Liberalisation of passenger transport by rail in Belgium
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Passenger transport liberalisation: The German experience

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Agenda

- The German rail reform – 1993/1994 and beyond
- Reform of regional rail passenger services
- Liberalisation of long-distance passenger services
- Some lessons

The German rail reform – 1993/1994 and beyond

The German rail reform in 1993/1994

Massive restructuring of the national carriers, Deutsche Bundesbahn and Deutsche Reichsbahn, and the rail market (required the amendment of 136 federal laws, including the Constitution):

- **Corporatisation**
  - both carriers were merged and transferred into a single joint-stock corporation, Deutsche Bahn AG (DB AG). Shares have so far remained 100% federally owned
  - commercial orientation codified (in the German Constitution)
  - schedule for further reforms (establishment of a holding structure until 1999, option to privatise after 2002 – infrastructure must remain under public control)
- **Financial restructuring**
  - establishment of a new entity (Bundeseisenbahnvermögen-BEV), a special fund under public law
  - complete debt-relief (approx. € 34 billion)
  - transfer of career public servants to BEV, DB AG can recruit them at arm's length (value for DB AG: approx. € 29 billion)
  - special depreciation of DB AG's assets (€ 39 billion)
  - additional investment funds (modernisation of the East German rail infrastructure, € 16,9 billion)
- **Regulatory reform**
  - open access policy (implementation of 91/440/EWG)
  - establishment of a regulatory body (Eisenbahnbundesamt), responsible for safety and access policy
- **Decentralisation of responsibility for public services (Regionalisation)**

Reforms since 1994

- **1999: Establishment of a holding structure**
  - **On 1 September 1999, in the "second step" of the reform, DB AG was subdivided into five separate companies, responsible for: long-distance passenger transport (DB Reise & Touristik); short-distance passenger transport (DB Regio); railway stations (DB Station & Service); goods traffic (DB Cargo); and the railway system and tracks (DB Netz)**
  - **Since then: several smaller restructurings of DB AG**
- **2002: Strengthening of the regulatory oversight**
- **2005: Implementation of 2001/14/EC**

  e.g. new regulator: Federal Network Agency
- **2008: Privatisation of DB AG's transport subsidiaries?**

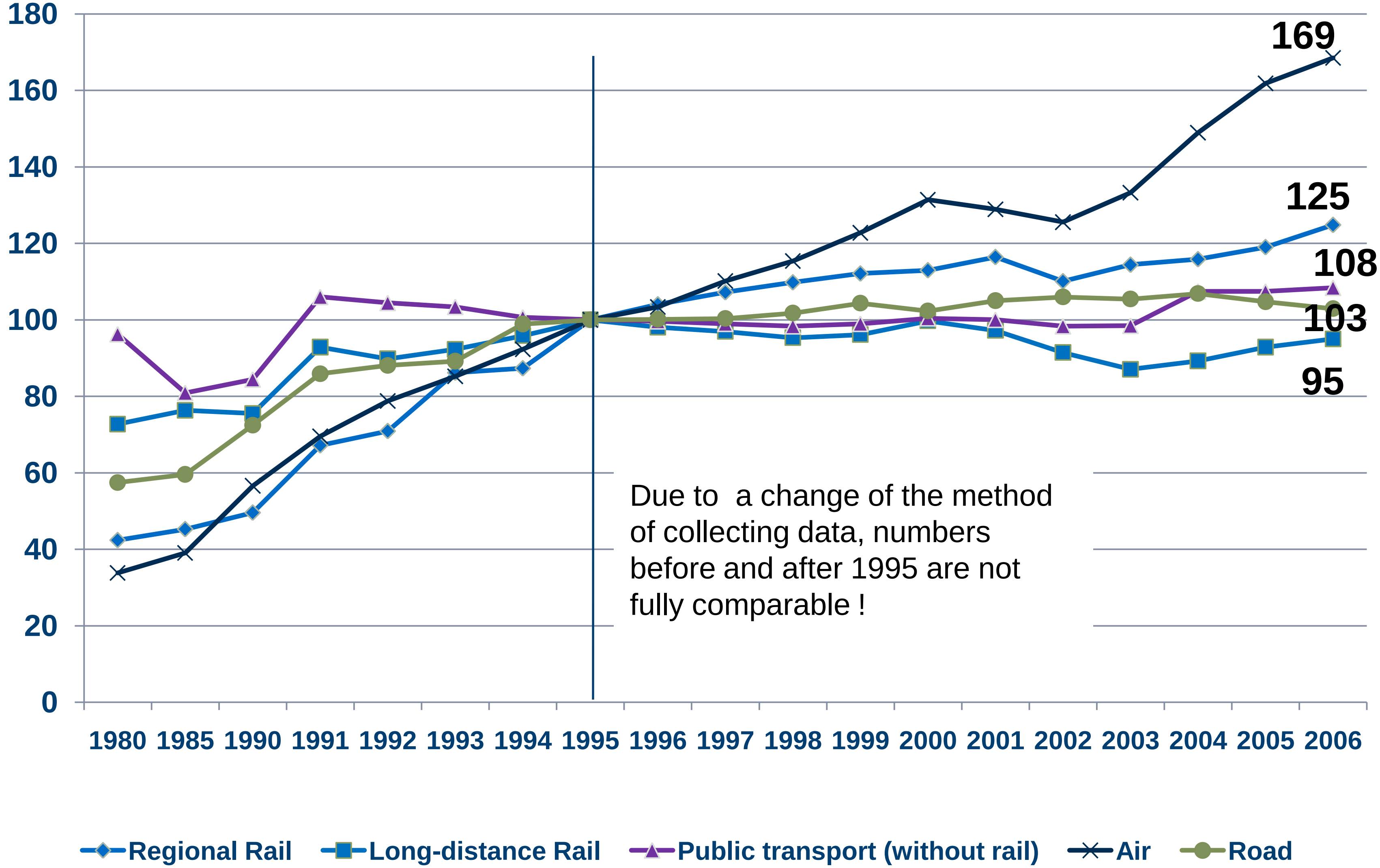
Three different market organisations have been established

