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DigiLog

Piloting

The HAMK´s part of the module

Subject: Passenger traffic railway markets are opening to competition:

case Finland

TALLINNA TEHNIKAKÕRGKOOL TTK UNIVERSITY OF APPLIED SCIENCES

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TSI TRANSPORT AND TELECOMMUNICATION INSTITUTE

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Learning Outcomes Module HAMK

Yes

- Understanding, how the competition change the market
  - On the Theory of Competition (*tendering, concession and open access)*
- Understanding the role of authorities
  - MTC, Ministry of Transport and Communications
  - HSL, Helsinki Region Transport Authority

Yes something

- Knowing the Finnish path from monopoly to open railway market
  - From 1995 ……… ……… …… to 2026
- Understanding, how the rail market will be renewed in the 2020´s
  - The role of the new companies

Pilot lecture

- Introduction
  - On the Theory of Competition (*tendering, concession and open access)*
- Experiences of tendering in Sweden
  - During the lesson Short Teamwork, groups are
    - Team Finland
    - Team Estonia
    - Team Latvia

The passenger traffic market is changing, case Finland

- **The passenger traffic market is changing through a tendering process in the big Helsinki area year 2021.**
- **The long distance train market will be open for the competition in year 2024.**
- **What kind of changes can we expect?**
- **What is the situation today?**

During the last ten years the authorities have made the necessary changes to the railway infrastructure before opening the market for tendering in the big Helsinki area and before competition in the long distance train market can start.

During the module the students

1. **knows the principles of the changes in the railway market;**
2. **understands the Theory of Competition (tendering, concession and open access)**
3. **knows the experiencies of other EU-countries in the introduction of competition to railways**
4. understanding, how the competition change the market
5. understand the progress and the timelines how the passenger rail transport opens to competition in Finland
6. knowing the Finnish path from monopoly to open railway market: From 1995 to 2026
7. understand where to compete in the railway market
8. understanding the role of authorities
9. understanding, how the rail market will be renewed in the 2020´s
10. understanding the role of the new companies
11. **understand future review**
12. understand how political the competition process is
13. **give new experiences and improves decision making in international teams**

Piloting lecture
Shortly

- **On competition and tendering/Source: Honkatukia MTC 21/2012**

- **Experiences of tendering of rail public service contracts in Sweden/ Source: Ewa Rosén 2018-05-30**
  - **Short Teamwork**

On competition and tendering/Honkatukia

(Honkatukia, MTC 21/2012)

On the Theory of Competition

- The introduction of competition to railways can be viewed as being a part of the more extensive change and the reassessment of the roles of public and private service production.
- Introducing competition to a service that was previously produced by a public monopoly aims for efficiency.
- **Efficiency can be expected to increase for the simple reason that a company which can use monopoly pricing will maximise its profits at a lower level of production than a similar company with competitive pricing and smaller profits, but which produces a better end result for society.**

The Impacts of the Economies of Scale

(Honkatukia, MTC 21/2012)

- Railway economies of scale are often thought to arise from their network like nature. Whether these economies of scale are vertical or horizontal is not a fully undisputed matter.
- **Vertical advantages would be apparent when infrastructure management and operation are integrated and these advantages are the very justifications used previously for having State railway monopolies.**
- **Nonetheless, there is some empirical evidence that speaks for vertical economies of scale.**
- **For example, Preston (1996) suggests that with the unbundling of infrastructure operation and maintenance some of these economies of scale may potentially have been lost.**
- Preston's result means that the organisational change (and in some countries, privatisation) brought about in order to increase competition has not promoted efficiency.
- **Nevertheless, many studies (especially American ones) indicate that rail transport economies of scale are found above all in the area of traffic density.**
- **So, competition would ultimately increase efficiency with the growth of traffic volumes.**
- From this point of view, the promotion of railway competition should seek above all to increase the supply of transport services (i.e. competition on the track).

No administrative or regulatory obstacles to market entry (Honkatukia, MTC 21/2012)

- **The second main approach is William Baumol's influential theory, according to which it is of central importance in terms of efficiency not to have administrative or regulatory obstacles to market entry nor to limit the opportunities of potential newcomers to access the production equipment.**
- **According to this theory, the very threat of competition serves to increase the efficiency of operations even if no one were to challenge the previous monopoly.**

Transaction costs (Honkatukia, MTC 21/2012)

- The third approach explains the impacts of competition on efficiency through transaction costs.

