



Discussion of the paper:

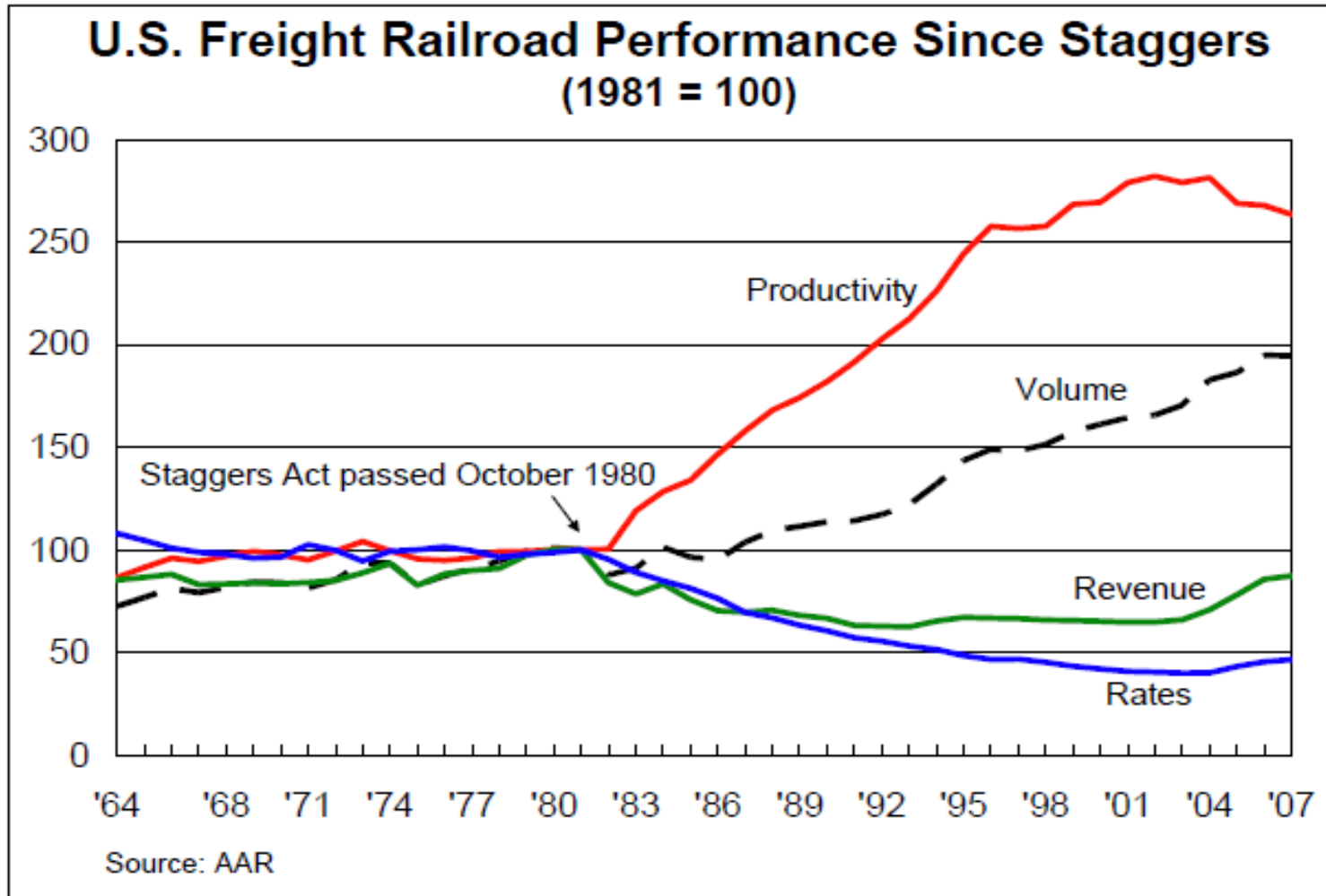
## **“A REVIEW OF PASSENGER RAIL FRANCHISING IN BRITAIN: 1996/1997 – 2006-2007”**

by John Preston (University of Southampton)

