

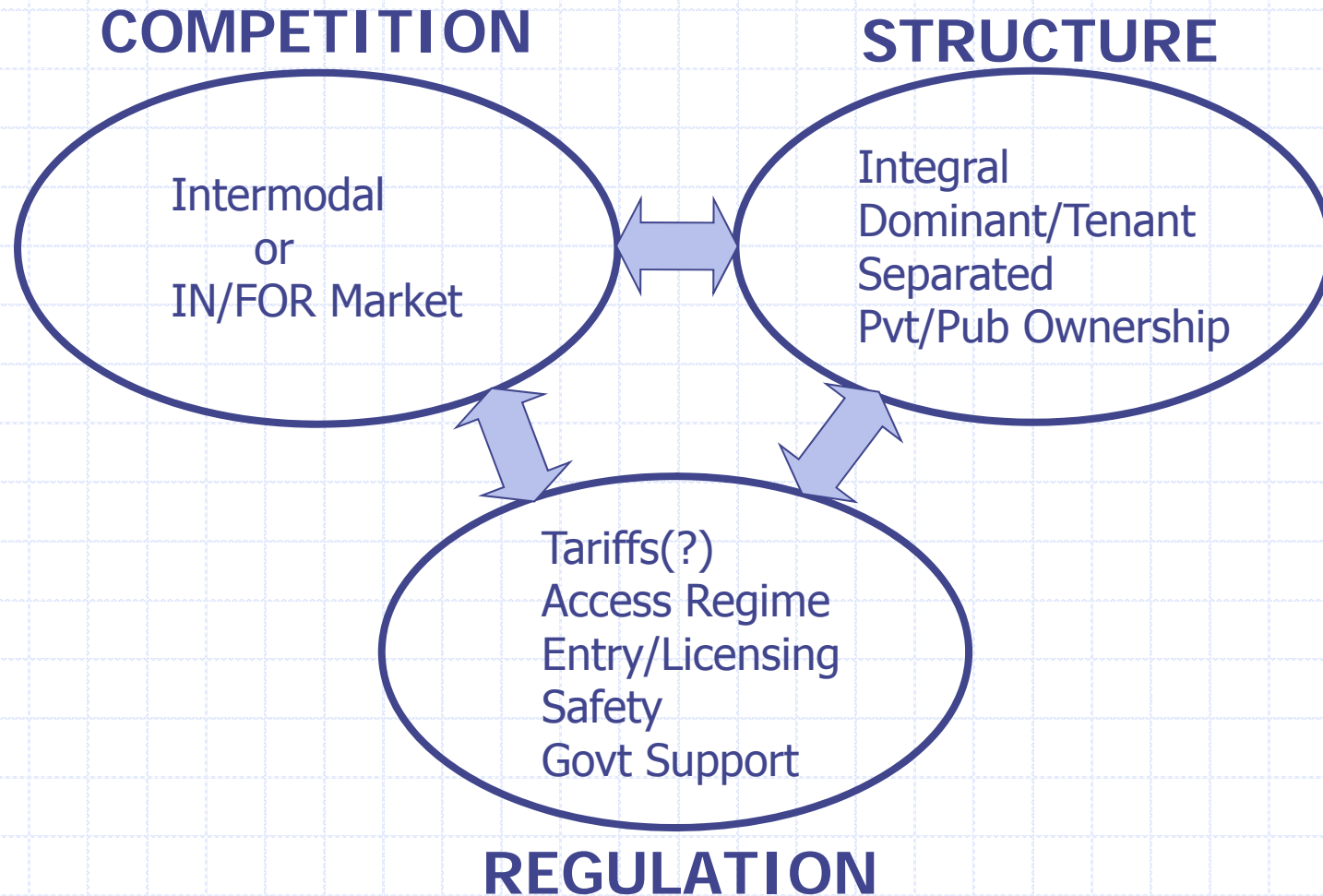
Should Train Operations be Separated from the Provision of the Track Infrastructure: Will it work in **Theory**?

