

REGIONAL WORKSHOP ON PPP IN TRANSPORT

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UK Rail Privatisation Lessons for the CEE Region?

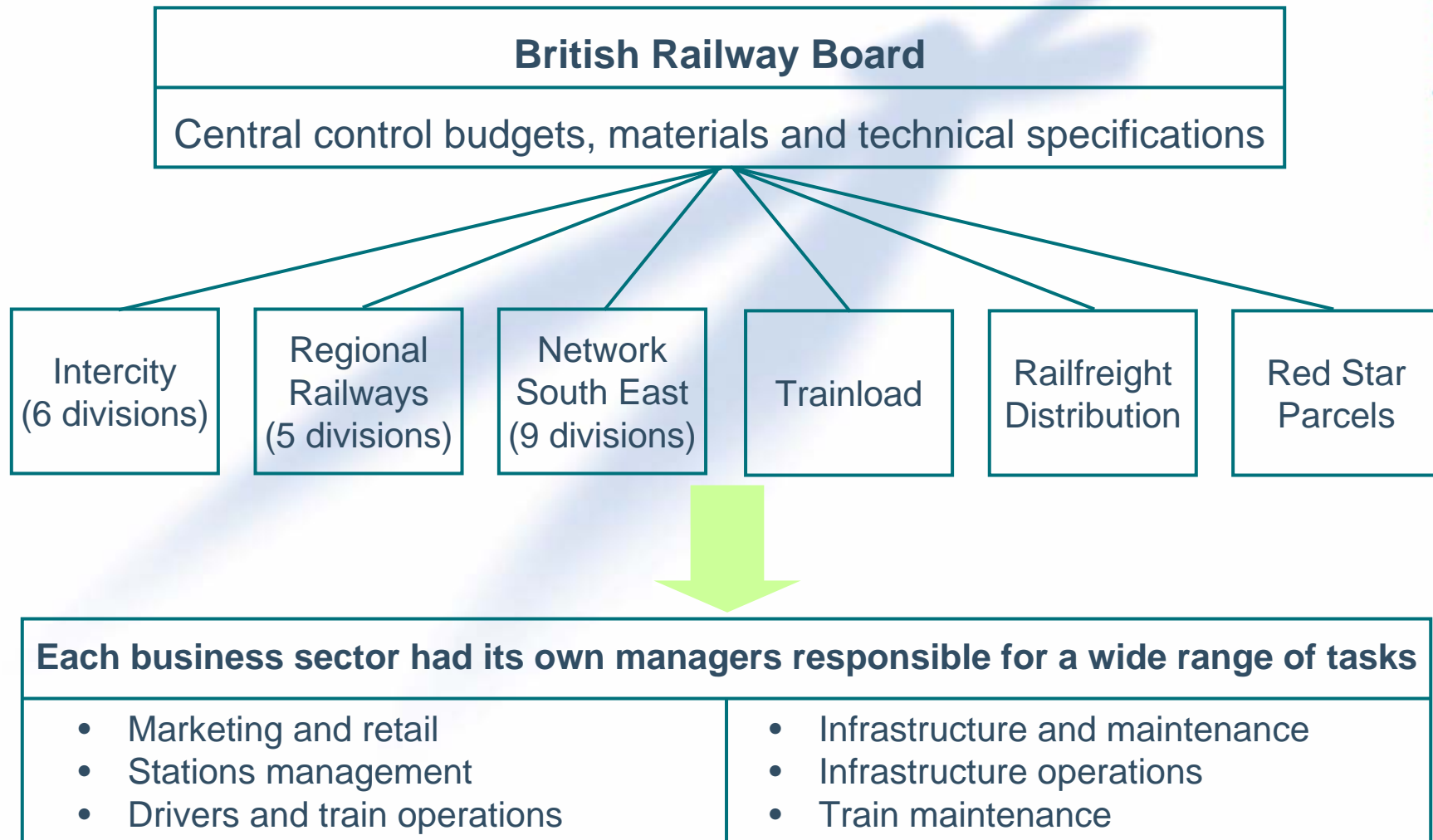
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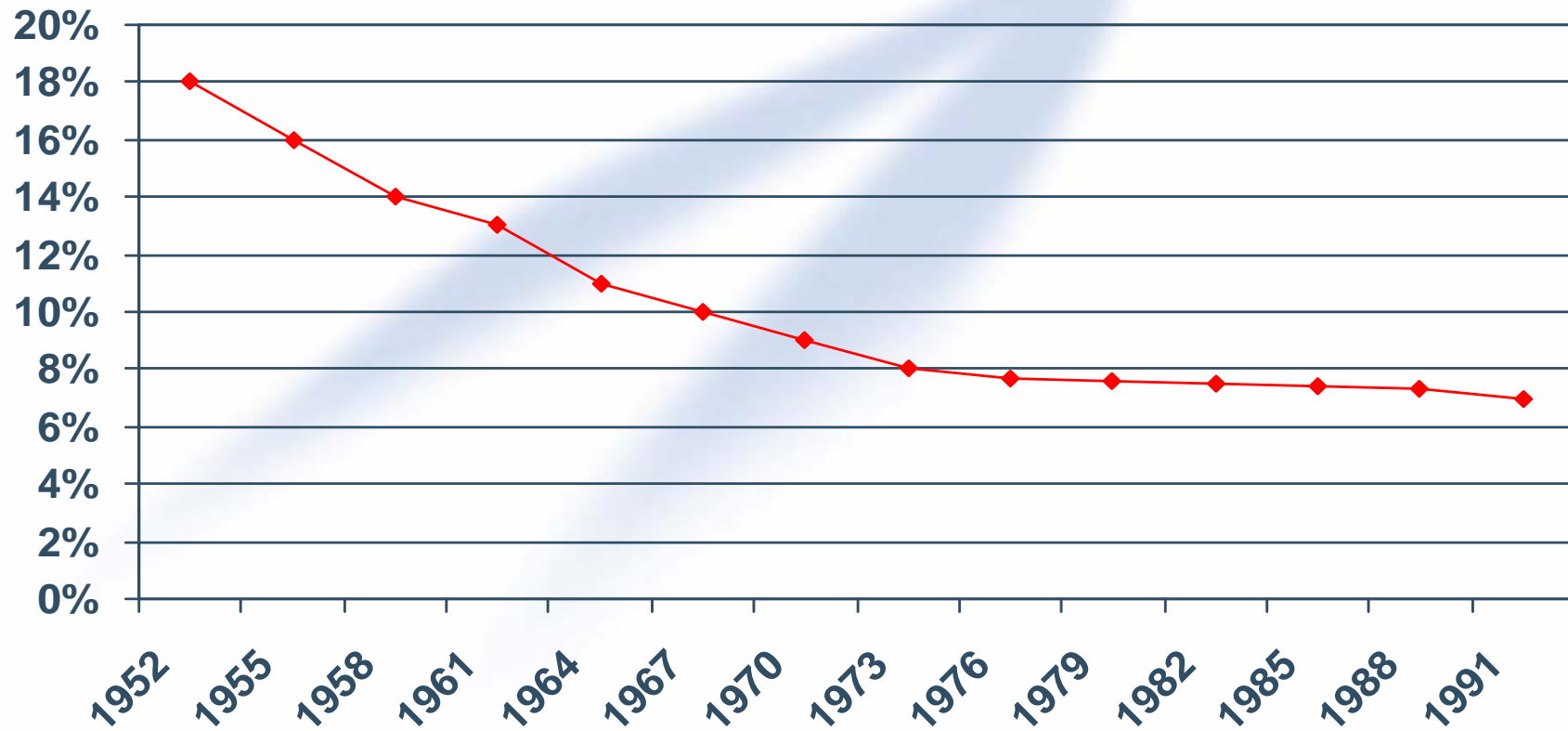
STRUCTURE BEFORE PRIVATISATION