- **From this point of view, for example, the deregulation of Swedish and British railways brought decisions made within previous public monopolies into the sphere of the market mechanism and this increasing transparency led to greater efficiency.**

The special traits of railways and competition

(Honkatukia, MTC 21/2012)

- **At the same time, railways are theoretically highly suitable for the tendering of service production (i.e. competition for the market).**

- **In theory, this may be the case in markets where the production capacity is limited (for example, timewise, such as on railways) or when it is necessary to coordinate the system due to network impacts.**

The main models of implementing passenger transport competition (Honkatukia, MTC 21/2012)

(Honkatukia, MTC 21/2012)

The main models of implementing passenger transport competition are contracts through

- **competitive tendering,**
- **service concessions and**
- **open access**

The tendered transport acquisition model

(Honkatukia, MTC 21/2012)

- **In the tendered transport acquisition model, the authority requests tenders for the management of transport planned by that authority.**
- **There are two main procedures being used.**
  - **The first one of these is the gross model, where the tendering price is given based on the total cost of operation and where the transport ordering party collects all the proceeds from ticket sales.**
  - **The second model is the net model, where the transport carrier submits a tender based on the difference between transport costs and estimated proceeds from ticket sales and where these proceeds remain with the transport carrier.**

Service concessions (or franchising), (1)
(Honkatukia, MTC 21/2012)

- ***Service concessions (or franchising)*** **have many traits that are similar to those of tendering by the net model.**

- **A service concession involves the transport carrier planning the transport in accordance with the conditions given in the invitation to tender, whereas tendering involves the ordering party defining the transport very precisely.**

Service concessions (or franchising), (2)

(Honkatukia, MTC 21/2012)

- **The cash flow between the ordering party and the transport carrier may move in both directions.**
- **The transport carrier may submit to the ordering party a tender for a sum payable for highly profitable transport. In that case, the sum is payment for the entrepreneur gaining a special right to provide services to passengers and collect profits from this.**
- **For unprofitable transport, the contract is similar to that of tendering by the net model.**

Open access (Honkatukia, MTC 21/2012)

- **Of all the ways of organising rail transport, *open access* is the most market-oriented one.**
- **In practice, it has been implemented modestly.**
- **Nevertheless, its starting point is that the operator has great freedom regarding all three regulated main factors (supply, pricing and fare), as well as regarding market entry and exit.**
- **The operator expresses its desire to operate on certain line sections by applying to the infrastructure manager for infrastructure capacity.**
- **The infrastructure manager coordinates the schedule plans of all the operators, granting infrastructure capacity after that.**
- **The capacity can also be priced, for example, through an infrastructure fee.** (MTC 21/2012)

Experiences from Sweden

+

Short Teamwork – Which year?

What kind of milestones have you noticed in your country?

Estimate the year when the same thing happened or the same thing happens in your country.

Team Finland   Team Estonia   Team Latvia

Experiences of tendering of rail public service contracts in Sweden, Ewa Rosén 2018-05-30

Swedish railway liberalisation – some milestones

1988 Vertical separation of track infrastructure (Banverket) from operations (SJ)

Decentralisation of responsibility and resources to regional public transport authorities

1990 First tenders for regional passenger services

1993 First tenders for interregional (long-distance) passenger services

1996 Deregulation of freight services

Short teamwork. What kind of milestones have you noticed in your country?

Finland	**Estonia**	**Latvia**
Which year?	**Which year?**	**Which year?**
xxxx	**xxxx**	
xxxx	**x**	**xxxx**
xxxx		**xxxx**
xxx	**xxxx**	**xxxx**

What kind of milestones have you noticed in your country?