	Public organisation	Regulation
Regional passenger transport	German States are responsible for acceptable transport situation	Price regulation (open access)
Long-distance passenger transport	No	Open access
Freight transport	No (just occasionally)	Open access

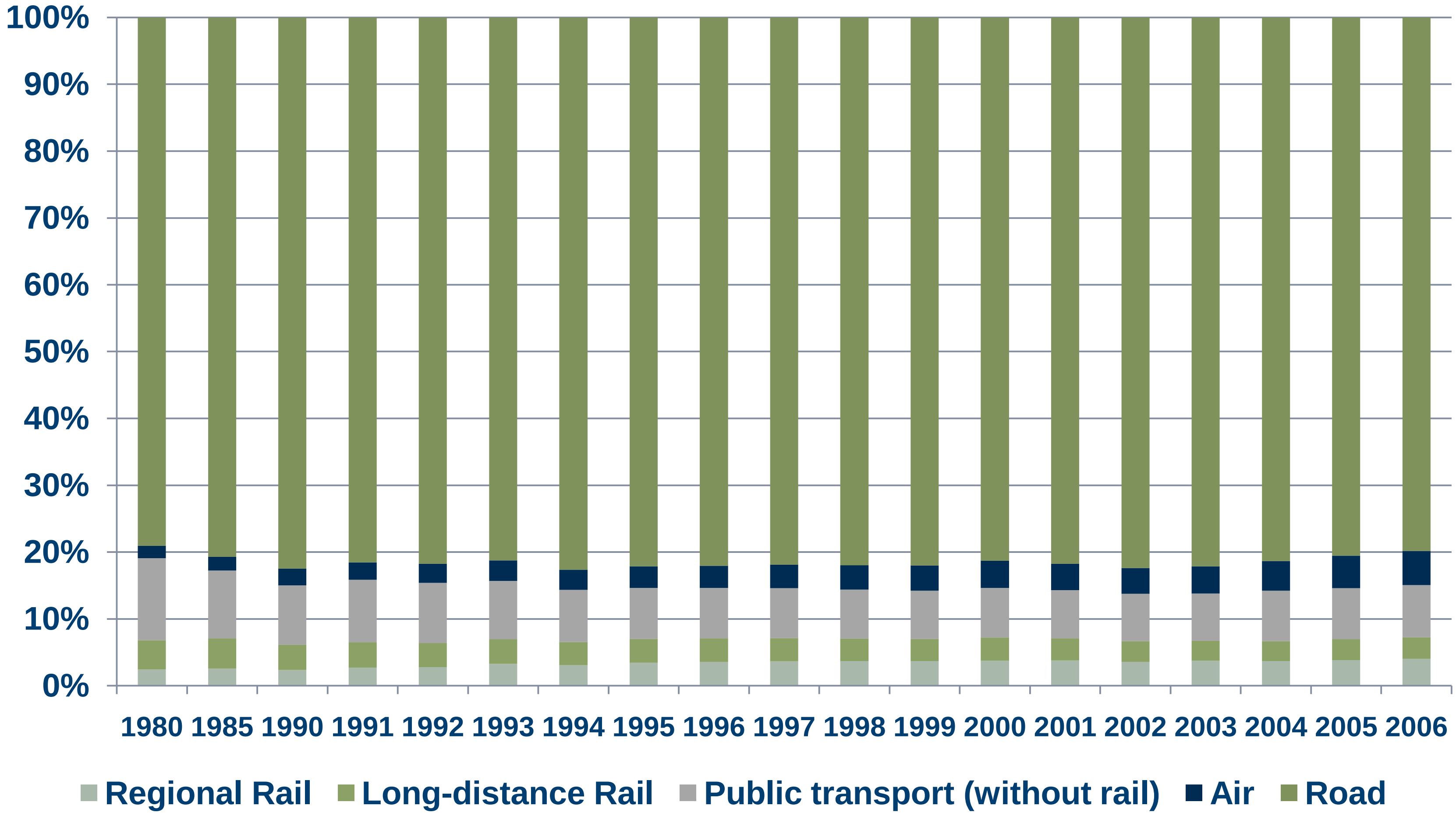
The German rail reform –
1993/1994 and beyond

