Competition – growth driver for the rail market

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ERFA Chair

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ERFA European Rail Freight Association

Founded 2002 with the 1st Railway Package

Recognized as a sector association by all EU bodies (Commission, Parliament, Council, ERA)

35 members in 16 countries:
> Rail operators
> Wagon keepers
> Service providers
> Forwarders
> National rail associations

ERFA represents new entrants and those who seek full liberalisation of the rail market.

ERFA works towards a competitive and innovative single European railway market by promoting attractive, fair and transparent market conditions for all railway companies.
Freight railway undertakings: what’s going wrong with liberalisation?

Market consolidation despite heavy losses of State owned railways!
EU market opening: rail is underperforming

Table 2 – State ownership of telecommunications, energy and transport companies

<table>
<thead>
<tr>
<th>Electronic Communications</th>
<th>Electricity</th>
<th>Gas</th>
<th>Railways</th>
<th>Air Transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public ownership of the main public comm. network operator</td>
<td>Public ownership of the first generator</td>
<td>Public ownership of the first supplier</td>
<td>Public ownership of the first freight operator</td>
<td>Public ownership of the first passenger operator</td>
</tr>
<tr>
<td>AT</td>
<td>26.68%</td>
<td>51.0%</td>
<td>31.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>BE</td>
<td>53.5%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>100.0%</td>
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<tr>
<td>BG</td>
<td>n.a.</td>
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<td>100.0%</td>
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<tr>
<td>CY</td>
<td>n.a.</td>
<td>100.0%</td>
<td>no gas &amp; rail market</td>
<td>70%</td>
</tr>
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<tr>
<td>DE</td>
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<tr>
<td>DK</td>
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<td>76.0%</td>
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<tr>
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<td>25.0%</td>
<td>100.0%</td>
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<tr>
<td>LV</td>
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<td>MT</td>
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<tr>
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<tr>
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<tr>
<td>SI</td>
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<td>100.0%</td>
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<tr>
<td>SK</td>
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<td>34.0%</td>
<td>51.0%</td>
<td>100.0%</td>
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<tr>
<td>UK</td>
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<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: Market Functioning in Network industries, EC, 2013

In most countries, the first freight operator has 100% public ownership.
In most countries the incumbent has > 70 – 100% market share

No company should have >30% of a defined market. On this basis, every member state fails.

Source: European Commission, Monitoring development of the rail market (2012) and Eurostat. * In Germany, the number of active licences is 340.
From A to B with a newcomer: will he make it?

**Prerequisites**

- Terminal of incumbent: „Full!“
- Construction of a new terminal: „IM won’t build access lines!“
- Financing: „Prohibitive conditions!“
- Homologation process: „Slow!“
- High tech standard: „Expensive!“
- Train path: „Bad quality with long waiting times and high risk of delay!“

**Access to infrastructure**

- Network development, capacity planning and technological strategy according to the incumbent’s requirements
- Price system is formed to privilege the incumbent
- Hindered access to rail related services

**Operational conditions**

- Punctuality is achieved for incumbent at the expense of the newcomer
- Operational information is delayed
- Interruption! Priority is given to the incumbent
- Technical problem! No help granted
Yes he can….

… help to grow the rail market and create more jobs:

→ Lean organisation, quick decisions
→ Customer orientation
→ High productivity, good service
→ Freedom of choice of partners and suppliers

BUT:

→ Discrimination and abuse of dominant position undermines his efforts or kicks him off the market

ATTENTION:

→ Regulation generally comes too late
→ Regulation is not a substitute to adequate framework conditions
→ Regulation today is weak, understaffed, with limited scope
Today: Vast discrimination potential in case of holding structures with IM and RU under the same roof

Main problems:
> IMs neglect market needs
> Unfair competitive advantage of incumbent RUs

- Infrastructure development
- Maintenance
- Traffic management
- Train path allocation
- Charging
4th Railway Package: Strong, market oriented, cross-border-acting, non-discriminative Infrastructure Managers

Institutional separation of IM as simplest and most transparent way

- IM network for internat. cooperation
- Coordination committee of network users
- Fully independent IM
  > Infrastructure development
  > Maintenance
  > Traffic management
  > Train path allocation
  > Charging
- Strong, empowered Regulator
- Verification process by European Commission
Alternative: IM within a holding structure with strict measures („Chinese walls“) to ensure legal, financial and operational independence

Strong, empowered Regulator
Verification process by European Commission

IM network for internat. cooperation

Coordination committee of network users

HOLDING:

Fully independent IM

- Infrastructure development
- Maintenance
- Traffic management
- Train path allocation
- Charging

RU
Competition benefits all.

- Frees creative energy
- Improves services
- Strengthens the rail system
- Helps to gain market share from the road.

Open questions:
- Do we have attractive conditions for private investments?
- Should we get the legislation right or rely on regulation to sort out the existing problems?
- Are States really interested in getting competition?