Swedish railway liberalisation – some milestones (contd.), Ewa Rosén 2018-05-30

2001 Separation and corporatisation of SJ's divisions, creating:

- **SJ AB (passenger traffic)**
- **Green Cargo AB (freight traffic)**
- **Jernhusen AB (real estate)**
- **Euromaint AB (passenger rolling stock maintenance)**
- **Swemaint AB (freight rolling stock maintenance)**
- **Unigrid AB (IT services)**
- **Trafficare AB (cleaning services etc)**

Euromaint, Swemaint, Unigrid and Trafficare were later privatised

Swedish railway liberalisation – some milestones (contd.),

Ewa Rosén 2018-05-30

		Finland	Estonia	Latvia
		Which year?	Which year?	Which year?
2007	Market opening for night trains and chartered trains	**xxxx**	**xxxx**	**xxxx**
2009	Market opening for weekend traffic and international passenger services	**xxxx**	**xxxx**	**xx**
2010	Banverket is merged with the Road Administration to form the multi-modal infrastructure manager Swedish Transport Administration (Trafikverket)	**xxxx**		**xxxx**
	Market opening for domestic passenger services, with full effect from December 2011			
2012	New law on public transport (affecting interface between tendered services and commercial services)	**xxxx**	**xxxx**	**xxxx**

What kind of milestones have you noticed in your country?

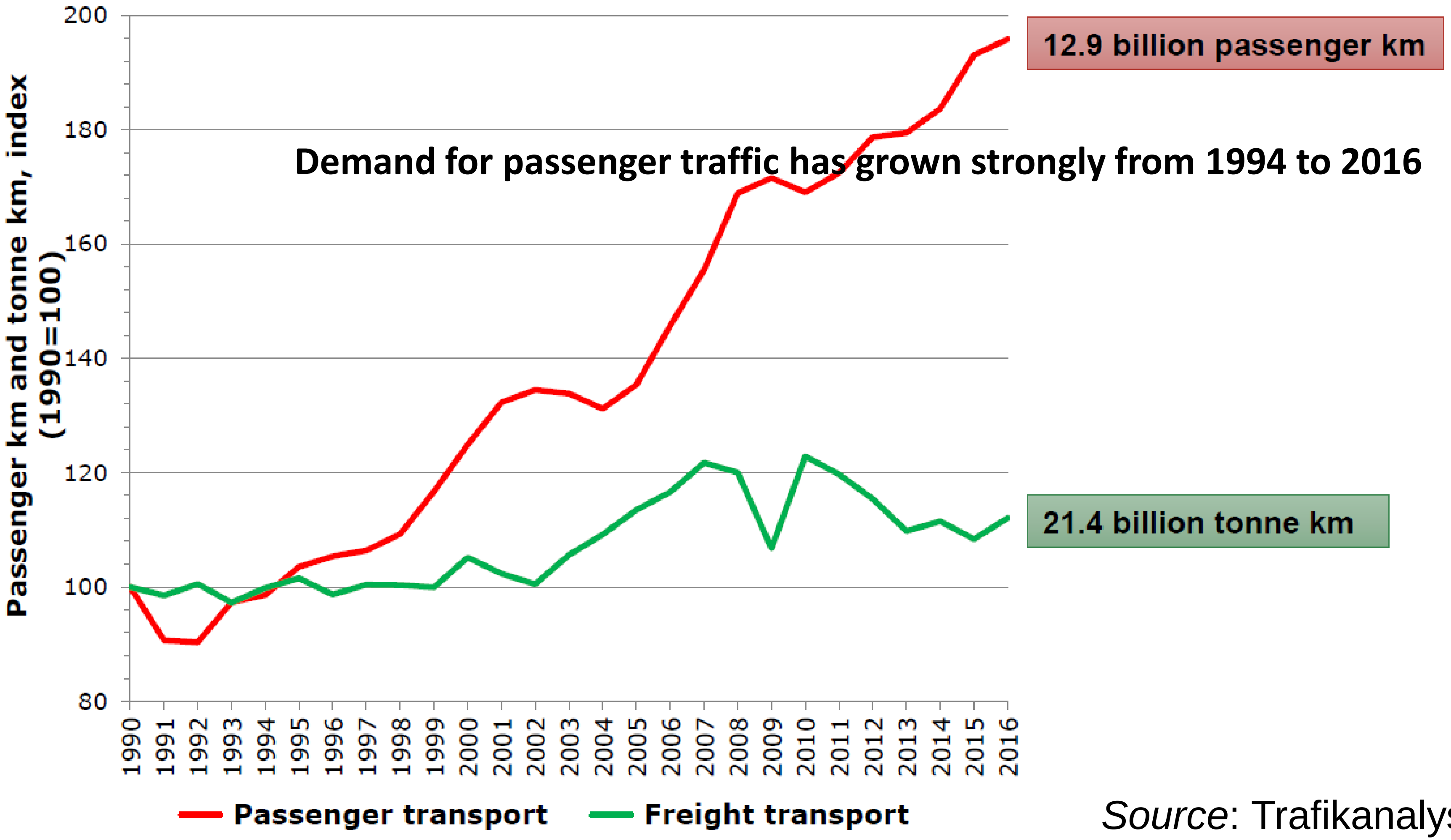
I hope you noticed at least one measure that has also been taken by the authorities in your country - it may be one piece of the path that leads to the opening of the market to competition.