Some developments

Development of passenger transport 1980-2006 [passenger-km, Index (1995=100)]



Development of the modal split (passenger transport, passenger-km)



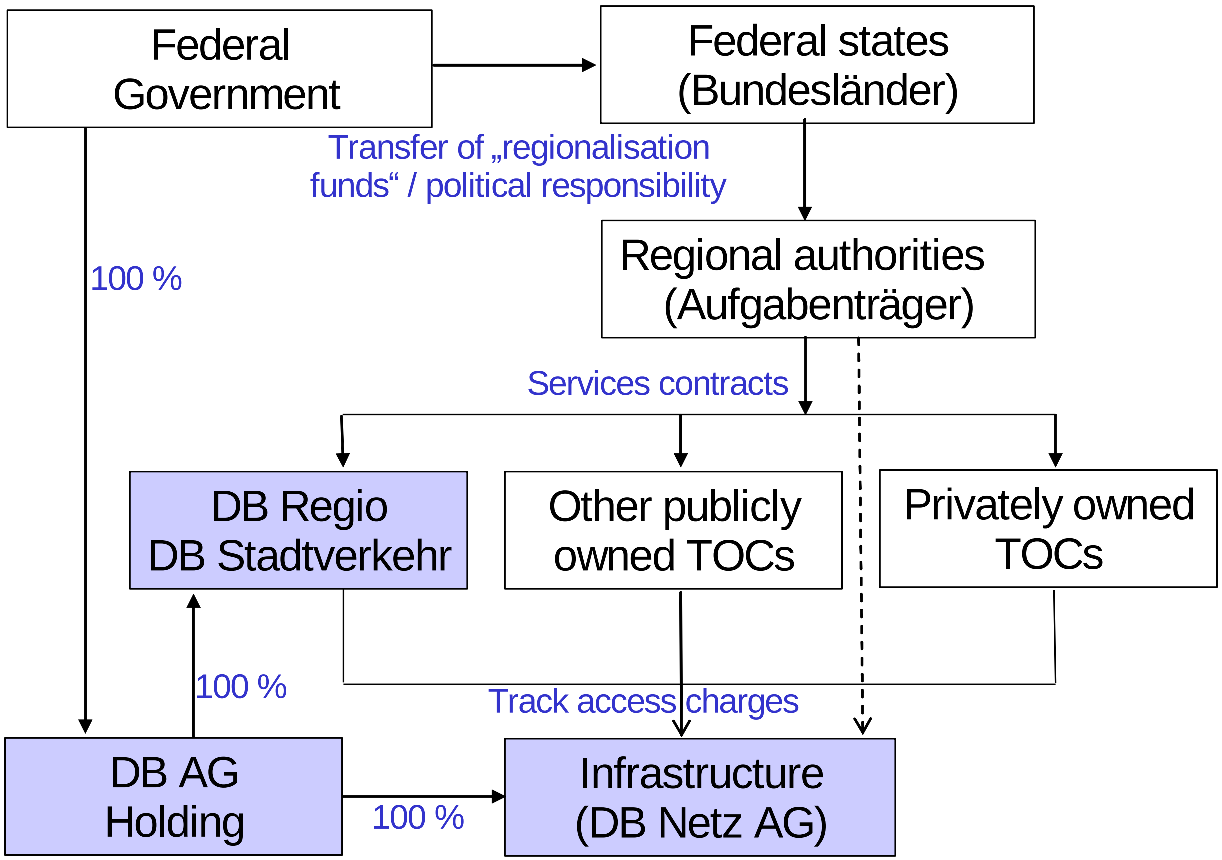
• **Regional rail:**	**3,4% (1995)**	**3,8% (2005)**	**4,0% (2006)**
• **Long-distance rail:**	**3,6% (1995)**	**3,1% (2005)**	**3,2% (2006)**

