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To cite this version:

HAL Id: halshs-01077052
https://halshs.archives-ouvertes.fr/halshs-01077052
Submitted on 23 Oct 2014

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The reform of passenger rail in Switzerland: more performance without competition?

Christian Desmaris *

This note explains how the Swiss railway reform had succeeded to introduce good results both for taxpayers and for travelers. Unlike the European Commission pattern, this reform does not promote competition.

Located in the heart of the European network, Switzerland, although not a member of the European Union (EU), has recently conducted a major railway reform. This Swiss railway reform, in part inspired by the proposals of the EU, but also largely specific, raises many issues. What is the institutional design of these reforms? What are the results? How have these successes been obtained? What can be learned from Switzerland’s example? It seems that more performance can be obtained without the need for more competition.

1. What is the institutional design of these reforms?

Swiss railway reform may be divided into three stages: the «Revision of the federal law on railways» (Railways Act) in 1996; the «Railway Reform 1», with broader scope, in 1999; and, from 2005, the «Railway Reform 2».

1) The first stage - 1996: regional traffic reform

The Swiss rail reform began with a new governance of the regional passenger transport. This first reform (LCdF, March 24th 1995) was based on three principles which had deeply transformed the relationship between the railway undertakings and public authorities (Genoud, 2000). The most important measure provides that public authorities will pay only for the services agreed in advance and for the amount clearly defined by the contract. Unplanned deficits will no longer be covered by the State. Secondly, the cantonal authorities become fully responsible for the regional transport services; however their decision-making autonomy remained supervised by the Federal Office of Transport (FOT). Thirdly, SBB’s monopoly on regional and national long distance railway passenger services is cancelled. But for the moment, the cantonal authorities do not solicit the contest procedure and no new foreign supplier has entered this market. The national passenger transport is commissioned by the Confederation; it is currently provided by SBB.

2) The second stage - 1999: a new regulatory framework to comply with European legislation

A further step was achieved with the “Railway Reform 1” (LCdF, March 20th 1998). Its prior objective was to transpose the principles of the Directive 91/440/EEC into the Swiss law, according to the Agreement on Land Transport (1999). This reform has significantly renewed SBB’s organization and its business model. The direct authority of the federal administration over SBB has been abolished and the national railway company was submitted to a multi-annual contract. To allow this newly created company to operate without the burdens of the past, the Confederation has accepted to erase its debts.

3) Since 2005, Railways Reform 2: controversial and incomplete

In 2005, the Government presented a further rail package to the Parliament, the so-called “Railway Reform 2”, which aimed to transpose the content of the First and Second EU Railway Packages into Swiss law. This legislation included several measures about various topics, such as how to finance the rail infrastructure, how to establish a regulatory authority and how to improve safety in public transport. But as the Parliament rejected the bill, the Government decided to split up the package into separate, more focused bills (CER, 2011). The first part of this reform related to the railway system regulation, to safety and to the ordering period in regional transport (from one to every two years) entered into force in 2010. The second part of the Railway Reform 2, submitted for consultation in 2009, was presented to the Parliament in 2011. Some texts are now adopted; some of them entered into force and others are still under discussion.

Overall, the Swiss railway legislation developments show a pragmatic reform, step by step. If the principle of competition is introduced for the freight traffic, we ob-

*Assistant Professor, Institute of Political Studies, University of Lyon, France. Email for correspondence: christian.desmaris@sciencespo-lyon.fr
serve for the passenger traffic that the «Swiss model» differs from the standard promoted by the Commission, based on market competition between operators. This model is more akin to a particular type of governance involving public authorities, rail companies (and public transport companies more broadly) and travelers, than to a true change in the market structure, based on more open competition.

Unlike a “on the market” liberalization and competition between operators, it is more a special governance between the public authorities and the railway companies, rather than an overhaul of the market structure on a wider competition. Some describe the Swiss rail structure as a “hybrid system” that combines liberalization and integration (Finger, Holterman, 2013; Maier-Gyomlay, 2013) and only partly conforms to European law and its philosophy.

2. What are the results?

Swiss rail reform of passenger transport had two positive outcomes: more efficiency in the use of public money and better and more services provided to passengers.

1) More efficient use of public funds

The most decisive result, a driving force behind the reform, has been the inversion of the trend whereby public compensation contributions steadily rose for regional traffic (Table 1). SBB have managed, with a constant volume of public funding, to regularly increase both the number of kilometers on offer and passenger traffic.

