



# Open access passenger rail competition in the Czech Republic



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## ABSTRACT

This paper analyses open access passenger railway competition in the Czech Republic between 2011 and 2014. This competition emerged when the major railway connection between Prague and Ostrava, which was operated only by the incumbent, was entered by two private operators, RegioJet in September 2011 and LEO Express in January 2013. Theoretical studies and experience from other countries suggest that this competition should lead to a price war, intensive market dynamics and product differentiation. The findings from the market development on the Prague–Ostrava route are broadly consistent with these predictions. The open access competition has led to an intensive price war with 2nd class tariff declines reaching 46%. Innovative marketing and selling strategies have significantly increased the spread of prices, and price discrimination and yield management techniques are used extensively. All operators has been unprofitable on the line, leading to financial stress and accusations of predatory pricing on the part of the incumbent. The quality of service on the line has increased substantially with standardisation, new on-board services and higher frequency. The average number of seats per train has declined significantly, and new operators have been able to win 55% market share from the incumbent. Service frequency is higher but is strongly concentrated during rush hours.

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## 1. Introduction

Open access in international passenger rail transport has been permitted in the EU since January 2010, including the right to carry domestic passengers, provided that the primary purpose is to serve international passengers and that doing so would not threaten the financial equilibrium of public service obligations (Nash, 2010). As a result, several international open access connections have emerged; however, their scale is limited and many of them are commercial brands of the national rail incumbents. In national rail passenger markets, public policy varies throughout Europe. Some countries do not allow open access at all, some do but have not seen actual entry, and in a few European countries, commercial open access has emerged (IBM, 2011). Currently, the UK, Germany, Sweden, Italy, Austria, Slovakia and the Czech Republic are the European countries with operating open access service (European Commission, 2013). There is, however, an important difference between open access entry in the UK, Germany and Sweden and open access in Italy, Austria, the Czech Republic and Slovakia. The open access entry in the UK, Germany and Sweden has taken place in niche markets, avoiding direct full-scale competition with the incumbent (Deutsche Bahn in Germany and

a franchise holder in the UK). These entries have typically been low-scale, targeting small, neglected market segments and usually competing with lower prices/lower quality strategy (Griffiths, 2009; Séguret, 2009; Fröid and Nelldal, 2015). However, recent open access entries in Austria, Italy, Slovakia and the Czech Republic have varied. In all these cases, new entrants have challenged the incumbent on the most important railway connection with the highest-density passenger flows in the country. These entries have been full-scale with intensive price competition and a clear aim of winning substantial market shares from the incumbent with lower prices and comparable/better service quality. These entries have resulted in intensive price competition and widespread accusations of responsive predatory pricing on the part of the incumbent. Because these new open access entries began recently, there is only limited and preliminary research on the impact of this new type of open access on market development (Crocco and Violi, 2013; Cascetta and Coppola, 2013; Beria et al., 2014; Bergantino et al., 2015 for Italy and Tomeš et al. (2014) for the Czech Republic).

This paper aims to enhance this knowledge, focusing on the Czech Republic, where in September 2011 and January 2013, two private operators entered the major railway connection Prague–Ostrava, once operated solely by the incumbent. At present, there is a unique situation in which three open access passenger operators compete on the same line. Because empirical evidence about the impact of open access entry on railway markets used to be scarce, simulation and theoretical studies were used to model

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them. Their results were used to assess possible impacts of open access competition on the development of railway markets in academic and political discussion. Therefore, it is important to determine whether the actual impacts of open access competition on railway markets accord with the experiences of other countries and with the predictions of theoretical and simulation studies. The paper aims to analyse the impacts of open access competition on the development of the rail market on the Prague–Ostrava line. We have concentrated on analysing price development, market share and product differentiation. The paper is organised as follows. Section 2 provides a literature review, Section 3 describes the development of competition on the Prague–Ostrava route, Section 4 analyses market development, Section 5 discusses the findings, Section 5 addresses policy implications and Section 6 presents the conclusions.

## 2. Literature review

Two types of open access competition can be observed in contemporary Europe. The first type is competition in niche markets, which has operated for many years in the UK and Germany. The second type is more recent; it is typically by head-on entry on the principal railway route and can be observed in Austria (2011–), the Czech Republic (2011–), Italy (2012–), Slovakia (2014–) and Sweden (2015–). In the following paragraphs, we review experience with these open access entries.

