

Thredbo 9, WS E, 7th sep 2005

Vertical separation, disputes resolution and competition in railway industry

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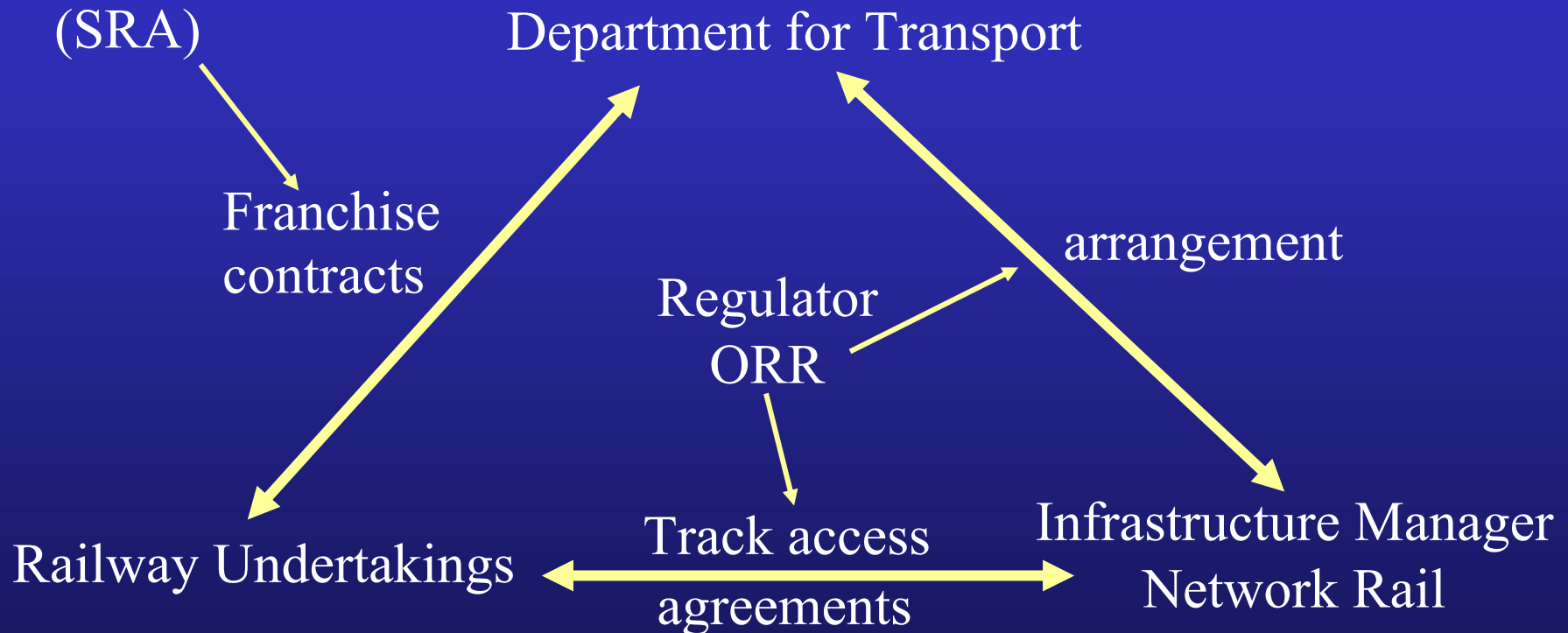
CNRS & University Lyon 2

