# Competition in Rail Passenger Services

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Outline

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1. Background
2. Experience of competition
   - on track competition
   - franchising
3. Modelling on-track competition
4. Conclusions

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## Background

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- EU legislation requires a degree of separation of infrastructure from operations and complete open access in the freight market
- From 2010, open access for international passenger services, but little yet running
- 4th railway package to propose opening to competition of domestic passenger services, with competitive tendering for subsidised services and open access for commercial
- Some countries have already implemented one or both of these measures

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# Existing on-track competition

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**1. Germany**

**Complete open access but few services (mainly in niche markets run by regional operators)**

**2. Britain**

**Open access subject to decision of the regulator; niche markets but some head on competition**

**Also some overlapping franchises; mainly competition between inter city and regional services**

**3. Sweden**

**Limited services only to date but complete open access**

**4. Italy**

**Head on competition on high speed routes planned**

**5. Austria**

**Head on competition planned**

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# Example of Open Access Competition- British East Coast Mainline

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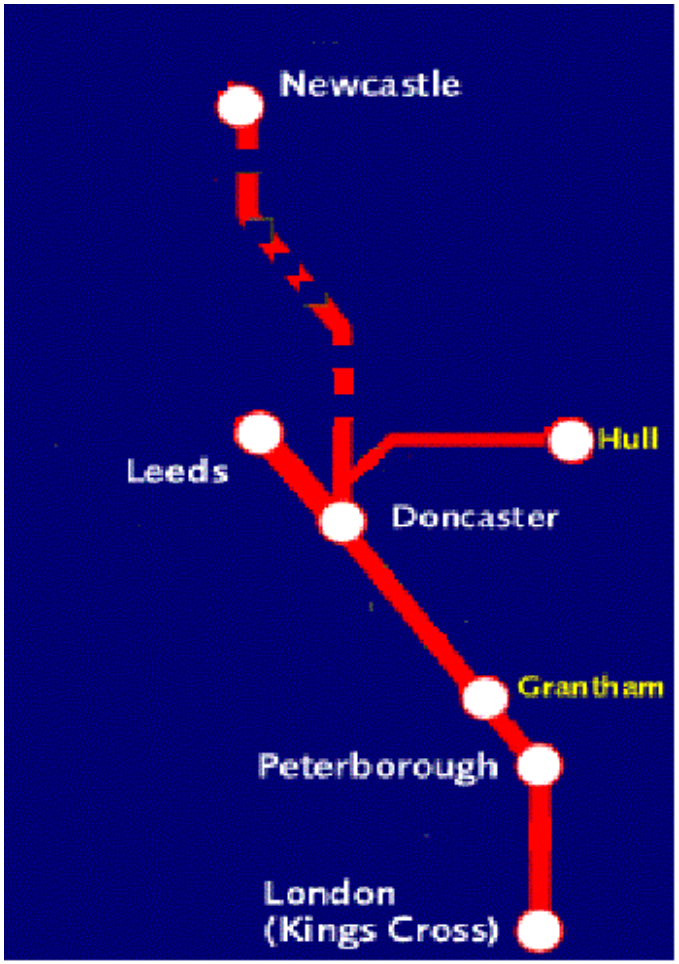


- Principal trunk route from London to Leeds, York, Newcastle and Edinburgh
- First new entrant, Hull Trains, running London – Hull calling at Doncaster
- Second new entrant, Grand Central, running London - Sunderland (near Newcastle) calling at York, and London – Bradford (near Leeds) calling at Doncaster

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# Comparison of open access and franchised operator fares (£ September 2009) British examples

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## Off peak Fares to/from London

| | | Open access reduction |
|---|---|---|
| **Hull Trains** | Hull | 18% |
| | Doncaster | 18% |
| | Grantham | 11% |
| **Grand Central** | Sunderland | 32% |
| | York | 27% |

*(Source: Griffiths, 2009)*

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## Effects of Open Access Competition