OECD Working Party No. 2 on Competition and Regulation

Paris, February 14, 2005

Lou Thompson
Thompson, Galenson and Associates
2804 Daniel Road
Chevy Chase, MD 20815 USA
Phone 301 951-3731, fax 301 951-8978
lthompson@alum.mit.edu

The Basic ▽



Structure and Ownership

		PUBLIC	MIXED	PRIVATE
INTEGRATED		China, India	Some Arg. Frt concessions, Mex City frt	Brazil Concessions (Frt and pax), Argentina pax concessions, GYSEV, Japan
DOMINANT/TENANT		Russia Pax, JR Island Cos	Amtrak, VIA, JR Frt	US/Canada frt
	Accounting	"EU"		
SEPARATED	Holding	DB, FS, PKP	German concessions and companies	
	Institutional	SJ/BV/Grn, Railion DK & NL	Swedish concessions	UK

Competition and Structure

Structure		Sources of competition			Access Regulation
		INTERMODAL	IN THE MARKET	FOR THE MARKET	
INTEGRATED		China, India, US frt, LAC frt concessions	US, Canada, Mexico (minor)	Suburban pax rail, Metros, LAC pax concessions	New entrants and industry structure
DOMINANT/TENANT		Amtrak/VIA	US frt trackage rights	US suburban pax	Mandated trackage rights, if any
SEPARATED	Acctg	EU	Rail4Chem		Nondiscrimination*
	Holding	DB Cargo	German private companies	German pax franchises	Nondiscrimination, charge balance among users and infrastructure earnings
	Institutional	UK frt	UK frt	EU franchises and pax concessions	Nondiscrimination, charge balance among users and infrastructure earnings
TARIFF REGULATION		Depends on competition		Franchise contract	
* Effectively impossible without full LOB accounting					