Experience and effects of reforms, Ewa Rosén 2018-05-30

- **Increased investments in rail infrastructure**
- **Strong local and regional commitment to develop passenger services**
- **Strong growth in demand**
- Improvements in (for example) productivity and safety
- **Innovations, new pricing models**
- Punctuality a recurrent issue of concern
- In recent years, a decrease in average speed of trains (mainly due to capacity constraints)
- Appearance of several new entrants, reducing the market share of the incumbents
- Tendering leading to reduced need for operating subsidies but also cases of strategic bidding
- **Increased supply and falling prices following open access competition**

Development of demand (1)

As we can see from the picture the red curve rises sharply. The curve illustrates the strong growth in passenger traffic. Growth started in 1994 and has remained strong throughout the period considered until 2016.

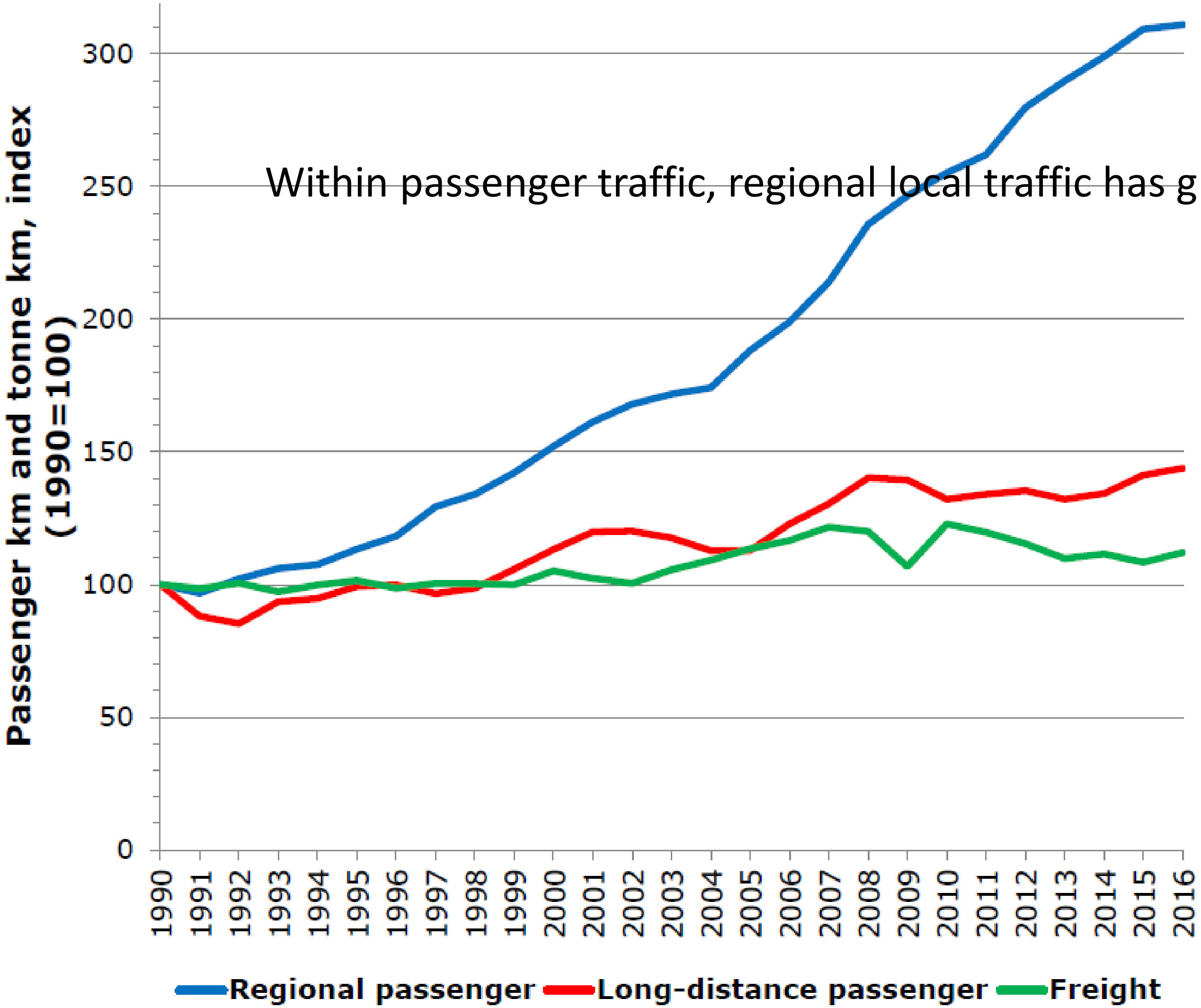


Source: Trafikanalys

Growth in freight traffic began in 2002 and continued strongly until the bankruptcy of Lehman Brothers, which halted global flows of goods - this is reflected in the v-shape on the curve. Demand recovered quickly, but soon began to decline for a longer period.

Development of demand (2)

From this picture, we can see that the strong growth in Sweden did not affect all passenger traffic. The strongest growth was in the growth of local traffic and the growth of long-distance train traffic was quite moderate.

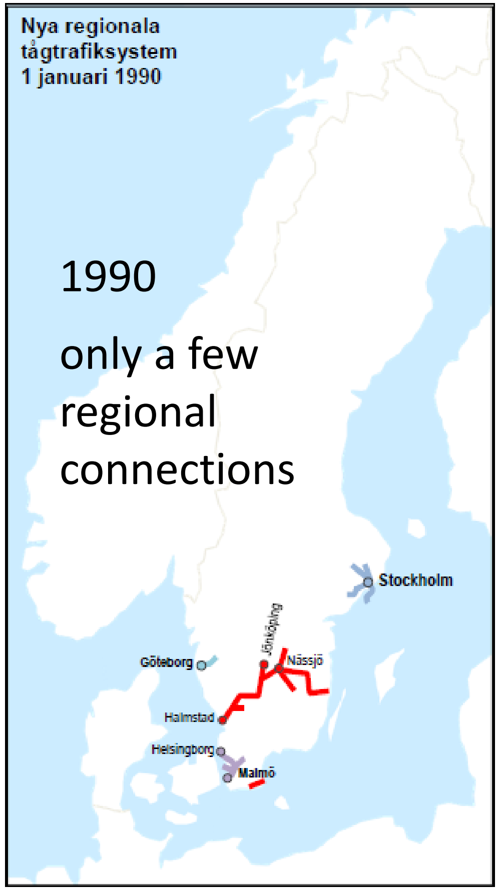


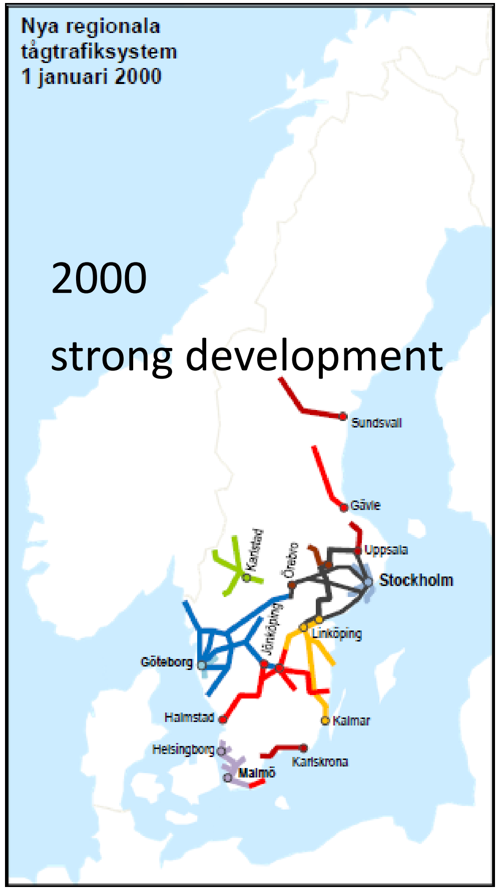
Within passenger traffic, regional local traffic has grown the most.

