The British Competition and Markets Authority consultation on competition in passenger rail services in Great Britain.

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Currently in Britain almost all rail passenger services are provided under franchises let by the government through competitive tendering. Open access competition is only permitted where capacity permits and where it would not primarily abstract revenue from the franchisee. The slightly curious test of this is that newly generated revenue must be at least 30 per cent of revenue diverted from the existing operator (not primarily abstractive which seems to imply that it should be more than 100 per cent). It is unclear how this 30 per cent threshold is determined. In practice, the only two open access operators currently running in Britain both provide through services between cities with no, or almost no, franchised through services.

The Competition and Markets Authority (CMA) in its recent consultation document makes the case for more open access competition. It sets out four ways in which this might be achieved, and the thrust of the consultation is more about how to achieve this end than about whether it is desirable. The four approaches are:

1. to allow a significant increase in open access competition within the existing structure

2. to split each franchise into two, operating on the same route

3. to deliberately construct more overlapping franchises

4. to license more operators subject to conditions including public service obligations.

The report quotes evidence of other sectors, including low cost airlines, airports and rail freight, as well as open access competition where it does exist in Britain and elsewhere, on the benefits of competition in the market. However, none of these addresses the issue of replacing competition for the market with competition in the market, while in some cases claims for the success of the policy have been accepted uncritically. For instance the report seems to attribute the growth of rail freight traffic and productivity in Britain entirely to within mode competition, when the increased traffic is entirely for two commodities – coal and containers – where there has been a massive growth of tonne kilometres in total (for coal due to substitution of domestically produced coal by imported, and for containers because of the growth of world trade). As is acknowledged, road competition is a powerful force for improving the efficiency of rail freight, regardless of within mode competition. A recent international study (EVES-rail) failed to find any impact of within mode competition on rail freight or passenger efficiency.

Less spare capacity, not more

The CMA report accepts that further competition should not be introduced until existing franchises have terminated, and until investment (including ERTMS) has produced spare capacity on the network. But given forecast traffic growth, there will be less spare capacity, not more, for many years to come (only HS2 might reverse this for limited parts of the network).

Moreover, to actually build-in spare capacity is wasteful. Efficient rail systems require future timetables and infrastructure investment, maintenance and operations to be planned together. This is one reason why the EVES-rail study found vertical separation increased costs on densely used networks, and why the McNulty report in Britain advocated a degree of reintegration, via joint ventures or alliances between the infrastructure manager and franchisees. The CMA options would greatly weaken the ability of such alliances to improve efficiency.

The document fails to recognise two other key characteristics of rail networks. The first is that they provide an integrated network of services with many passengers changing trains *en route*. This is as true of the most profitable main lines as of other services. An attractive timetable and fares structure needs to consider the spacing of trains and these connections. Failure to do this loses many opportunities in terms of quality of service, as the recent Network Rail report on East Anglia illustrates. That report demonstrates that we are not currently making the most of the opportunity to achieve this through the franchising system, but all the CMA options would seem to take us further away from this objective.

The second is the widespread significance of fixed and joint costs. It talks of moving to a more cost-reflective system of rail track access charges which would recover more costs from operators. To an extent this is reasonable; existing track access charges in Britain recover a lower proportion of maintenance and renewal costs than econometric evidence suggests. They actually vary with use of the infrastructure and do not adequately reflect scarcity of capacity. But even if charges genuinely reflected marginal social cost, there would remain a large fixed cost to be covered either by government grant or by seeking to recover it from users in the most efficient way possible. This is likely to be by a two-part tariff (a fixed charge and a variable charge per path) rather than by simply raising the price per path, but reconciling this with efficient charging of open access operators remains a problem.

Reference is made to statistical evidence that rail services have significant economies of density, such that splitting services on a single route between two or more operators will, other things being equal, raise costs. This applies particularly where operators are relatively homogenous, so overlapping different kinds of franchise, such as London commuter and inter city, is less costly than having more than one inter city operator on the route. But existing open access operators have lower costs than comparable franchisees; they pay lower wages, pay less for rolling stock and make more productive use of staff. A major reason for this is that franchisees are obliged to take over an existing company with its existing wages and working practices. Presumably this would also be the case in options 2 – 4, so it is only really option 1 that would allow exploitation of this as a way to reduce costs. Moreover, it is not clear that open access operators could achieve a significant expansion even for this option at existing wages and conditions.

Social services

The advantage of franchising is that it permits development of an efficient timetable, offering attractively spaced and connecting services which can make efficient use of resources. Compare this with CMA option 4, where apparently operators of commercial services will also be required to run social services (the example is given of the operator of a train between 15:00 and 16:00 to Manchester also being required to run the 23:00 to Birmingham). They can then trade with other operators in the social obligations to try to achieve a set of services that can be efficiently operated as a package, but whether an efficient outcome would result seems highly questionable.

It is true that the performance of franchising in Britain has been disappointing in terms of reducing costs, compared with competitive tendering in other sectors and in rail in other countries. The McNulty report set out ways to remedy this. Some are being implemented, such as the growth of alliances between franchisees and Network Rail, and the replacement of capand-collar approaches to risk sharing by sharing GDP risk. Others, and in particular longer franchises, have not. But the CMA concentrates on the failures of franchising in the past, rather than comparing its options to a reformed approach to monopoly franchises as an alternative to more competition in the market.

None of this proves that more competition in the market is undesirable. But it does suggest that, before changing policy, a much more in-depth study of the issues is needed than the CMA has so far achieved.