Symposium

Competition & Regulation in the Rail Sector

Proceedings

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Berlin, 2 February 2015

8th Competition & Regulation in the Rail Sector symposium

The digital revolution has brought about change at a rapid pace, including for mobility markets. Industry 4.0 is becoming a formidable challenge, which transport companies must actively address. It was against this backdrop that this year's Competition & Regulation in the Rail Sector symposium was held. Günther Oettinger, European Commissioner for Digital Economy and Society, was the most prominent speaker. In late January, 250 experts from the scientific, business and political communities gathered at the ESMT European School of Management and Technology in Berlin to exchange ideas and experience. Prof. Dr Justus Haucap from Heinrich-Heine University Düsseldorf and Prof. Paul Heidhues from ESMT served as the academic chairs of the event held at the initiative of Deutsche Bahn. Haucap, the long-standing chairman of Germany's monopoly commission and head of the Düsseldorf Institute for Competition Economics (DICE), and Heidhues, an internationally renowned economist and competition expert, succeeded Prof. Christian Kirchner. Prof. Kirchner, who helped organise the seven previous symposia, passed away in early 2014.

Policy and regulation

Germany's government is betting on rail because it is certain of its future viability. Rail has the best chances of becoming "the mode of transport of the 21st century," said State Secretary Michael Odenwald from the Federal Ministry for Transport and Digital Infrastructure during his opening address. Germany's 1994 rail reform was a "success", and the route Deutsche Bahn AG has taken to become an international transport company is the "right one", he continued. Policy-makers will "systematically continue" along this route, Odenwald stressed, describing his ministry's "action plan for rail": The three pillars for the future of Germany's railway are investment, modernisation and digitisation.

He also referred to the second Performance and Financing Agreement (LuFV II), which the German government and Deutsche Bahn signed in late 2014 and which earmarks some EUR 28 billion to rail companies to invest in renewing infrastructure over the next five years. According to Odenwald, the agreement provides the framework for maintaining the rail infrastructure that the parties in government intended; taking the dividends generated by the DB Group's infrastructure companies and reinvesting them back into the network will also fulfil the "rail financed by rail" funding loop.

DB CEO Dr. Rüdiger Grube called the LuFV the largest modernisation programme benefiting rail to date, with EUR 16.6 billion of the funding coming from the German government and an additional EUR 11 billion from Deutsche Bahn: "It's a major coup for rail customers in Germany, both in passenger and freight transport." Replacement investments will rise by 30%, spending on servicing and maintenance by as much as 50% – making the LuFV "the largest generator of economic and job growth well beyond the rail sector." Along with the extensive overhaul of bridges, viaducts and tunnels, plans call for some 17,000 kilometres of the rail network – half of the total network – to be renewed as part of the LuFV, announced Dr Grube.

Nevertheless, it became increasingly clear over the course of the symposium that rail's current situation is far from ideal. Christian Kern, CEO of Österreichische Bundesbahnen (ÖBB), Austria's state railway, and current chairman of the Community of European Railway and Infrastructure Companies, took a more critical stance. In his opinion, the European Commission's transport policies have not grasped just how dynamically business, industry and the markets are changing. Brussels and the railway packages continue to cultivate the image of the state railway monopolies of the 1990s and are "missing out" on rapid market developments, he said. According to Kern, continuing to pursue the aim of separating infrastructure and operations follows ideologies that "do not have a majority in the Parliament or on the Commission". Returning ÖBB to an integrated group structure would clearly improve profitability and services, which would increase customer satisfaction, Kern believes.

Discussion with Dr Wilhelm Eschweiler, Christian Kern and Pierre Cardo

The French national railway, SNCF, is also struggling with the reintroduction of integrated group structures, reported Pierre Cardo from France's regulatory authority ARAF. According to Cardo, SNCF generates an annual deficit of EUR 1.5 billion and is over EUR 50 billion in debt. "What we need is higher revenues, but in this competitive environment, that's akin to squaring the circle", said Cardo. He considers the French government's demands that SNCF make up the deficit on its own a pipe dream: "I would rather the government commit the necessary funding to the railways."

The changes to national railway legislation brought about by the liberalisation of the railway sector should be guided more closely by the provisions from Brussels, recommend-ed Dr Wilhelm Eschweiler, Vice President of the Federal Network Agency. Sweeping adoption of the rules would simplify harmonisation and save money, he believes. The Federal Network Agency has set out to "provide watertight, easily workable standards for the railway market". He promised "prudent regulation".

Market and competition

Railway sector liberalisation in the European Union has been consistently implemented in Germany. State Secretary for Transport Michael Odenwald stressed that "competition, the delicate flower," has developed into a working system. Eschweiler added that intramodal competition among rail transport companies is subject to extensive monitoring in court-like proceedings by ruling chambers of the Federal Network Agency, which are now responsible for this area. And there is now transparency and reliability thanks to newly introduced price approval for tracks and stations, he continued.