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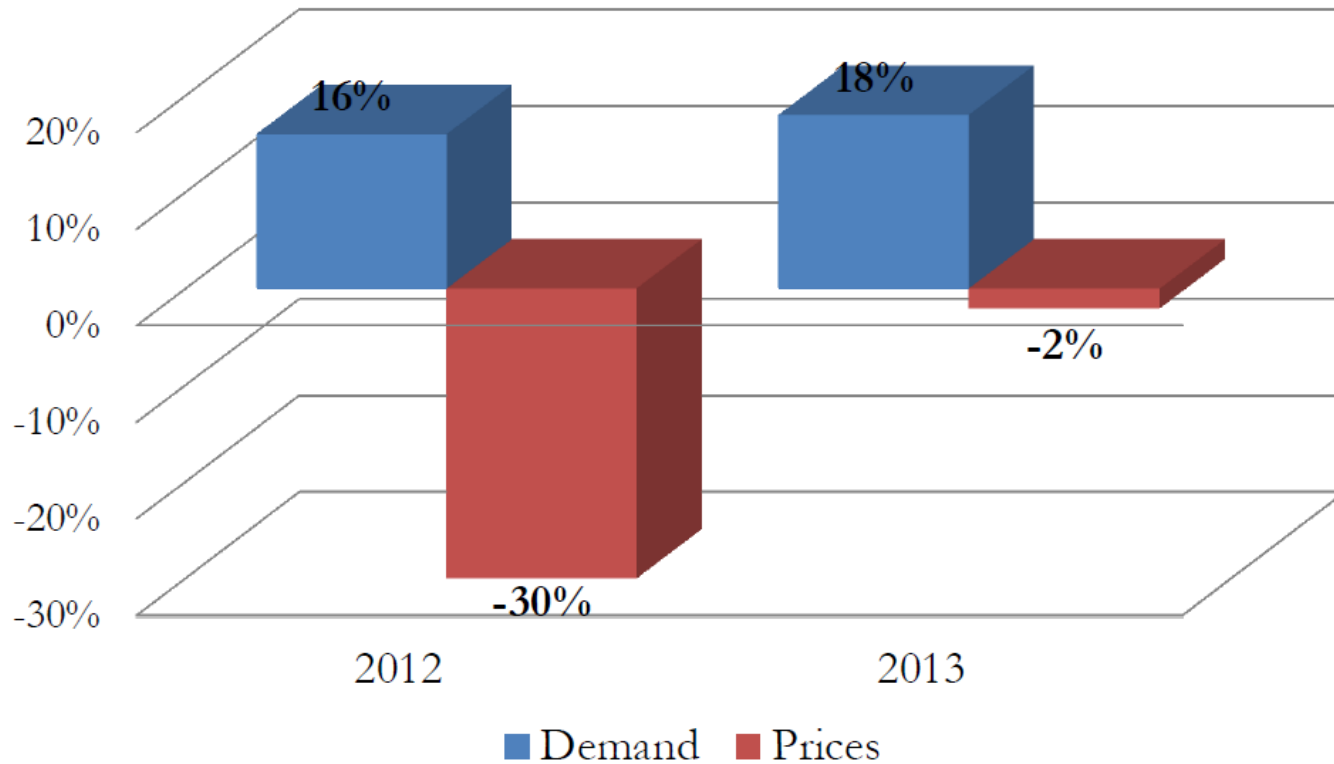
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- The management and regulation of the rail industry is a **controversial issue**
  - Unbundling vs. bundling infrastructure and services
  - Private vs. public operators
  - Open access vs. franchising
  - Regulation of fares vs. liberalization
- Very **different models** are found all around the world