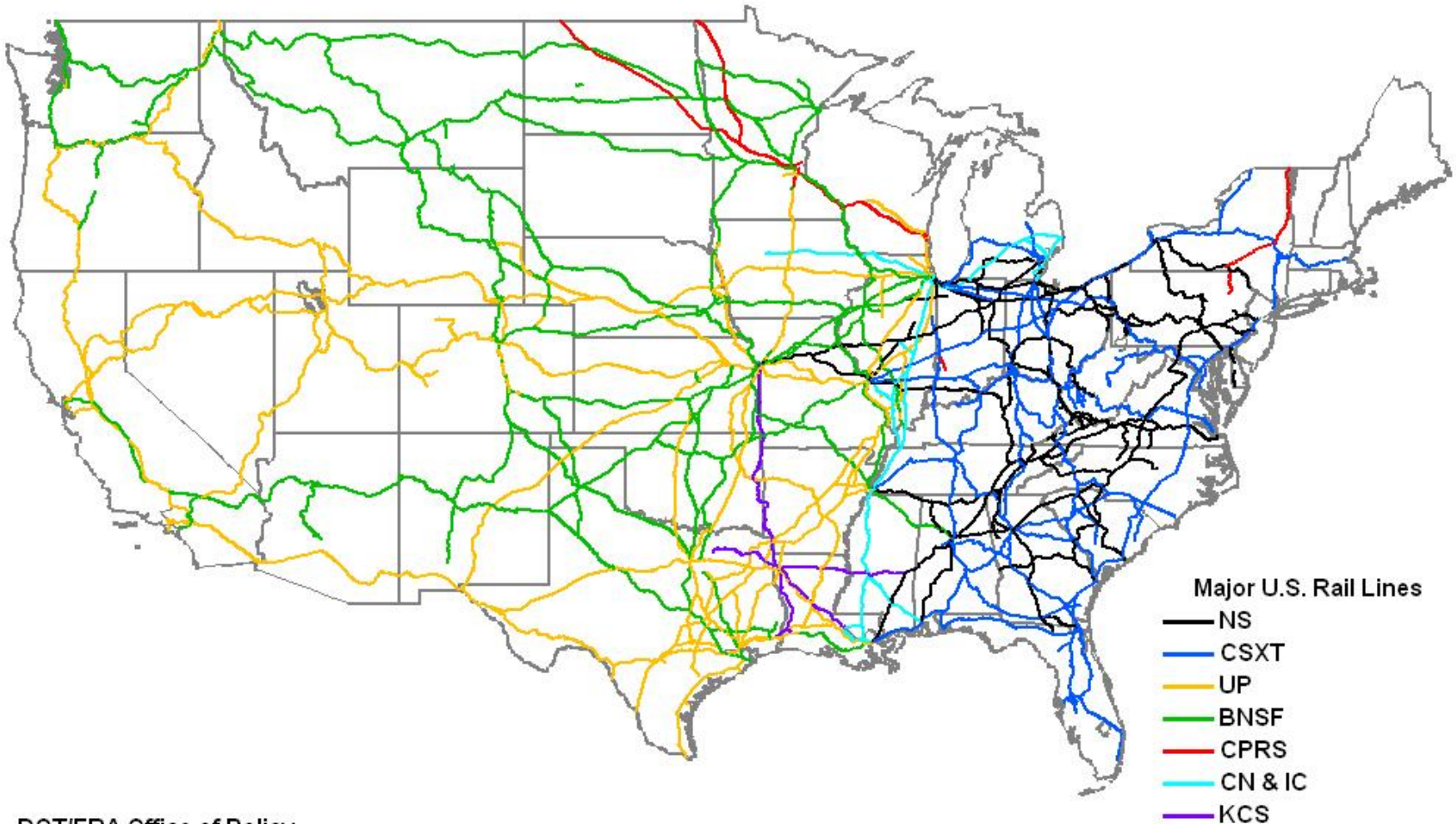
Regulation

- ◆ Must be consistent with both competition and structure
- ◆ Paradox: when needed the most is least likely to work, esp. if need caused by disconnect with competition/structure
- ◆ Competition works effectively, but contracts are also important (FOR)

Narrowing the Focus: What World for the Model?

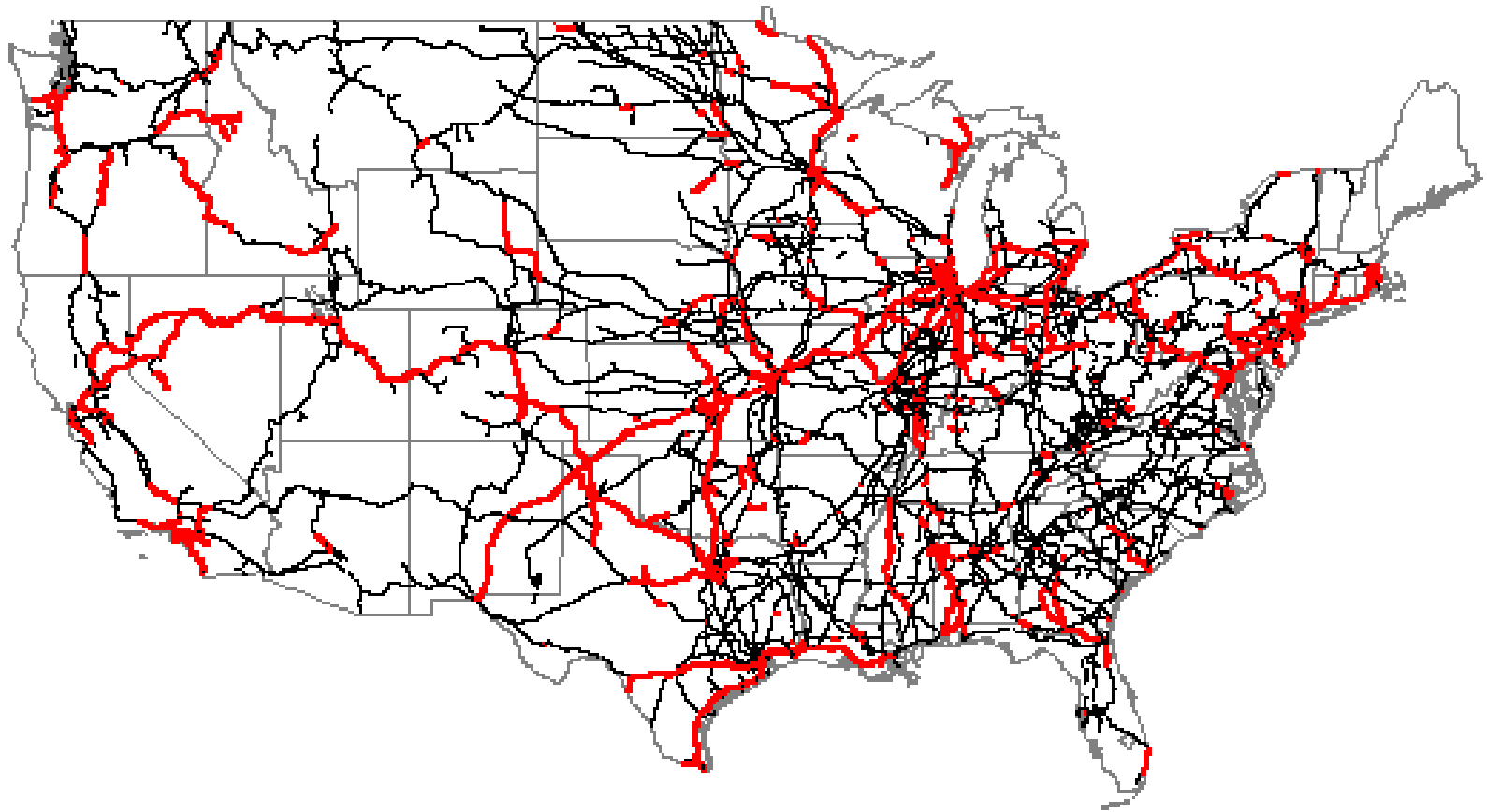
- ◆ North America – integrated competition, with some competing and non-competing tenants (BUT CI I's down, at best duopoly, regulation improved)
- ◆ LAC – essentially all **private, integrated** concessions
- ◆ Japan – 3 big companies **private and integrated**, national frt is tenant, three small, island co's integrated and public, 30+/- companies always private and integrated
- ◆ Russia and China – another day: see OECD reports
- ◆ **What model for the EU world?**