Reform of regional rail passenger services

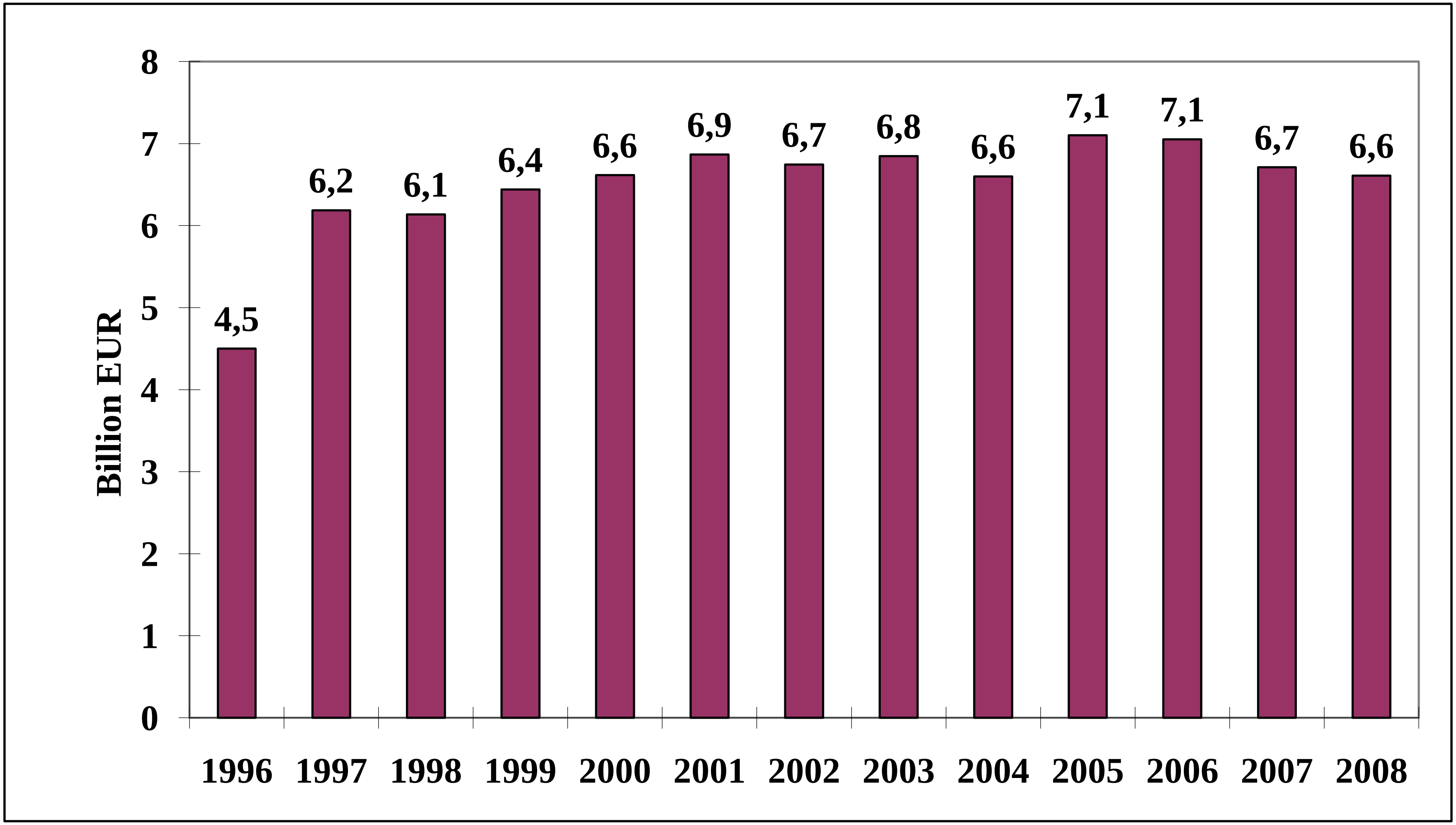
Regionalisation in rail passenger transport