## OPEN ACCESS IN ITALY

### Open Access in Italy



## CHANGES IN REGULATORY STRUCTURE IN SWEDEN

Part of rail transport market	1988	2013
<i>Passenger services</i>		
Regional (non-profitable)	SJ holds monopoly and receives subsidies	Procurement by competitive tendering (competition <i>for</i> the tracks); since 1990 Open access (competition <i>on</i> the tracks); since 2011
Inter-regional (non-profitable)	SJ holds monopoly and receives subsidies	Procurement by competitive tendering (competition <i>for</i> the tracks); since 1993 Open access (competition <i>on</i> the tracks); since 2011
Inter-regional (profitable)	SJ holds monopoly	Open access (competition <i>on</i> the tracks); implemented step-by-step 2009-2011
<i>Freight services</i>		
	SJ holds monopoly	Open access on all lines (competition <i>on</i> the tracks); since 1996

Source: Gunnar Alexanderson

- What is rail franchise for? (Wolmar, 2005)
- Has passenger rail franchising in Britain **been good for society?**
- Focused in **few issues:**
  - The ability of franchising to **meet its objectives**
  - **Impact of risk and uncertainty** on franchising
  - Contract provisions to **avoid strategic behavior**



POLITÉCNICA

# Objectives of franchising I

## 1. Introduce competition (not an end in itself)

- It has been successful in Britain: average number of bidders 3.8
- Can open access be an alternative to improve competition?

## 2. Foster innovation and product development

- Not too much. Just ticketing and some services such as Wi-Fi on board

## 3. Increase efficiency

- Productivity gains have been reported
- Operator manage only 40% of industry cost

## Train operating company costs in Britain

**£m 2012 prices**

	<b>1998</b>	<b>2012</b>	<b>% change</b> <b>(change per train-km in brackets)</b>
Staff costs	1,300	2,200	69% (30%)
Payments to ROSCOs	1,200	1,500	25% (-4%)
Other	1,500	2,200	47% (12%)
TOC own costs	4,000	5900	48% (13%)

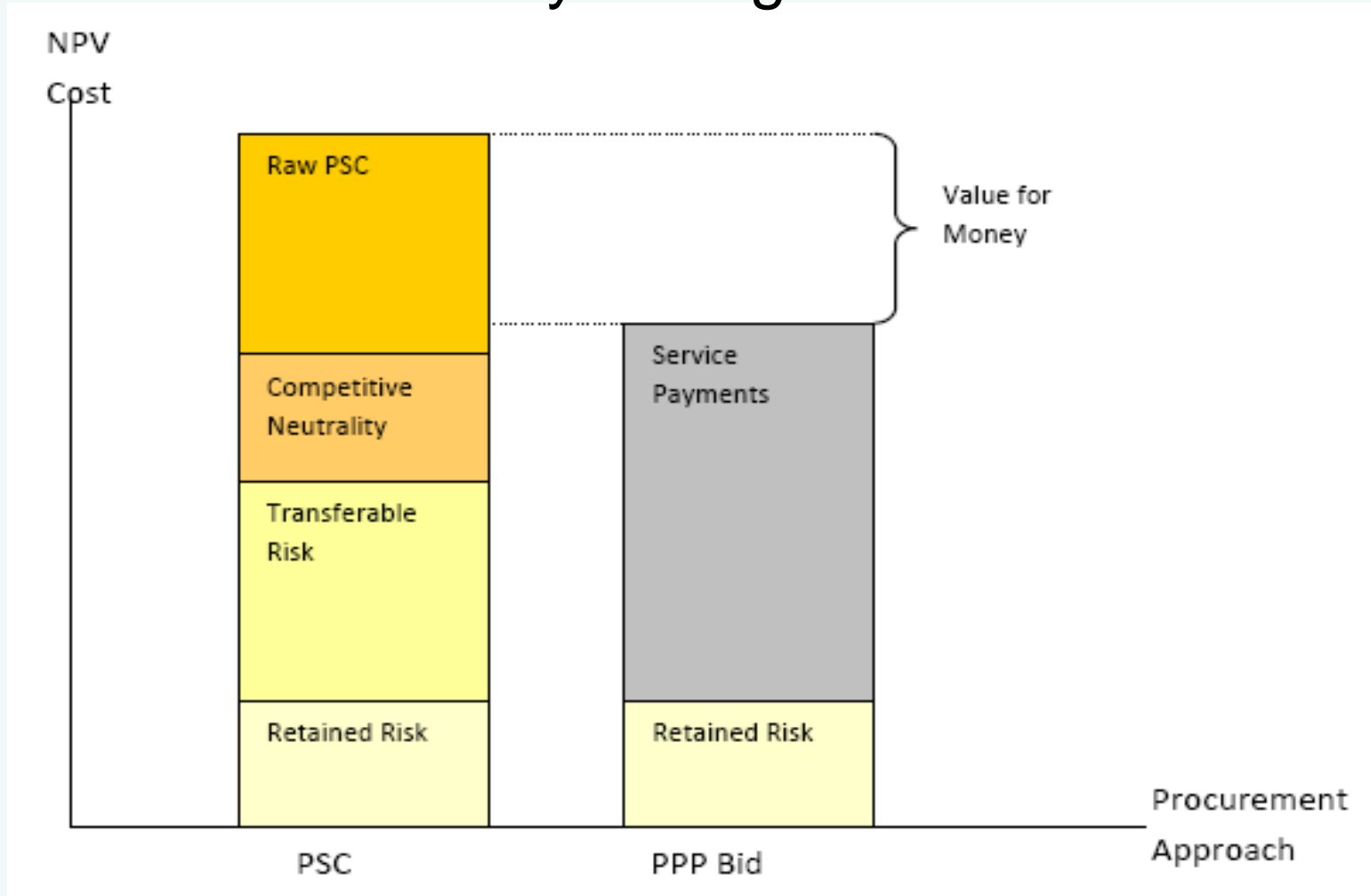
Source: ATOC (2013)