2) Higher quality services for rail passengers

The second result of the rail reform is the significant improvement in the quality of services for passenger rail. Switzerland is traditionally known for the excellence of its railways (Bovy, 1992). Intermodality has reached unsurpassed levels, linking together all constituent parts of the Swiss public transport network. Service frequency is the highest in the world, setting Switzerland ahead of Japan.

The reform of the railways has led to two other satisfying results for travelers: increased commercial speed and more trains. The bulk of speed improvements took place between 1994 and 2005, following implementation of the broad investment and modernization program called «Rail 2000». Rail 2000 significantly improved the attractiveness of passenger rail by more train frequency (basically every 30 minutes and 15 minutes on the busiest routes, on peak hours) and by better correspondences between rail and other modes of transport. The increase of supply is another key factor in quality improvement. Measured in train-kilometers, the total SBB supply for travelers shows a considerable increase: 55.4% since the reform. This is one of the biggest increases in all of Europe.

3. How have these successes been leveraged?

We believe the performance gains obtained by Swiss rail should mainly be ascribed to the nature of their public governance, which tends to bring together all stakeholders in the rail system.

1) The first key to success: public governance promoting sustainable mobility centered on the railway system

The main reason for the success of Swiss rail reform lies in its particular form of public governance that aims to promote sustainable mobility based on train travel. We consider in this note three characteristics.

- A collective choice to foster rail transport based on a high level of infrastructure investment.

After having supported road, Swiss transport policy faced a major reorientation in favor of railways from the mid-80. Its maintained and updated national choice in favor of rail transport translates into sustained high level of investment programs. The earliest, “Rail 2000”, passed in December 1987, was to be undertaken in 1994 and

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<tr>
<td>Million of Swiss francs (CHF) in current value</td>
<td>725</td>
<td>546</td>
<td>507</td>
<td>522</td>
<td>552</td>
<td>571</td>
<td>556</td>
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<td>Index, basis 100 in 2000</td>
<td>-</td>
<td>100.0</td>
<td>92.9</td>
<td>95.7</td>
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<tr>
<td>Swiss francs by train-kilometer in current value</td>
<td>N.A.</td>
<td>10.2</td>
<td>8.9</td>
<td>8.1</td>
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Table 1: Public subsidies paid to SBB for regional passenger transport (calculated from SBB Management Reports)
finished in 2004. It has been extended by a second railways investment program, called “ZEB”, whose realization started in 2004 and should be spread out until 2022. In addition, a more controversial third program aims at creating a New Rail Link through the Alps (so called “NRLA”), by the digging of two new tunnels (the Gothard and the Lötschberg) to be able to carry freight in a more environmentally friendly way.

- Local authorities are increasingly implicated in decision-making and funding.

The Swiss rail reform included a process of decentralization that is manifested in two facts: the cantons have full responsibility over decisions regarding provided services, including offer consistency, which, in return, are funded by local public funds. As a result, the Confederation share to financing the regional passenger traffic decreased drastically (from 65% in 2003 to 50% today, as stipulated in the Act).

- SBB corporate governance to enhance motivation and increase accountability.

The reform renewed SBB’s governance on two aspects: the introduction of clear, precise, demanding and strictly controlled strategic objectives and a mandatory adherence to drastic financial constraints. Firstly, SBB’s activities are carried out within the framework of a four-year contract, called the «Service agreement» which requires a constant improvement in the quality of services and in terms of efficiency gains in the use of public funds. Secondly, the Federal strategy seeks to maintain the real value of the public operating funds allocated to SBB at a stable level, while increasing demands in terms of targets to be reached. The logic clearly being followed is to «do more with less».

2) The second key to success: an incumbent operator capable of considerable productivity gains and sweeping innovations in organization

The explicit aims of SBB are to systematically keep operating and production costs down and to seek new revenues wherever possible (Genoud, 2000).

- To seek and find significant productivity gains

SBB must grow while reducing costs. Measured in terms of apparent labor productivity, the gains are substantial, despite the negative impact of the crisis on traffic, especially on freight (Table 2). This sharp productivity rise breaks with earlier trends, although there was growth before. These productive efficiency gains in Switzerland, contrary to many other European railways, are based more on a sensible increase in passenger and freight traffics than on staff reductions (Desmaris, 2010).

