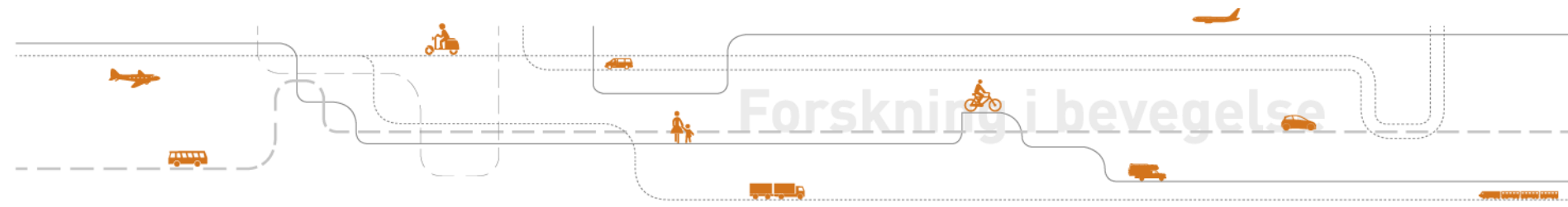


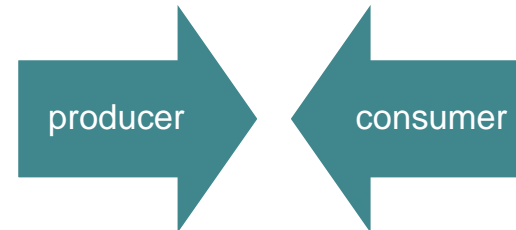
What's the point with an open rail market?

Gunnar Lindberg, TØI



What's the point with the market economy?

- Price signals – in two direction
 - *Resources used for production*
 - *Customer needs*
- Dynamics
 - *Competition reduces production cost*
 - *Develops service for the customer*



Why do we need to open?

- Granger movement US 1887
 - *Farmers against monopoly pricing on Railways*
- Price and entry regulation on railways
- Trucking, telephone, electric power, aviation – 1930
- A number of regulated (closed) markets

Open up Aviation market (in US)

- A number of studies in 1970s
 - *No economics of scale*
 - *Insignificant barriers to entry*
 - *Contestable market – potential threat of competition*
- Deregulated in 1978
 - *Lower fares*
 - TRB 1991 – substantial decline in fares
 - TRB 1999 – a 25% decline 1990 – 1998
 - US GAO 1996 – among the largest 112 airports fares declined 8 – 11% during 1979 - 1994
 - US DOT 2001 – on average domestic customers pay one third less than they did 20 years ago
 - Morrison and Winston 1995 – a benefit from deregulation of 12.4 billion US dollar annually
 - *More customers*

- This is the point with an open market!

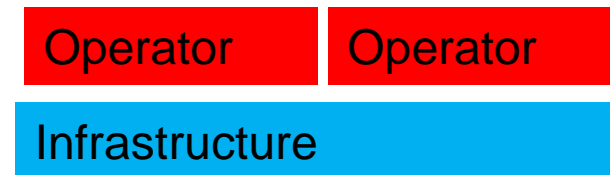
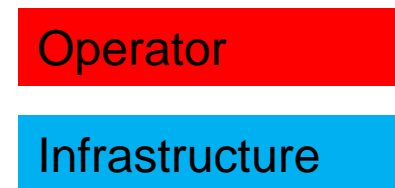
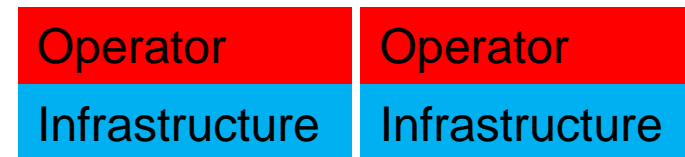
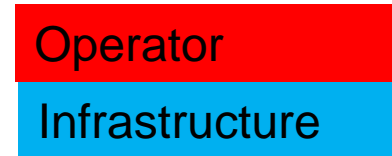
- economics of scale in revenue,
- «pockets of pain» 73 of 112 airports decline in prices