- The **right OBJECTIVE** should be to maximize **social welfare** taking into account that:
  - Quality is a benefit for the user but it is different for everyone
    - Price and quality discrimination can add value
  - Railways are neither the only transport mode nor the best one for everything
    - Subsidizing rail services is not always justified if there are more efficient competitive modes
  - External costs have to be included in the balance

- The “problem” is that **rail operators are risk-averse**
  - Transferring too little risk to the operator is suboptimal
  - I would say that **it depends on the type of risk**
- The key is whether the private sector can **create value for money** in managing a certain risk

## Value for money through risk allocation



## Manageability by the private sector

	<b>PRIVATE SECTOR</b>	<b>Probability of occurrence</b>	<b>Determinability of probability function</b>	<b>Potential Loss</b>
Measurable Non-measurable	<b>UNBEAREABLE RISK</b>	Very small	Non-determinable	Very High
	<b>SHAREABLE RISK</b>	Small	Approachable	Medium-High
	<b>MARKET RISK</b>	Medium	Determinable in a certain way	Medium-Bearable

- **Some risks can be passed onto the users** through contractual clauses enabling:
  - Flexibility in service provision and fares
  - Possibility to extend the franchise
- **Incentives linked to quality indicators**  
**deserve to be studied**

- The **strategic behavior** of the bidders **will be reduced if renegotiations are avoided**
- **Renegotiations will be limited** insofar as:
  - Contracts are more complete and risks are better allocated
  - The government can easily step in to remove the franchisee and provide the service with somebody else
  - A high performance bond is required

- There are some issues in the contracts that are still unresolved
  - One is the optimal contract duration
    - Trade off between monopolistic power of the franchisee and its incentive to invest
    - Dependence on rolling stock renting vs. self supply
  - Flexibility of the contracts
  - Means to reduce transaction costs

- **Franchising is a solution** to improve the performance of rail services but
  - **There are also other solutions** (open access, bundling infrastructure and services, etc.)
  - It would be interesting to determine the **characteristics** of the services that make franchising the **most suitable option**
- **Too much competition may hinder coordination** among rail services
  - Single ticketing, intermodality
  - Ways to solve this problem deserve to be explored



- In designing rail management and regulation **planners should not forget other modes**
  - Cooperation with them
  - Competition with them
- **Other aspects** influencing social welfare **have to be taken into account:**
  - Quality of service
  - Environmental and social aspects

Thank you

Comments, questions to:

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