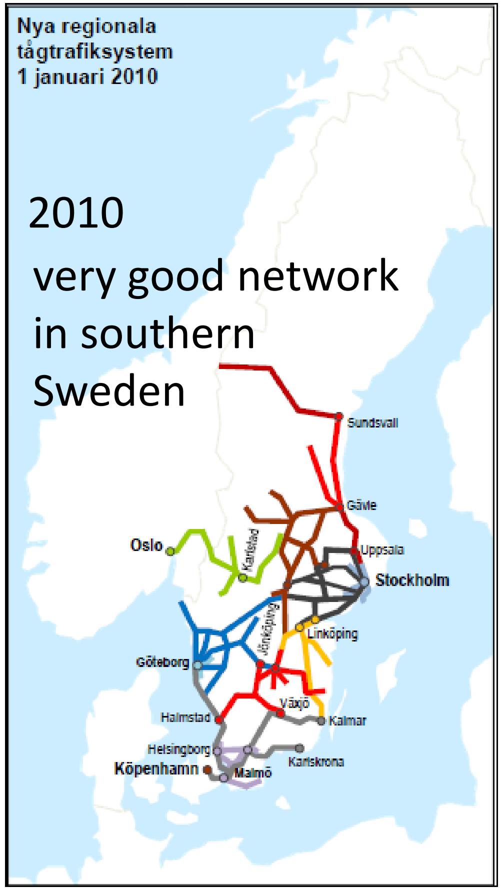
Source: Trafikanalys

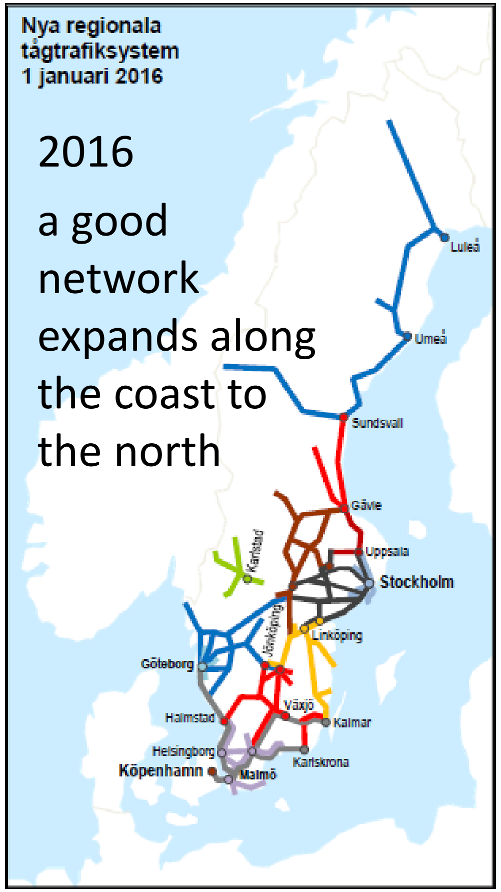
The development of regional train connections 1990-2016