Regionalisation 1996

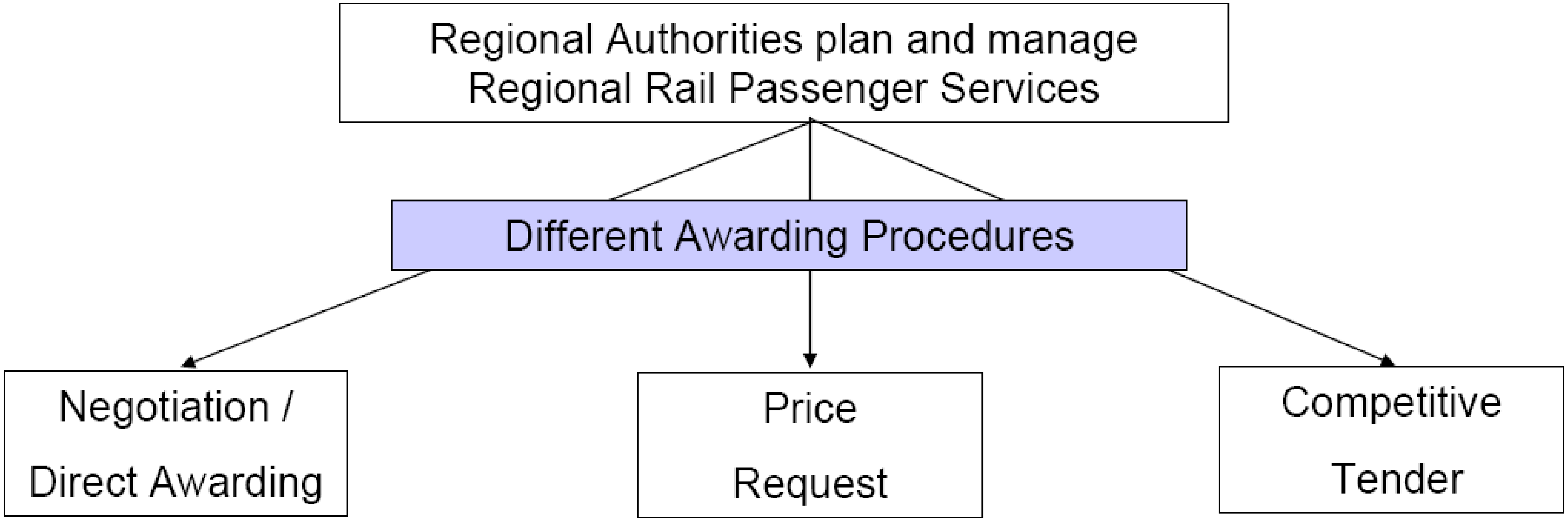
- Part of the rail reform in 1994
- Responsibility for regional rail passenger transport passed to the federal states
- Regional Authorities (*Aufgabenträger*) responsible for planning and managing regional rail passenger services (approx 30 % cost coverage by ticket sales)
- Federal funding: earmarking of budgets for public local and regional passenger transport: initially € 4.5 bn a year, from 2002 approx. € 6.7 bn



Federal subsidies for regional rail passenger services



Legal Framework



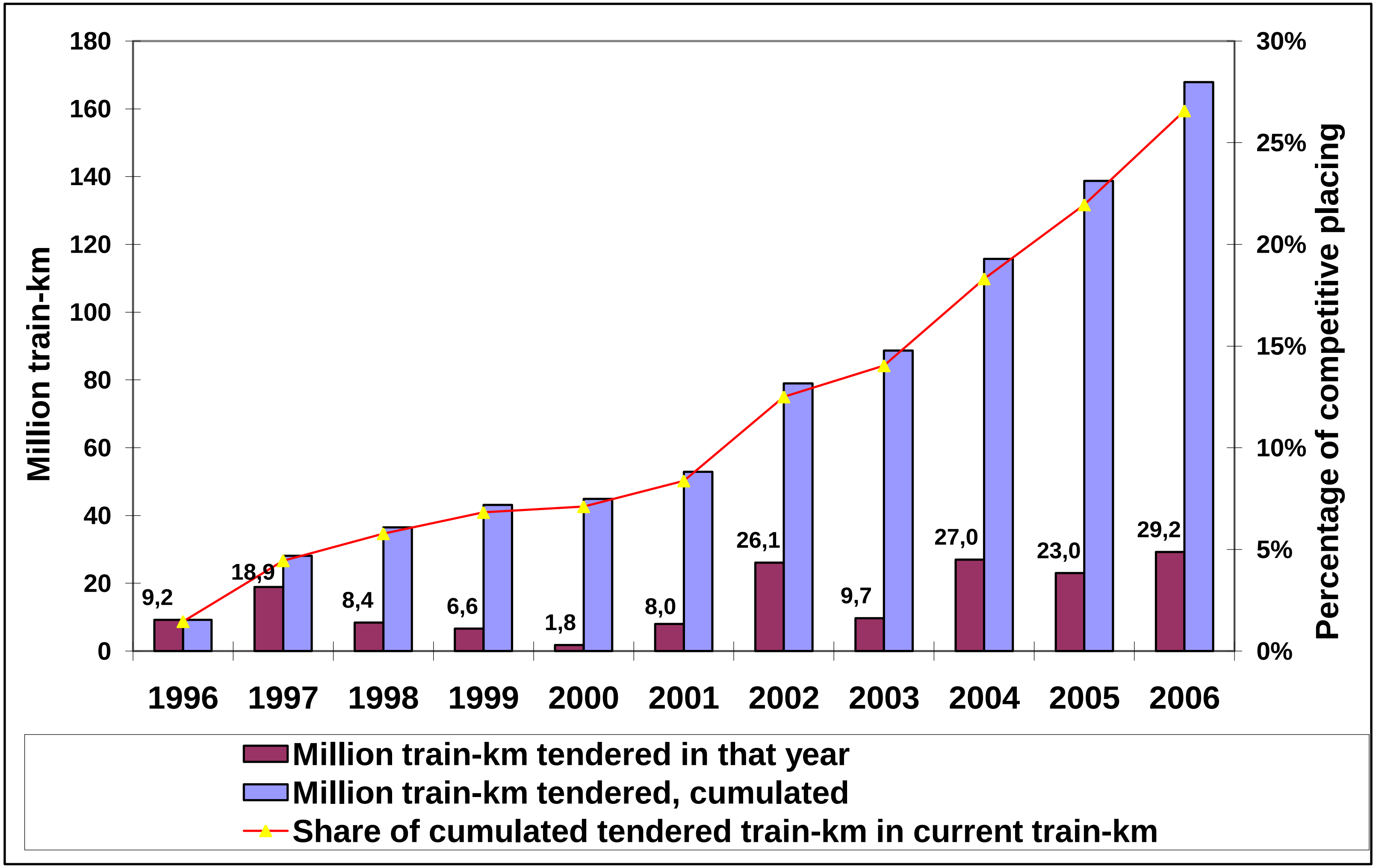
Service contracts directly awarded to DB AG (mainly 2002-2004)