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- **Lower fares**
- **Additional services**
- **Use of spare capacity**
- **Pressure on costs? (but loss of economies of density)**

**BUT ALSO**

- **Reduced profitability**
- **Poorer use of scarce capacity**
- **Loss of integration, and of other services**

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## Experience of Competitive Tendering

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**Britain**

**All services, including inter city**

**Sweden**

**All subsidised services, including long distance**

**Germany, Denmark, Netherlands**

**Some regional services only (but also Dutch high speed line)**

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## Results of Competitive Tendering

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- **Increased traffic in all countries**
- **20-30% reduction in subsidies in Sweden and Germany**
- **But costs and subsidies increased in Britain**
- **Competitive tendering enables the maximum contribution to be made to infrastructure costs, through the premium paid for the franchise**
- **It preserves economies of density and integration of services**
- **But it might stifle innovation**

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# Breakdown of TOC cost rises

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| **Drivers of TOC cost rises** (£m, 2005/06 prices) | **1996/97** | **1999/2000** | **2005/06** |
|---|---|---|---|
| All TOCs | | | |
| Staff costs | 1,132 | 1,104 | 1,607 |
| Rolling stock leasing costs | 1,028 | 972 | 1,143 |
| Other | 1,419 | 1,316 | 2,169 |
| All | 3,579 | 3,392 | 4,919 |
| Average salary £ | 25,948 | 28,266 | 35,094 |
| Headcount | 43,638 | 39,049 | 45,794 |

Sources: TOC Annual Accounts, National Rail Trends Yearbook 2005/06 and Network Rail

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# Reasons for Train Operating Cost increases

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- External factors such as fuel prices, insurance, policing
- Sharp rise in labour costs as TOCs chase limited pool of skilled labour
- Inadequate incentives to control costs on short franchises
- Problems with dealing with failed TOCs

**Possible solutions**

- Longer franchises
- More open access competition

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## PRAISE Rail Operations Model

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- **Developed at University of Leeds in mid-1990s to look at potential for on-track competition.**
- **Applied in UK and two other countries**
- **Includes three elements**
  - Demand Model (logit model examining choice of mode, ticket, train, so examines overcrowding or yield management systems)
  - Cost Model (fixed and variable infrastructure and operating costs)
  - Evaluation Model (net benefits to users, operators and externalities)
  - Modelled two tactics – cream skimming and head on competition

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## On track competition outcomes

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- Outome depends on access charges but cream skimming most likely
- Head on competition only feasible where volumes very large and/or track access charges low
- Outcome involves excessive service levels and costs
- Whilst competition may drive costs down loss of economies of density will increase  them

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# New case study – international route with strong domestic market

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## Scenarios

1. Entrant duplicates 2 international services per day
2. As 1 , but entrant cuts fares 10%
3. As 2 but incumbent matches fare cut
4. Entrant also duplicates domestic service

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## Results (% change from existing)

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| | Demand | Revenue | Incumbent Revenue | Fare |
|---|---|---|---|---|
| 1. | +5.9 | +3.9 | -5.8 | -2.5 |
| 2. | +6.6 | +4.1 | -6.6 | -5.3 |
| 3. | +13.8 | +4.1 | -5.8 | -8.5 |
| 4. | +37.4 | +15.1 | -36.2 | -17.1 |

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# CONCLUSIONS – ON TRACK COMPETITION

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Benefits

**Lower fares**

**Improved services**

**Innovation**

**Lower costs?**

BUT

**Limited in impact (?)**

**Duplication of services**

**Reduced profitability**

BEST WHERE

**high volumes**

**spare capacity**

**Low access charges**

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# CONCLUSIONS - FRANCHISES

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Benefits

**High levels of competition**
**Planned integrated services**
**Improved marketing**
**Reduced costs**

BUT

**Limited scope for innovation**
**Lack of competition in fares and service levels**

**Much depends on the skill of the franchising authority**

**Key issues:**

- **Franchise length**
- **Freedom regarding prices and service levels**
- **Incentives (allocation of revenue risk)**

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