Source: Oskar Fröidh, KTH





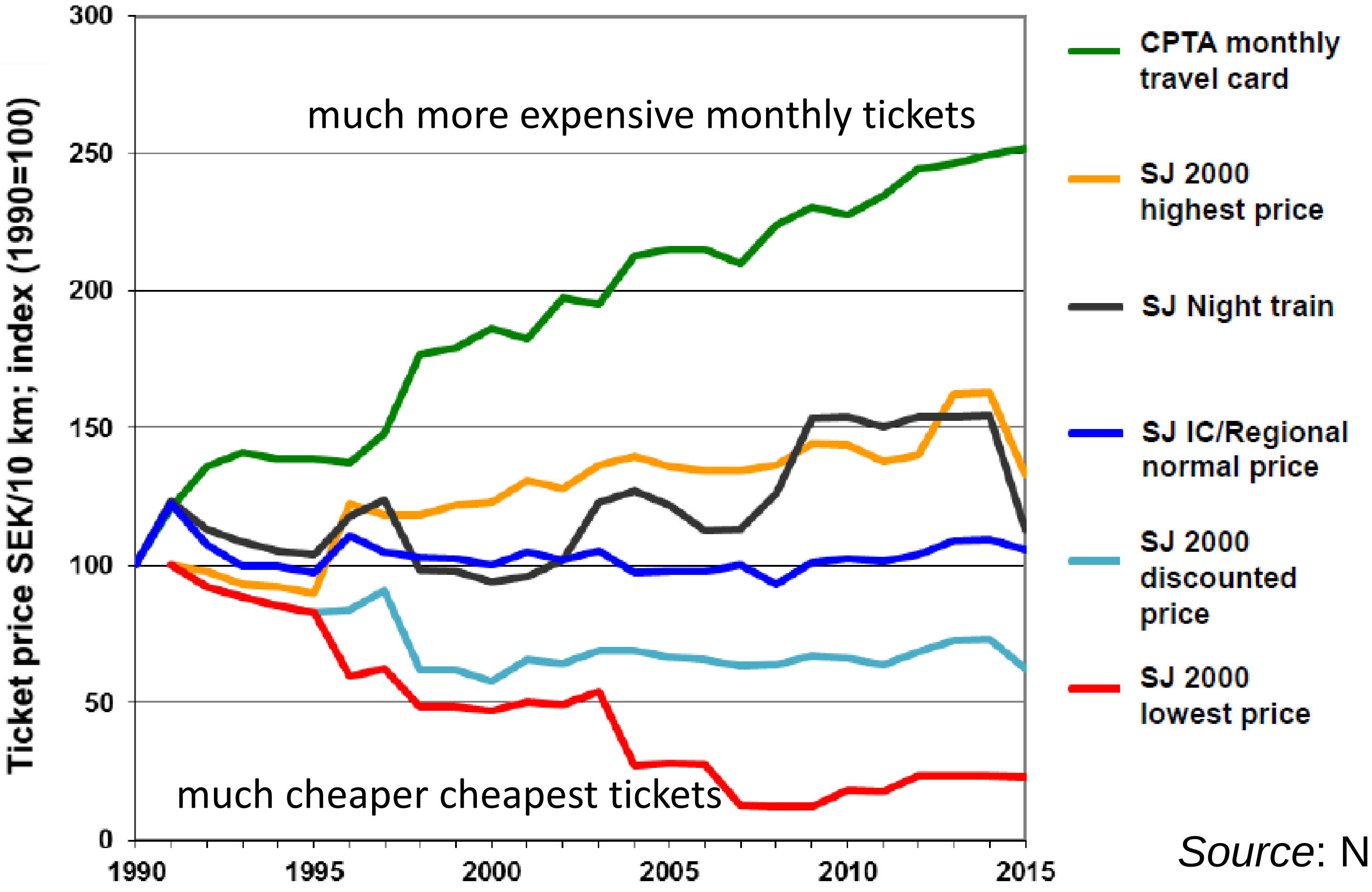




From these figures, we can see why the demand for regional train traffic has developed very positively during the period under review 1990-2016.

Ticket price development

As we can see from the green curve, the prices of season tickets used in commuting have increased the most.



Leisure travelers now have a lot of options and the cheapest tickets are very cheap SJ 2000 lowest price tickets - red curve.

Source: Nelldal et al (2015)

Experience from competitive tendering (competition for the tracks), Ewa Rosén 2018-05-30

- **In the early tenders, there were typically only 1 or 2 bidding train operating companies**
- **Later common with 3 bidders or more (sometimes 5-6)**
- **Contract periods have increased from 1-3 years to 5-8 years**

Teamwork - what is the best guess of your team. When and how the railway market opens to competition?

Finland **Estonia** **Latvia** **Rail Baltica**

Which year? **Which year?** **Which year?** **Which year?**

- Regional
  - the options are

xxxx **xxxx** **xxxx** **xxxx**

Competitive tendering | Service concession | Open access

- Long distance
  - the options are

xxxx **xxxx** **xxxx** **xxxx**

Competitive tendering | Service concession | Open access

- Freight
  - the options are

xxxx **xxxx** **xxxx** **xxxx**

Competitive tendering | Service concession | Open access

Thank you!

I hope you enjoyed the lecture and teamwork.

Teppo