Railway reform necessary

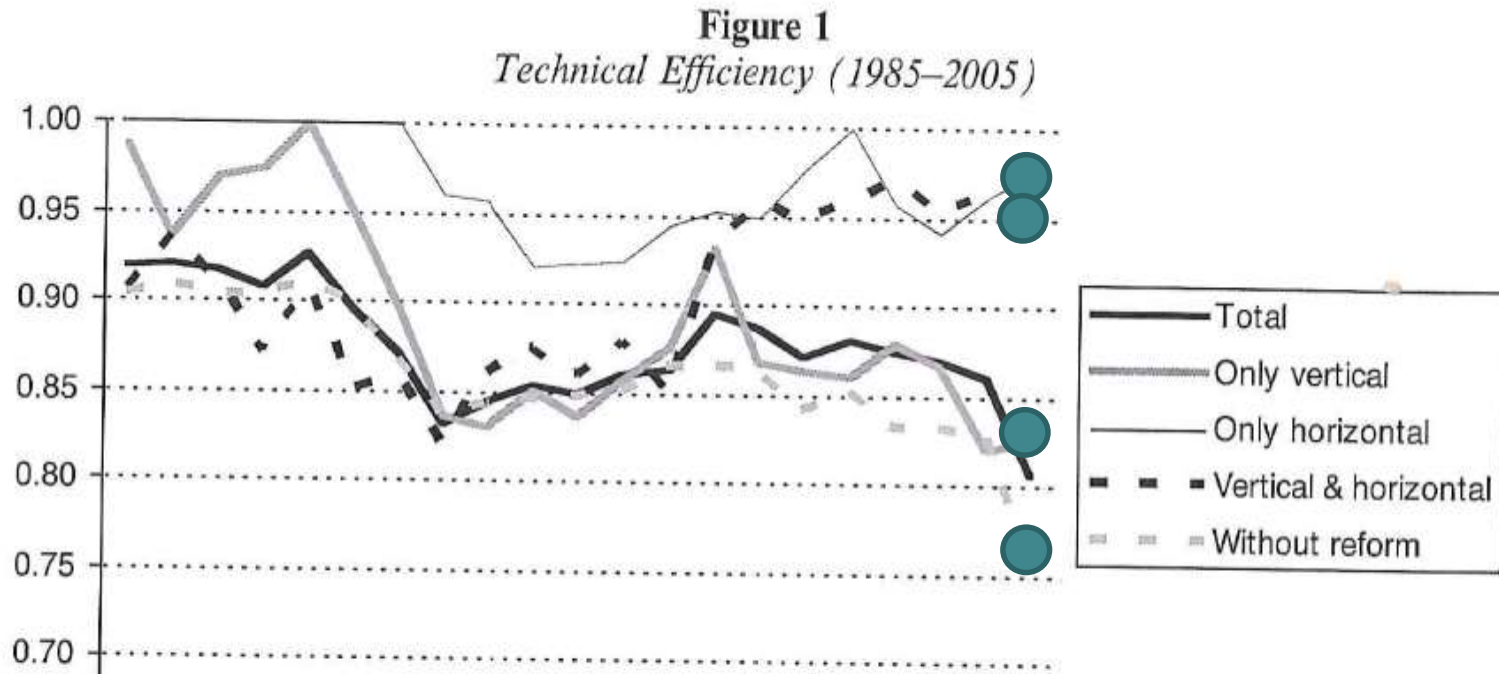
- OECD 1978 – 1989
 - *i) railway systems with high dependence on public subsidies are significantly less efficient than similar railways with less dependence on subsidies and*
 - *ii) railways with a high degree of managerial autonomy from regulatory authority tend to achieve higher efficiency (Oum and Yu 1994)*
- Economies of scale?
- Barriers to entry?
- Contestable market?
- Road traffic competition

Railway market

- Integrated system
- Horizontal separation
- Vertical separation
 - *Sweden 1988*
 - *EU policy since 1994*
- Vertical and horizontal separation
 - *Freight or passenger*
 - *Competition on the track*
 - *or for the track*



Results (European railways)



- ...emerging research....
 - Vertical separation increases efficiency
 - Free entry in the freight market increases efficiency
 - Franchising in passenger market positive but not significant

Errano (2010)

More results – (OECD)

- Horizontal separation - freight and passenger - positive
- Vertical separation
 - *Transaction costs*
 - Vertical separation with low train density (Norway) reduces the total cost
 - With high train density (Switzerland, Japan, Netherlands) vertical separation increases transaction cost and total cost

Mizutani and Uranishi 2013

Summary – what's the point?

- Reduce prices (and resources used)
- Increase customer satisfaction
 - *Increase modal competitiveness*
- It has been a success story in aviation
 - *economies of scope, «pockets of pain»*
- Vertical and/or horizontal separation
 - *EU > vertical separation (low train density reduces transaction cost)*
 - *Horizontal separation*
 - Open freight access
 - Best way to open the passenger market?
 - *economies of scope (>information systems),*
 - *«pockets of pain»*
- New (international) dynamic companies in the market