State	conclusion of contract	Train-km (mill.) p.a.	Value (billion €)	duration of contract
Berlin/Brandenburg	December 2002	35.0	1.9	10 years
Lower Saxony	January 2003	27.8	2.5	10 years
Saxony-Anhalt	March 2003	16.2	2.5	12 years
Hesse (Rhine-Main-Area)	April 2003	33.0	4.4	11 years
Baden-Wuerttemberg	July 2003	49.0	4.6	13 years
Hamburg (S-Bahn)	July 2003	12.5	0.7	6 years
Rhineland-Palatinate	January 2003	29.5	2.4	11 years
Northrhine-Westfalia	July 2004	44.0	6.0	15 years
Saarland	July 2004	6.3	n/a	14 years
Berlin (S-Bahn)	August 2004	32.4	3.0	15 years
Bavaria	November 2004	96.1	n/a	11 years (S-Bahn 15)

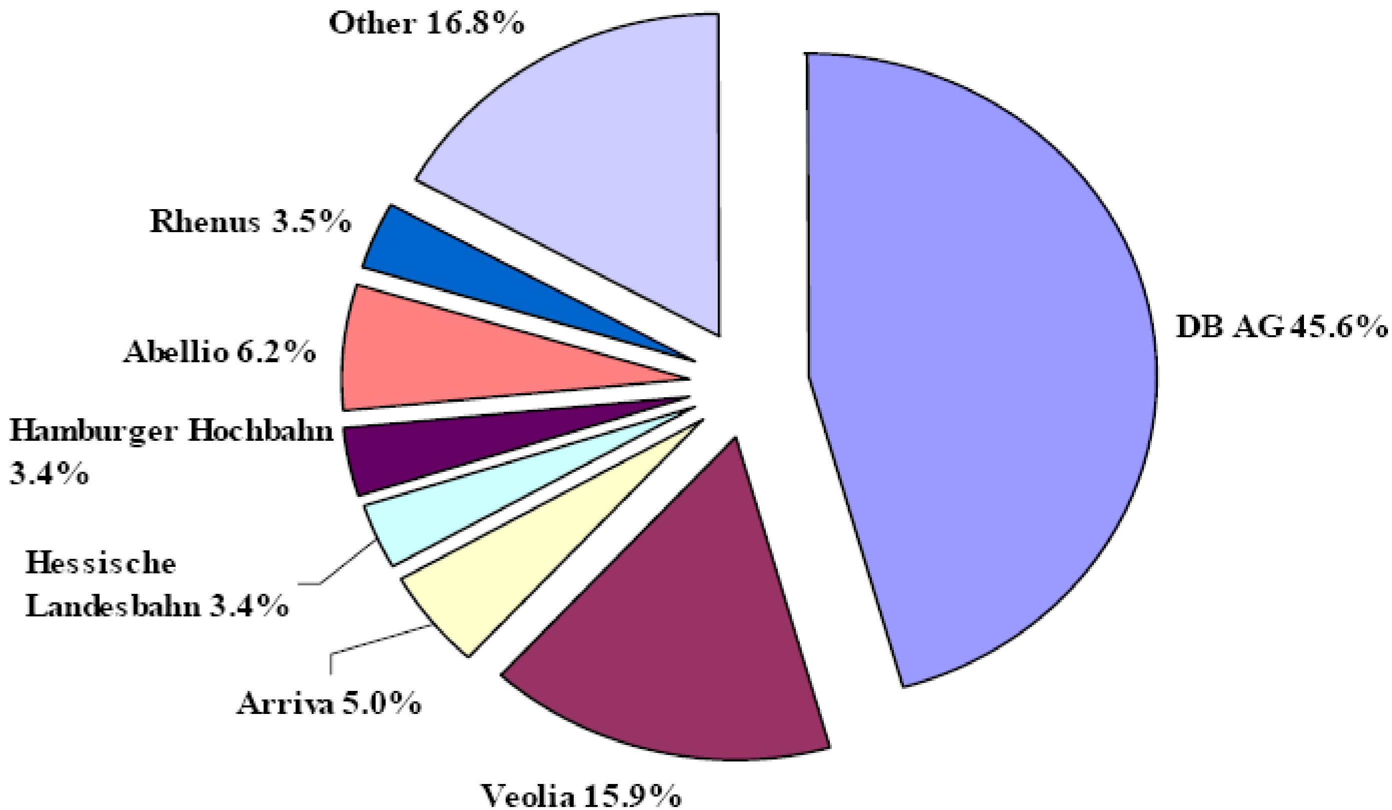
Service contracts directly awarded to DB AG

conclusion of contract	train-km (mill.) p.a.	value (billion €)	duration of contract
2002	35.0	1.9	10 years
2003	168.0	17.1	6-13 years
2004	180.8	17.8	10-15 years
2005	25.9	?	5-15 years