Lyon, France

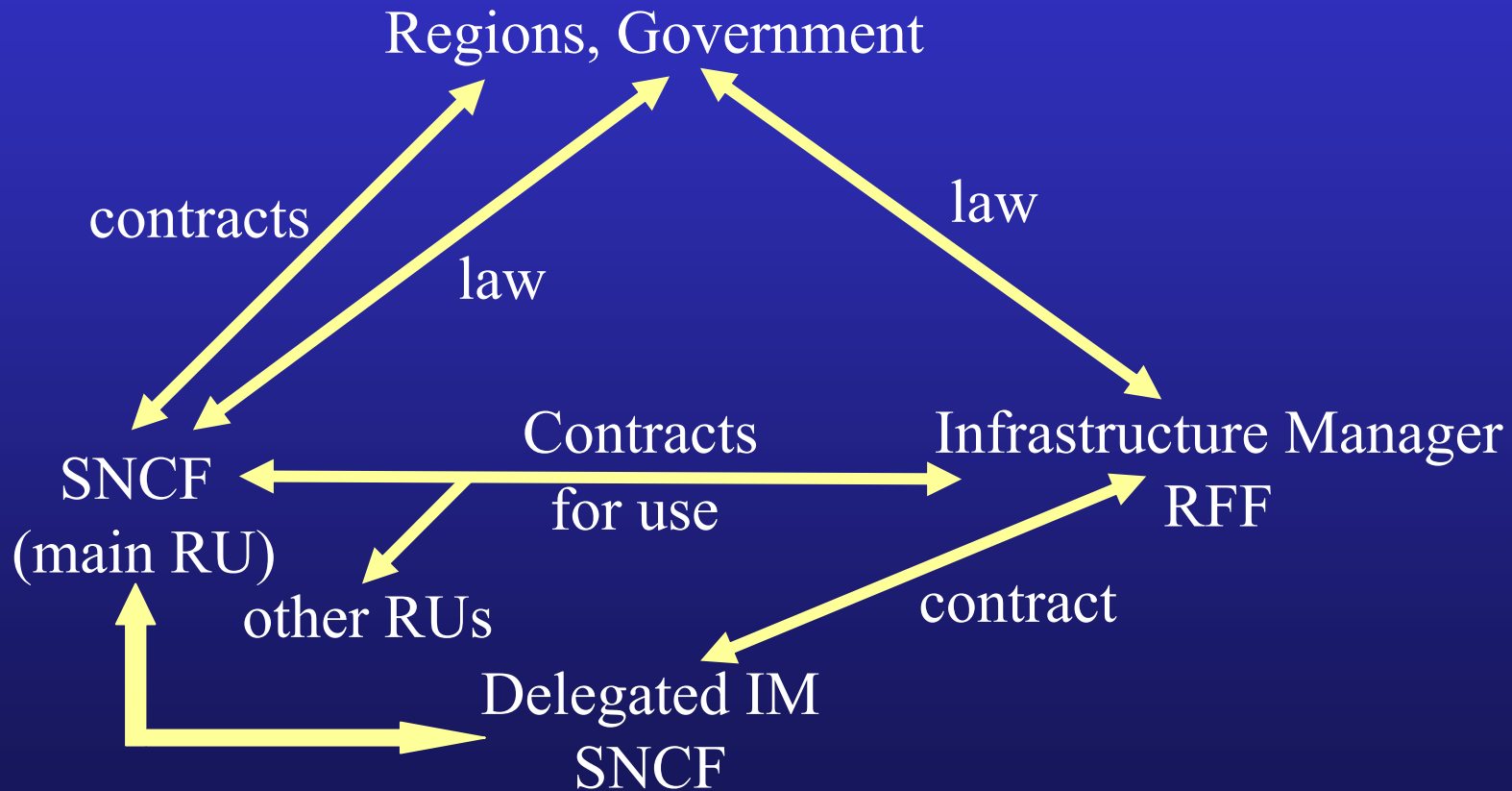
Outline

- Introduction: vertical separation and regulation in GB and France
- Conflict sources: monopoly of the IM and externalities
- Dispute prevention (rules, principles) and resolution systems
- Conclusion: consequences for competition

Vertical separation and regulation in Great Britain



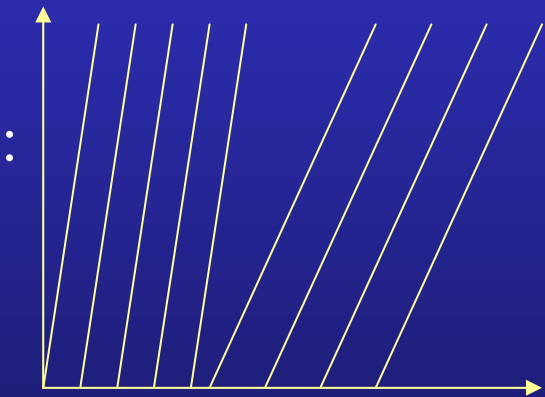
Vertical separation and regulation in France