US Rail System Map Today: Class I Railroads (BUT 60 to 25 to 7)



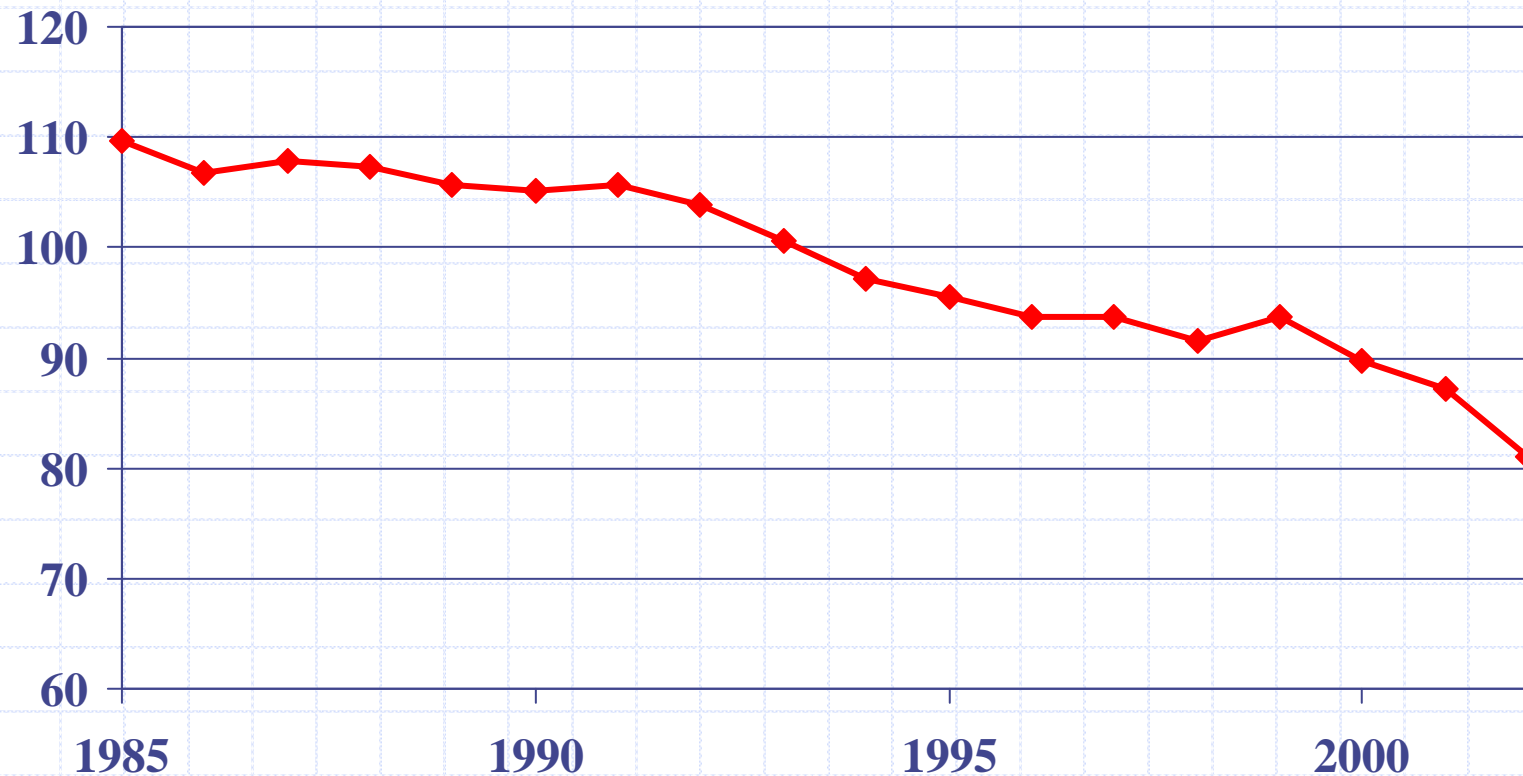
Multiple Use US Tracks

(Excluding Amtrak)



US Class I Railroads: Was it More Competition or Less Regulation that Worked?