- To increase railway company revenues

Following the railway reform, SBB orientated their activity towards their customers, both to improve quality and to increase the railway earnings. Good results have been achieved. Thus, between 2002 and 2011, while the passenger traffic income has increased by 52%, SBB total government subsidies have grown by only 19.7%. The total general expenses for this period have registered an increase of 22.2% (with 17.6% of personnel expenses), smaller than the incomes growth. As a result, the operating income (EBIT) has improved from CHF 194 million to CHF 530 million in current value (SBB, 2014b).

We also observe that SBB have developed a particular active policy with regards to their real estate assets. SBB are indeed among the major players in the Swiss real estate market, with a book value of about 4 billion Swiss Francs (especially around stations) for a turnover of nearly CHF 698 million in 2013. The business unit “Real estate” now provides an essential contribution to the overall financial health of the railway company being the most profitable of SBB’s activities, ahead of transport (SBB, 2014b).

|                     | 1980 | 1995 | 2011 | Variation in %
|---------------------|------|------|------|----------------
| Passenger-kilometer |      |      |      |           |           |
| in millions (1)     | 9,167| 11,712| 17,749| +27.8     | +51.6     |
| Ton-kilometer       | 7,220| 8,156| 12,346| +13.0     | +51.4     |
| in millions (2)     |      |      |      |           |           |
| Staff in full-time  | 38,367| 33,529| 25,840| -12.6     | -22.9     |
| except subsidiaries (3) |      |      |      |           |           |
| Labor productivity  | 0.43 | 0.59 | 1.16 | +38.7     | +96.6     |
| - million traffic    |      |      |      |           |           |
| units (4)            |      |      |      |           |           |

Table 2: Changes in SBB traffic, staffing and productivity (calculated from the UIC statistics)
NB. (4) = [(1) + (2)] / (3). Based on the hypothesis that a passenger-kilometer is equivalent to a ton-kilometer.
3) The third key to success: the strong support of consumers and citizens

The satisfaction expressed by travelers and citizen and their support for the rail reforms carried out by the Confederation are important elements of their success.

The passenger satisfaction is expressed by an upward trend in passenger traffic with an overall increase for SBB travelers is 51.8% since the reform, expressed in terms of passenger-kilometers. This trend is the highest in Europe after the United Kingdom, with more than 2,250 km per capita on average. Another relevant indicator is loyalty: one in two adults is a regular SBB customer and has a subscription (usually half price or with a community tariff) and their number has significantly increased after the reform.

One must also mention the deep commitment the Swiss citizens express towards their railway system and the policies carried out on their behalf. Each of the major stages in Swiss transport policy was submitted to a popular vote.

Conclusion - What can be learned from Switzerland’s example?

We conclude this note with three lessons taught by the analysis of the Swiss railway passenger reform.

1) Although it is said to be modeled on the reforms instigated by the Commission, detailed analysis shows that the Swiss railway reform has its own particularities and appears to have reached its stated objectives. Switzerland has obviously chosen to increase the railway system efficacy and efficiency by prescribing an original form of governance in opting for cooperation between the actors, rather than in submitting it to competition forces (CER, 2011; Nash, 2011; Finger and Holterman, 2013). The Swiss railway reforms have imposed a «stress performance» to the national incumbent rail operator, and more generally to all public transport companies, generalizing a contractual agreement. The regional passenger traffic, conceded by the cantons to SBB, is a typical example of this type of governance.

2) The high quality rail transport has a major financial, political and managerial cost for the Community. First of all, the high quality railway services involve a significant financial effort from the taxpayers, with no equivalent anywhere else. Secondly, a political cost: to maintain this high quality level, the government must engage in an everlasting and strong involvement as «major assembler» of the public transport system, especially through the tasks entrusted to the FOT. Thirdly, it also induces a managerial cost: as sole shareholder of the historical railway company, the Swiss government should fully assume their role as owners.

3) The sustainability of such a model is uncertain. The constant search for savings and productivity gains is reducing the sustainability of the rail system, both from a technical point of view (disinvestment limiting future improvements in traffic) and from a social one (access to services). The sustained increase in traffic, which has exceeded expectations, within a network where use levels were already very high, means substantial infrastructure maintenance requirements. The slight increase in public contributions for regional transport also illustrates the limits of the quest for the efficient use of public funds.

All in all, Swiss railway reform deserves more consideration and further studies. A careful examination of its specificities would probably show that it would not be an easy model to replicate in other national contexts. In the matter of railways, progress might be slow, gradual and highly path-dependent. This simply does not exclude incremental changes.

References