic literature has studied and tried to assess the impact of competition “for” the market - especially in Germany, Great-Britain and Sweden (see for example Alexandersson (2009), Smith (2010) and Guihery (2014)). This has allowed economists to draw some general conclusions on the impact of this kind of competition in the railway industry (impact on costs and subsidizes, suitable institutional design to foster competition, market share of new entrants, etc.)

On the contrary, to our knowledge, there is currently no comprehensive study on the consequences of policies allowing for passenger open access services across Europe. General articles or studies on rail competition generally give a list of previous open access experiences in various countries, but without any comprehensiveness ambition (see for example Lodge (2013, pp.11-12) or European Commission (2013, p.7)). These previous experiences are mostly used as example to illustrate a theoretical argument and not as an input in an empirical approach (see for example Johnson, 2012). Three national case studies have however uses quantitative or qualitative approaches in order to assess the impact of open access services: Rasmussen et al. (2015) on the United-Kingdom, Seguret (2009) on Germany and Bergantino et al. (2015) on Italy. In addition Bergantino (2015) realizes the most comprehensive study on rail open access competition in Europe that exists at our knowledge in a very recent paper that studies all kind of competition between train operating companies (i.e. open access and franchises) in Europe.

The goal of the present communication is to fill this gap in the economic literature. Its goal is to inventory all the open access services that exist/have existed in Europe. We have identified 34 open access passenger national or international services. We then choose a qualitative approach in order to build a typology of entrants.

Our article is organized as follows. It recalls in part 2 the general context of liberalization of network industries and defines “competing open access passenger services” (hereafter COAPS). In part 3, it inventories all the COAPS that exist/have existed across Europe. Based on this inventory, part 4 introduces a typology of COAPS operators’ strategies and explains the rationale behind each strategy. Last part concludes.

² In its last version agreed upon by the Council of European Ministers on the 8th of October.

³ In this article we choose to use the word “liberalize” and not “deregulate” since the main goal of the European Commission is to introduce more economic freedom (entrepreneurial freedom) in industries that were before organized around a vertically integrated monopoly. Liberalization does not mean that an industry is less regulated, as the word “deregulation” suggests. On the contrary new regulations may be necessary to promote a real entrepreneurial freedom.

⁴ “Competition for the market” and “competition in the market” are defined in part 2.

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