Providers in intermodal mobility markets are caught between liberalisation on one hand and unfair competitive conditions on the other. DB CEO Grube stressed that rail is increasingly "one component in an integrated mobility system", but it needs "conditions that are more ideal than what we currently have".

ÖBB CEO Kern supported this sentiment with a desire for a "powerful policy vision of a common European railway market". Sticking to the national system model results in a considerable loss of prosperity, and misguided regulations put rail at a disadvantage, he said. As an example, he cited the provision requiring railways – unlike all other modes of transport – to pay damages to their passengers for delays due to force majeure. He also criticised the fact that other modes have still not been held sufficiently accountable for external costs incurred for environmental and accident damage, despite decades-old knowledge.

Prof. Dr Justus Haucap from the Düsseldorf Institute for Competition Economics (DICE) also touched on this idea. He called the additional burden on railways due to Germany's Renewable Energy Act "paradoxical." Travelling by train "tends to be more expensive" because of the law, he added. And that "makes no sense from a climate-policy perspective." According to Haucap, transport market conditions have to enable fair competition, and that includes external costs.

Symposium participants

On the topic of liberalisation of the long-distance coach market, Dr Ulrich Heimeshoff, also from DICE, referred to the significant changes happening in the market as the result of the new services, citing an in-progress study: "Liberalisation is making an impact; the market has gained considerable momentum." He reported that nearly 20,000 coach connections have been established in the past two years, an increase of 60%. The 20 largest providers offer 7,000 to 8,000 journeys per week according to Heimeshoff. He believes that the long-distance coach market will remain a growth market even though consolidation will be necessary. Deutsche Bahn is affected in the ICE market: long-distance coach services attract price-conscious customers away from second class, despite longer journey times, he stated.

If policy-makers decide to test self-driving cars, that would also potentially change the market at the expense of rail, explained Haucap. He believes that the new technology would likely reduce rail's competitive advantage – the ability to work or relax while travelling. In contrast, the potential of new urban services, ranging from car-sharing and bicycle hire to taxi apps, also needs to be considered: "They make it easier and cheaper to get to and from the railway station."

Challenges and visions

As it develops into the efficient, high-performance mode of transport of the 21st century, rail must deal with regulatory problems, but most importantly it faces technical challenges and has a lot of catching up to do when it comes to digitisation. The two railway CEOs Grube and Kern left no room for doubt that they are aware of their corporate responsibility as mobility providers with diverse activities. Under no circumstances will they allow themselves to go the way of the horse and buggy. "The path to success is paved only by technological innovation," stressed Grube. "Courage and the willingness to enter a new innovation-friendly climate" means that the railway group will increasingly consider acquiring technology companies as part of its international strategies.

State Secretary Odenwald pointed out that the railways of the 21st century, after having prioritised the expansion of passenger transport, now need to perform better in the rapidly growing freight transport market. He noted the expansion of the network infrastructure on the Karlsruhe – Basel corridor and in seaport hinterland transport as well as the full modernisation of Maschen shunting yard near Hamburg. Noise control is vital for faster, more efficient and flexible rail freight systems – the government coalition is in the process of cutting noise from freight trains in half by 2020, Odenwald said.

Philipp Justus, head of Google in Germany, summed up the greatest technological revolution to date: Digitisation in the transport sector means combining hardware, software and service. "Mobile devices have been changing consumer behaviour at top speed for a decade." According to Justus, some eight billion devices worldwide are online, and that figure is set to increase tenfold by the end of the decade. He believes that there are attractive options for the mobility sector to network all processes related to travel, thus simplifying what people want from mobility.

Günther Oettinger

"The digital sector is the key to future mobility," explained the final guest speaker, EU Commissioner Oettinger, who is responsible for the digital economy and society in Brussels. In his speech, he spelled out the importance of digitisation described as Industry 4.0 well beyond its relevance for railway companies and transport policy. "Europe does not have digital supremacy; the United States is far ahead of us," Oettinger stressed.

"It is time to create a domestic digital market. Our 28 fragmented sectors do not make us attractive." In contrast, the United States has a domestic market of 330 million consumers and consistent regulations, all the way to data privacy, he noted. Developments in Asia are similar.

In light of this, it wouldn't take much for a start-up from Europe to choose to set up shop in the United States or South Korea.

According to Oettinger, this is a concern, given that 30% of economic growth in the EU can be attributed to digital developments. Expanding the infrastructure is unlikely to make much progress as long as there is no "digital European Union", he believes. In the last 20 years, it hasn't even been possible to eliminate dead zones at national borders in the 28 "fragmented communication areas" of the EU countries. That is why he believes that the EU needs a "digital industry strategy" more urgently than ever. This would be made possible by a repeat of the "Airbus idea" - bundling European research and industry. According to Oettinger, the concept put the Airbus Group on equal footing with airplane manufacturer Boeing. He called for a comeback and expressly included Deutsche Bahn: "DB is a jewel in Europe's service sector.