The experience in the UK is reported in Jones (2000), who states that the concept of open access competition was suppressed in the UK to avoid threatening the financial validity of franchises. The open access entry is strongly regulated, and a potential open access operator must prove that it will generate new traffic and will not only steal customers from existing franchised operators (ORR, 2011). As a result, open access competition in the UK is present on routes London–Hull, London–Bradford and London–Sunderland, linking these cities with London by direct connections that were previously lacking. The benefits of these niche market open access entries were reported as lower fares for customers (11–32%), new direct service, increased service quality (Griffiths, 2009), and higher frequency of service (Temple, 2014). The disadvantages can be identified as higher operating costs, questionable impact on revenues due to decreased fares and shorter-length trains. The share of open access competition accounts for 0.1% of passenger journeys and 0.6% of passenger revenue in Great Britain (Griffiths, 2009). Generally, open access competition in the UK has so far focused on niche markets that have been neglected by the franchise holder (Preston, 2009). However, the situation may change because the regulator ORR approved new direct services from Blackpool to London on the West Coast Main Line, to be provided starting in 2018.

Germany has a sharp division between regional and long-distance passenger transport, with the former subsidised and often tendered and the latter unsubsidised and left to open access competition. Despite the full liberalisation of long-distance rail transport, the market is dominated by Deutsche Bahn, with market share over 99% (Deville and Verduyn, 2012). From 1994 onwards, there were approximately ten entries of new operators against DB (Séguret, 2009); however, the majority failed, and only two operators are surviving in niche markets (European Commission, 2013). The reasons for unsuccessful entries of new private operators against Deutsche Bahn were suggested as high infrastructure charges (Link, 2004), hidden integration of long-distance and regional transport (Séguret, 2009) and discrimination against new operators by Deutsche Bahn (Nigrin, 2014).

Sweden has allowed commercial open access on its entire network; however, due to low commercial attractiveness, it is not

widely utilised. Open access operates only on two lines in the south of the country. Operator Öresundståg entered the Gothenburg–Malmö/Copenhagen line against the state incumbent by differentiating its product (price, comfort, frequency), and the incumbent was forced to leave this regional market (Anderson, 2012). During the competition between 2008 and 2010, the market share for trains increased from 21% to 28%, and the competition seems to have stimulated demand due to more departures and fare diversity, including many inexpensive tickets (Fröid and Byström, 2013). The second open access operator is Snälltåget, which has been serving the long-distance route Malmö–Stockholm since 2010 and in summers also Malmö–Berlin. Due to this entry, there was a sharp decline in ticket prices (Snälltåget, 2015). However, according to the European Commission (2013) Snälltåget does not have any significant impact on the Swedish rail market. The frequency of Snälltåget between Malmö and Stockholm is 1 or 2 pairs of trains per day (Snälltåget, 2015). The more dedicated head-on entry occurred in March 2015 when MTR launched its services between Stockholm and Gothenburg against the incumbent SJ, starting with four services per day and planning to increase them up to eight per day (Barrow, 2015).

Italy was the first European country to have open access entry, on the major high-speed line Milan–Firenze–Rome–Napoli in April 2012. Cascetta and Coppola (2013) stated that as a result of open access competition, prices decreased by 31% in the first year, and ridership increased significantly. Croccolo and Violi (2013) claim that the new competitor has not eroded the traffic of the incumbent; however, it generated new traffic because of reduced fares, improved quality, increased frequency and diversification of service. However, the new private competitor is still unprofitable and accuses the state incumbent Trenitalia of anticompetitive behaviour in the areas of predatory pricing and infrastructure capacity allocation (Bergantino et al., 2015).

In Austria, open access competition began in 2011 when the main railway connection Vienna–Salzburg began to be operated by the private company Westbahn alongside the state incumbent ÖBB. As a result of open access competition, there was a decline in prices and an increase in the frequency of connections (Kováčik, 2014). ÖBB reacted by responsive price cutting. The Westbahn was claiming problems with the infrastructure entrance due to vertical integration of ÖBB (Westbahn, 2013). The Czech Republic has had open access since September 2011 with two operators and since January 2013 with even three operators competing. Tomeš et al. (2014) presented the first results of the open access competition in the Czech Republic, documenting significant price declines, infrastructure capacity pressures and benefits for customers. The impact of open access competition on customers' perceptions was presented in Jade et al. (2015), and Chmelík (2015) analysed determinants of a modal split on the Czech railways routes. The impact of passenger rail liberalisation on regional transport in Central Europe was presented by Taczanowski (2015). Open access passenger rail operations in Slovakia started in December 2014, where the operators from the Czech Republic began competing against the state incumbent, effectively connecting its open access operations in the Czech Republic and Slovakia. The immediate result was a decrease in prices and increases in service quality and frequency of connections. These empirical results provide some initial experiences with the impacts of open access entry on the development of railway markets. However, these experiences are only preliminary because the head-on market entries have only operated for a few years; as a result, there could hardly be definite conclusions based on them.

Limited previous practical experience with open access entry has stimulated theoretical and simulation work designed to

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