Competitive tendering 1996-2006

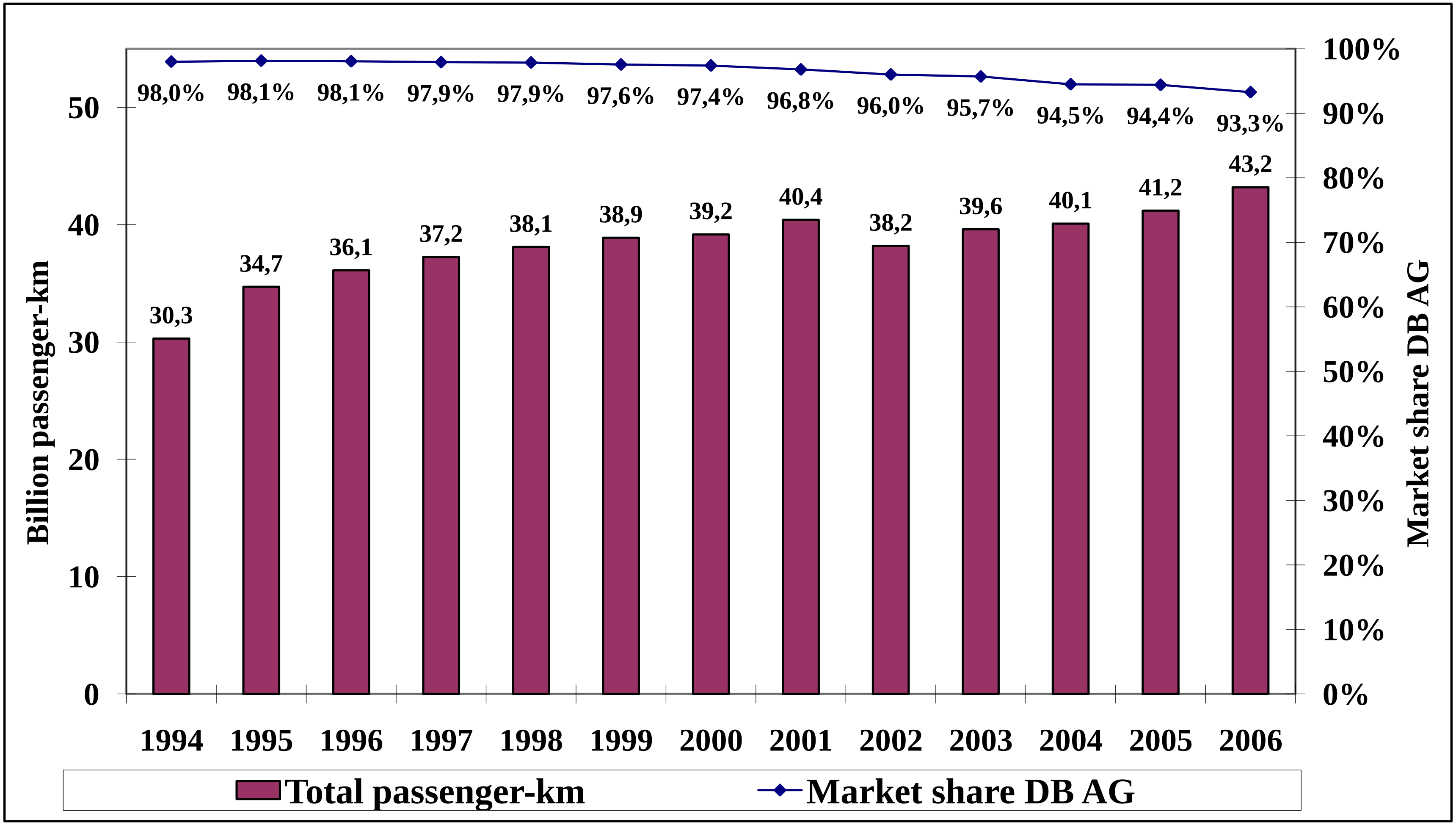


Share of train-km won by the TOCs in competitive tenders 1996-2006



Source: DB AG (2005, 2007)

Development of regional rail transport – market shares (share of passenger-km)