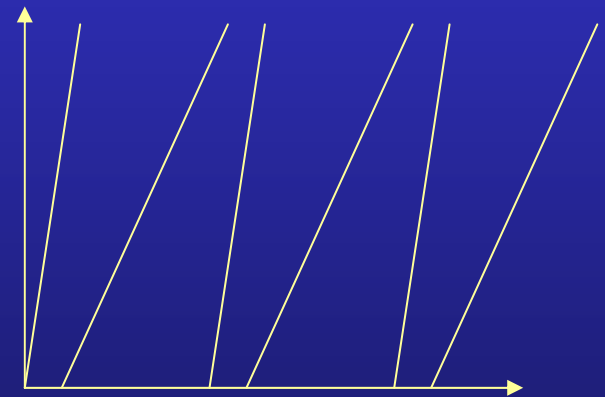
The monopoly of the Infrastructure Manager

- **Access & pricing:** market power \Rightarrow high prices
“quiet life” \Rightarrow no guarantee of slot quality/quantity

- **Slots allocation:**



IM's supposedly preferred slots allocation



RU's supposedly preferred slots allocation

- **Congestion:** a lack of investment incentives (prejudicial to the RUs)

Externalities affecting another party

- **Maintenance works:** IM's maintenance costs minimization
⇒ long interruption of train services (prejudicial to the RUs)
- **Delays:** IM's or an RU's carelessness
⇒ delay spread to other trains (prejudicial to the RUs)
- **Disruptions:** accidents or blackout
⇒ deleted trains (prejudicial to the RUs)
⇒ infrastructure damages (prejudicial to the IM)
- **Network changes:** some changes may increase operating costs

Dispute prevention rules

GB: industrial rules & contracts

- the IM, RUs and regulator agree on
 - the Network Code (237 p.)
 - the Rules of the plan
 - the Rules of the route
- the IM and each RU sign a Track Access Agreement (approved by the ORR)

F: law & hierarchical system

- the IM defines the Network Statement (submitted to the RUs and approved by the Government)
- the IM and each RU sign a Contract for Use

Dispute prevention principles

GB: the compensation principle

- each externality is compensated (a complex mechanism)

+ social welfare \nearrow ; risk \searrow

- high transactional costs

F: a lack of incentives

- no compensation (except in some cases of disruption)

- a lack of financial incentives

+ SNCF (delegated IM) should have natural incentives (as main RU) to maintain the network

Dispute resolution systems

GB: inside the industry

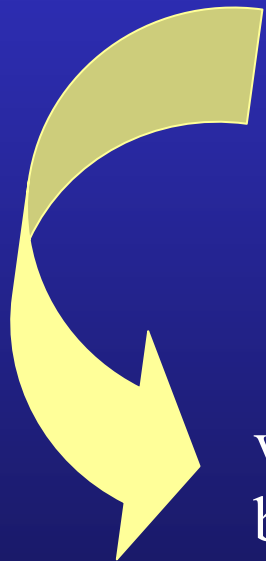
- industry mediation service
(common practice)
- specific court
(less common)
- appeal to the ORR
(exceptional)

F: outside the industry

- external mediation committee
- usual court
- usual procedure of appeal

Consequences for competition in Great Britain

- long term relationship between the IM and the RUs
- Network Rail (IM) = hybrid form
- RUs' investments transfer
- bigger role of the Government



vertical re-integration
barriers to entry



less competition

Consequences for competition in France

- strong antagonism IM / SNCF (main RU)
 - ⇒ no vertical re-integration
- SNCF's lobbying to assert its rights, as an operator
 - ⇒ benefit to the other RUs
- no industry mediation
 - ⇒ no collusion between the RUs
 - ⇒ no vertical re-integration



prepares the progressive introduction of competition