Ratio of Actual to Masked Revenue



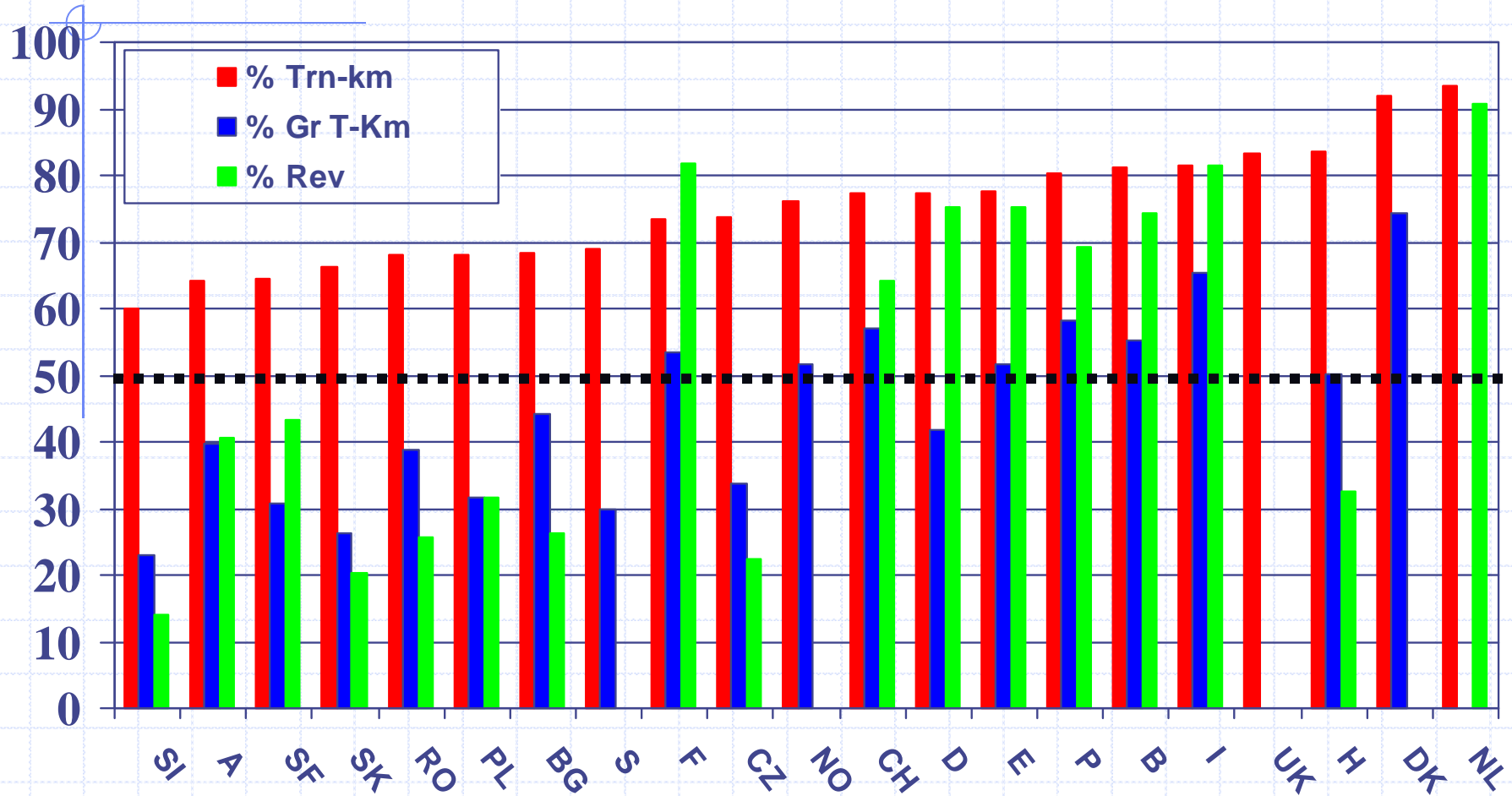
Source: STB Costed Waybill Sample

Rail Model for Europe: Facts/Assertions

- ◆ Rail systems are passenger dominated, and not optimized for freight (axle load, clearance, train length)
- ◆ Rail “system” has harmful “seams,” political, economic and technical, esp. for freight. Slow to change. Reduces avg. lead for frt. CEE entrants could improve this.
- ◆ Suburban pax model basically decided (FOR market). Issues: access regime, private role, subsidy control
- ◆ IC Pax model basically decided (FOR market): similar issues as for suburban. HSR?
- ◆ Reconsider separation where suburban or ICP (or HSR) are highly dominant? UK paradox.
- ◆ **Freight** is the challenge

The Passenger Dominant Traffic Mix

(Percent Passenger Traffic)



TU=P-Km + T-Km

Europe: Freight Assertions

- ◆ Most rail infrastructure will remain (or return) under government ownership and control
- ◆ **NO integrated freight competition** because of pax dominance
- ◆ Rail frt has little or no market power – tariffs don't need regulation
- ◆ Frt must be totally separate from infrastructure. Infrastructure should be separate from other services as well, or pax will get too much capacity without paying
- ◆ Frt should pay **simple** (not two-part), **MC+** access charges, **consistent** across boundaries. Use gross ton-km and train-km, possibly % of waybill revenue, as basis. Would reduce regulatory issues, esp. if SMC access charges were used for all. Leaves Ramsey pricing with carrier (subject to competition).

