Submission by the Chartered Institute of Logistics and Transport to the Competition & Markets Authority's consultation on Competition in passenger rail services in Great Britain

Introduction

1 The Chartered Institute of Logistics and Transport (CILT) is a professional institution embracing all transport modes whose members are engaged in the provision of transport services for both passengers and freight, the management of logistics and the supply chain, transport planning, government and administration. We have no political affiliations and do not support any particular vested interests. Our principal concerns are that transport policies and procedures should be effective and efficient and based, as far as possible, on objective analysis of the issues and practical experience and that good practice should be widely disseminated and adopted. The Institute has a specialist Strategic Rail Policy Group, a nationwide structure of locally based groups and a Public Policies Committee which considers the broad canvass of transport policy. This submission draws on contributions from all these sources.

2 This is the CILT response to the CMA's discussion paper on Competition in passenger rail services in Great Britain. This submission begins with a general introduction and then addresses the two key points noted in the invitation to respond - the willingness of Open Access Operators (OAOs) to pay higher infrastructure costs and the operational impact of the options, ending with a short conclusion. The response seeks to address these points in relation to the CMA's stated goals of a downward pressure on fares, enhancing service quality and unlocking upstream efficiencies.

General matters

3 There does not seem to be much connection between the analysis and the options, and there is no impact assessment of the options. It is not clear how the options were derived and if they arose from any evidence of the effects of a lack of competition. There also seems to be no link with, or even recognition of, rail investment control periods, which enable additional capacity to be brought on stream. Any analysis should recognise that the benefits of increased competition can help in the wider economy.

4 There is little or no recognition of existing competition between rail, car, coach and air. On the longer distance routes, competition with air transport is strong, while road competes more on shorter and medium distances. Fares/fuel cost, frequency, quality/comfort and convenience are all significant factors in the choice of mode, and therefore this competition already exerts pressure on these elements. Regulated fares are related to historical fares by an RPI+or-X factor, but advance and other unregulated fares are market-based. Comparisons with road transport should note that road operators are all treated equally in terms of the taxes that are the equivalent of access charges. Airlines may be charged differently for the same access to infrastructure if they have negotiated a long term deal with an airport (eg. Easyjet at Gatwick).

5 The discussion paper does not consider the trade offs between marginal paths for passenger and freight growth, which leads to wider questions about how capacity is allocated between the sectors and whether any capacity needs to be ring fenced.

6 Demand is rising, and is expected to continue to rise for some time, while capacity increases are lagging behind, and some, such as from ERTMS/ETCS, are uncertain. The only major capacity increase which will release significant capacity is HS2, for which Phase 1 is due for completion in 2026 (subject to Parliamentary approval) and which will release capacity primarily on the WCML, with some limited impact on the MML and Chiltern Line. Therefore the first opportunity for greater competition should be planned for the post 2026 period on the WCML. Whether to allow open access operators to compete with HS2 over the existing lines is of course a major policy question which will potentially affect the profitability of HS2 and the degree to which HS2 releases capacity for freight and commuter passenger services.

Willingness to pay higher infrastructure costs

7 An OAO would only be prepared to pay higher infrastructure costs if it could still make a profit. This means either having lower other costs or generating greater revenue. The research by Rasmussen, Wheat and Smith quoted in the discussion paper noted OAOs have lower costs in four areas. The effect of greater competition in each of these areas would be as follows:

- Shorter (and therefore cheaper) trains would be replaced by longer ones to make best use of capacity

- Older trains would be replaced by newer (more expensive) trains to be able compete on quality and make use of additional capacity. However, a balancing factor might be that OAOs are prepared to take more risk in rolling stock leases than franchisees

- There will be pressure for wages in OAOs to grow to match franchised operators, although it may be possible to maintain higher productivity because of the nature of the companies involved in open access operations

- Rasmussen et al provide evidence that there are significant economies of density in rail; whilst growth will enable OAOs to benefit from these, if it is at the expense of franchisees they will lose economies of density.

8 To achieve greater revenue in a market where there is downward pressure on fares, an OAO would have to significantly increase ridership. If this is at the expense of a franchised operator (ie. abstractive), there would ultimately be a loss to the taxpayer, as what franchisees bid for new franchises is reduced. It is recognised that a current regulatory test for open access is that it should not be primarily abstractive, although this is not easy to assess and there may be countervailing pressures.

9 The willingness of an OAO to pay a higher access charge is therefore dependent on being able to maintain low (other) costs and significantly increase non-abstractive revenue. The low cost airline is the model, which achieves these dual effects by a very simple operation, high asset utilisation, high load factors, use of secondary airports, easy entry and exit and limited interoperability. It should be noted that low cost airlines do not compete on the 'soft' quality issues, although they do claim to have better punctuality than full service airlines. One key area of low cost operation is in sales, for

example having sales only via the internet, which has fed through to all airlines, enabling lower fares.

10 In relation to Network Rail's incentives, the discussion paper does not deal with the issue of sunk costs if an OAO, having agreed to pay higher charges for more capacity, then becomes insolvent. We are aware of some evidence that both wear and tear and scarcity justify higher charges than are currently levied as part of the variable charges, but if variable charges are raised above marginal social cost they will lead to inefficient reductions of services.

Operational impacts of the options

11 Understanding the market requires matching ticket sales to actual journeys. While the current (ORCATS) system is imperfect, it is not clear what system will need to be in place to make any of the options effective. It will be important to introduce a new system which addresses the deficiencies of ORCATS.

12 CILT's view is that only Option 1 has a chance of achieving all three goals of fare reductions, enhanced service and upstream efficiencies, initially on the West Coast Main Line after the opening of HS2. Options 2 and 3, which are similar, would not achieve the benefits of open access because they operators would remain franchises, with the limited risk taking and prescription that is implied. Option 4 would put decisions on the allocation of capacity a long way from the market and would be very difficult to administer, particularly for timetabling.

Conclusion

13 CILT concludes that the evidence of the ability of Open Access Operators to maintain lower costs and increase non-abstractive revenue is inconclusive and that the opportunity for greater competition really only arises after the completion of HS2 and on the West Coast Main Line. This gives the opportunity for more analysis and consideration of the practical effects of greater competition before implementation.

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