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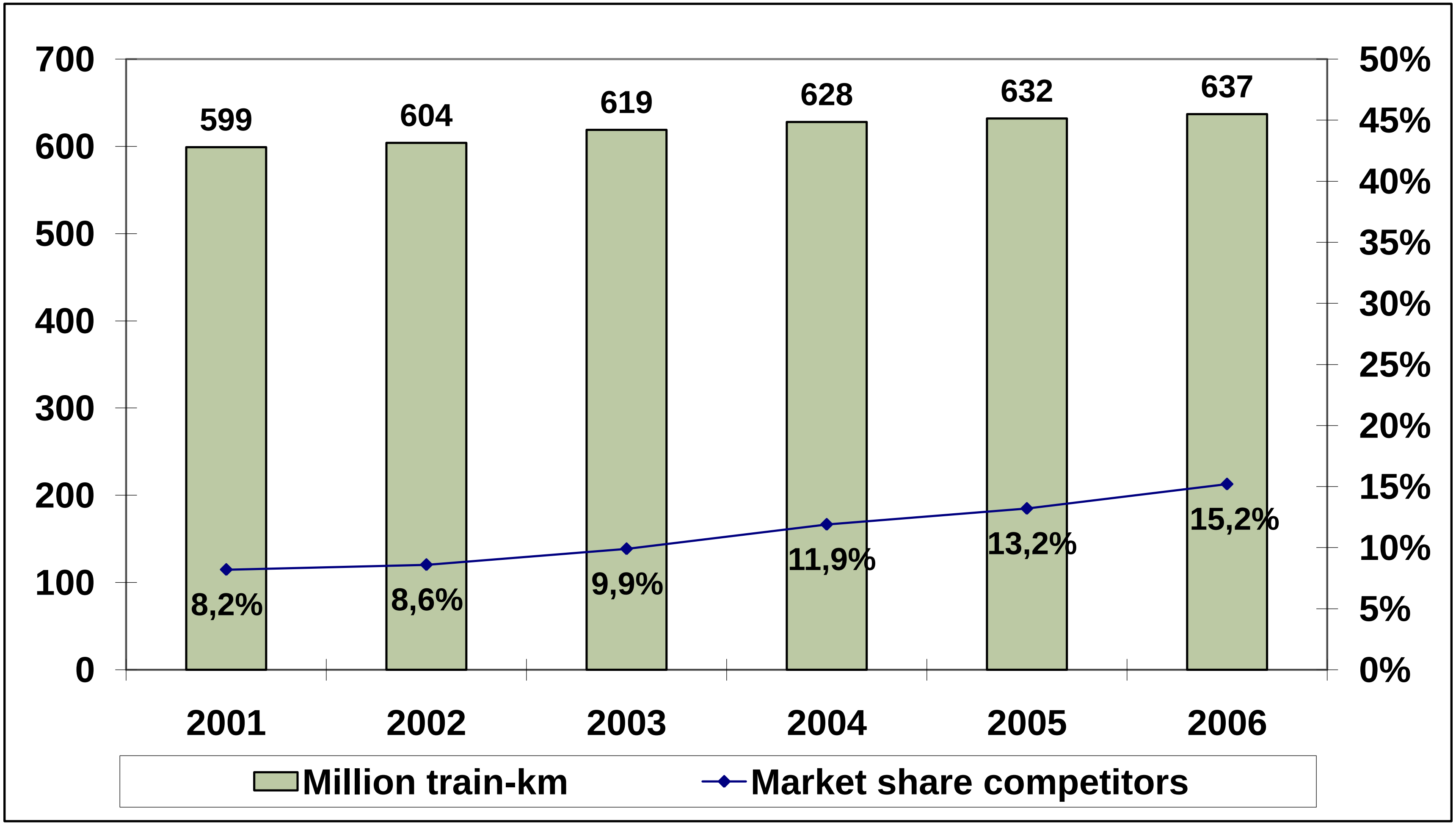

What kind of contracts were used in tendering?

- No standardisation of contractual forms
- Severe differences concerning
  - service specification
  - duration and network length
  - risk allocation
  - additional incentive elements
  - contract adjustment

Liberalisation?

- Reform, not "just" liberalisation
- Public planning is a central feature of the current system. Capabilities and approaches of the public sector have improved and shape the development of regional rail services
- Liberalisation in form of competitive tendering is an essential part of the story
  - cost reductions
  - higher ridership
  - willingness of the incumbent to negotiate over directly awarded contracts

Liberalisation of long-distance rail passenger services

Developments in the long-distance market

- Almost no competitive entry
  - entry barriers (e.g. network effects)
  - competitors claim discriminatory practices
- Incumbent has restructured its services
  - concentration on high-speed network (ICE)
  - reduction of low-price services and number of cities connected to the long-distance network

  ➔ interdependencies between regional and long-distance passenger transport

Some lessons

Some lessons

- No on-track competition between passenger TOC
- Competitive tendering evolved only slowly
  - gradual approach
  - political barriers

  ➔ market developments requires a stable framework (ensuring that services are tendered in a non-discriminating way)
- Separation of regional and long-distance services remains a problem