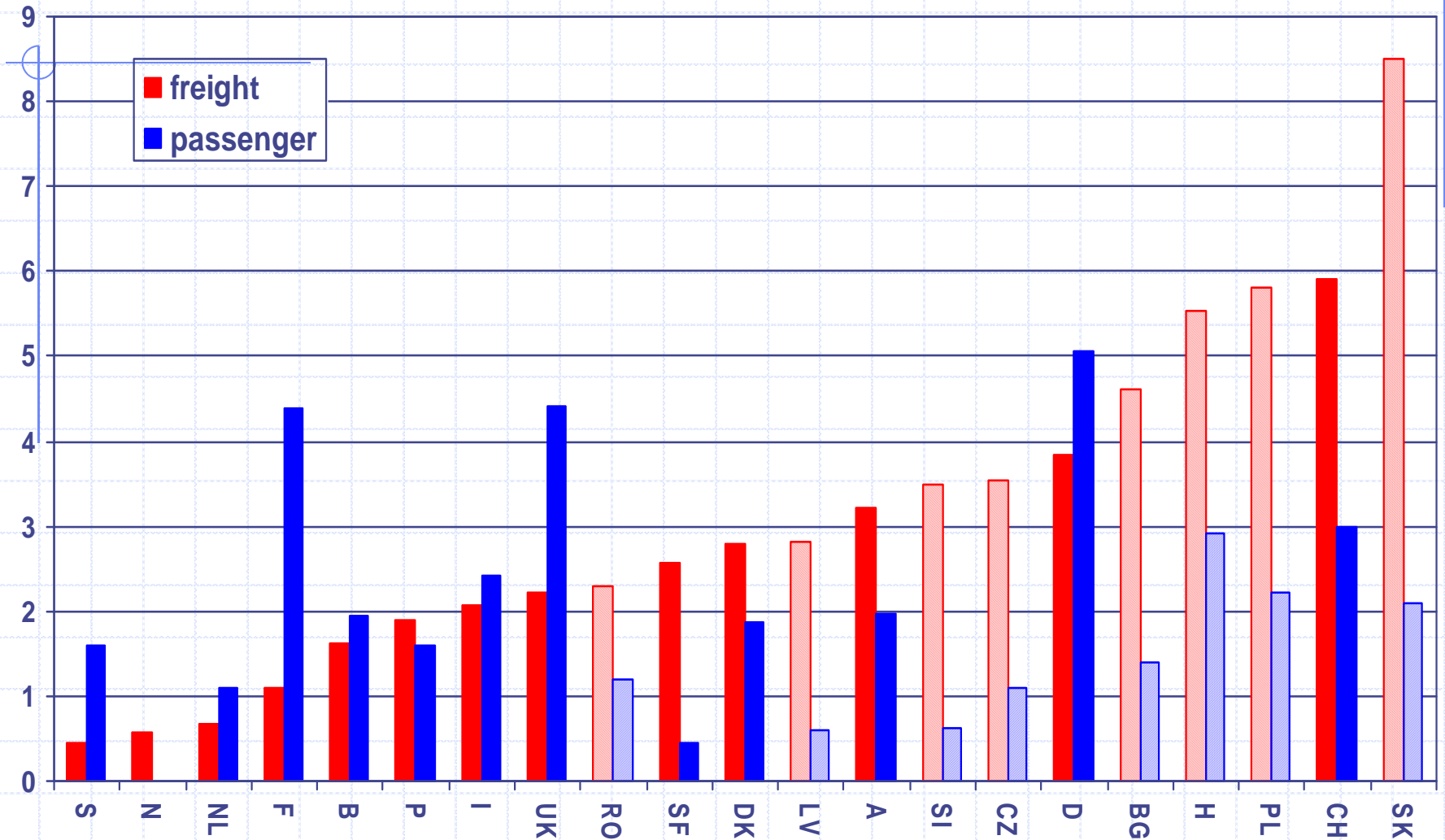
A Competitive Structure for Freight: Assertions

- ◆ Won't happen by itself: current trends deserve concern
- ◆ Won't happen with freight in public sector: freight companies should be privatized
- ◆ Won't happen if large public subsidies are paid to support **freight** (infr and sub pax OK)
- ◆ Current rise of in-house freight carriers may **not** be a good sign
- ◆ **And** neither the authority nor the information currently exist to resolve the problem.

Competitive Structure for Rail Freight: What Has to Happen

- ◆ Develop coherent picture of transport and rail freight needs in the EU. Is rail freight competition **IN** the market really needed? Be O/D and commodity specific
- ◆ Require publication of rail freight flow **data** under suitable confidentiality conditions
- ◆ Require real IAS, LOB reporting for rail sectors
- ◆ Design a **limited** number of EU freight franchises with desired mix of competitive and exclusive territories
- ◆ **Sell them.** Regulate only for monopolistic behavior or violation of franchise terms
- ◆ Control licensing and safety regulation delays
- ◆ Resolve infrastructure mark-up and frt/pax balance access charging issues

Average Access Charges (€/Train-Km)



Note: Uses a mixture of sources as shown on Appendix Table 2;

Cross-hatch indicates CEEC