MARKET SHARE

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Market Share of Passenger Travel by Rail, 1952-1992 (%)



RAIL PRIVATISATION – MODELS CONSIDERED

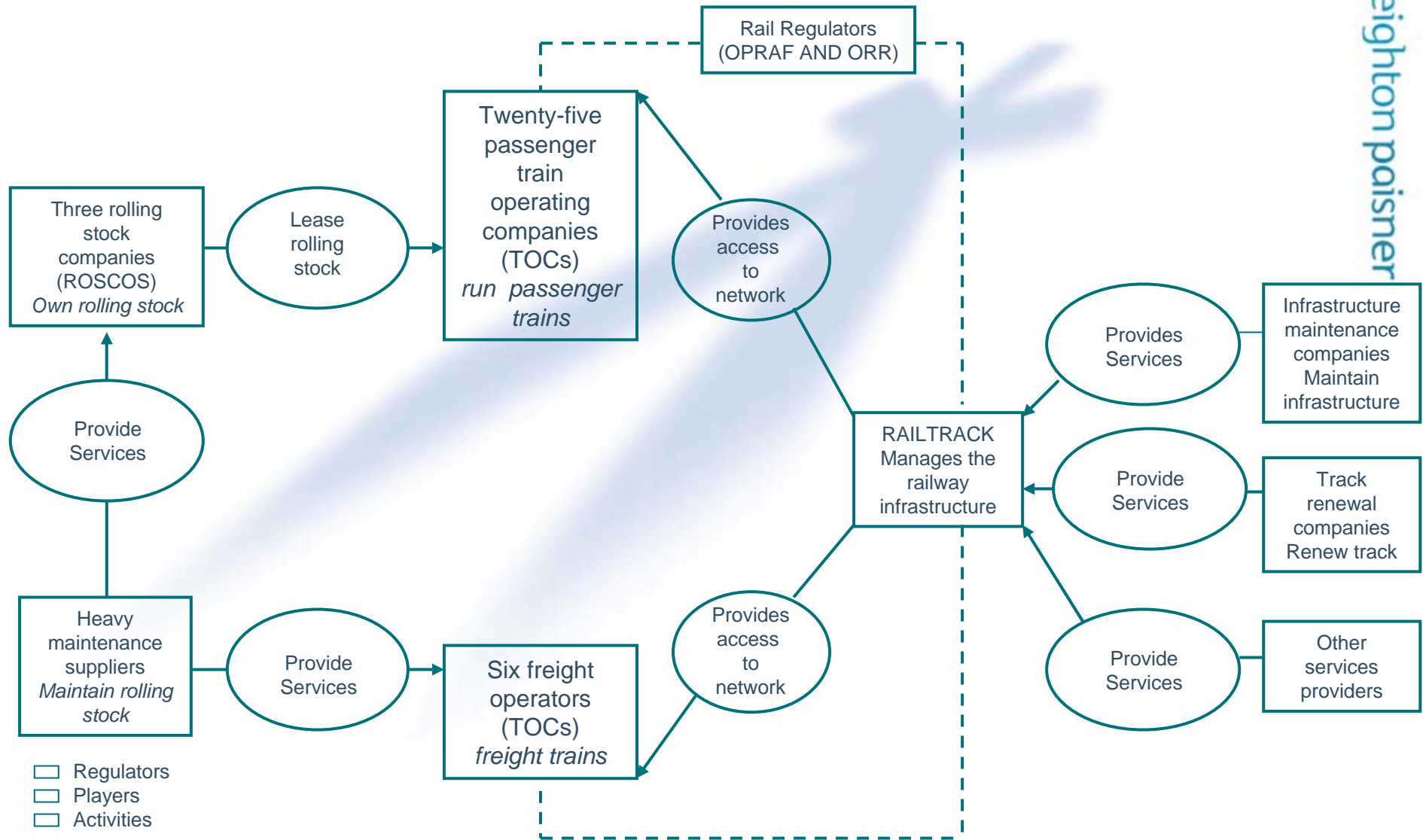
Model	Description	Advantages	Disadvantages
Track Authority	Separate operations from infrastructure with one track authority	<ul style="list-style-type: none"> * Promotes competition * Provides a strategic view on where infrastructure investment is most needed * Ensures efficient co-ordination of operational time-tabling across the whole network 	<ul style="list-style-type: none"> * On-rail competition limited by railway practicalities * Track authority still a monopoly and difficult to regulate * Track authority remote from rail users * Investment decisions difficult * Potentially high transaction cost
Regional	Split up BR's services into 12 groups	<ul style="list-style-type: none"> * Some competition but largely indirect * Improved morale through local loyalty * Improved flexibility and efficiency 	<ul style="list-style-type: none"> * Problems with through-trains between regions * Possible loss of economies of scale * Business "mix" within each region requires division of management attention
BR Plc	Transfer BR from the public sector to the private sector, the same way BT or British Gas were sold	<ul style="list-style-type: none"> * Continuity of style and structure * Minimal cost of privatisation 	<ul style="list-style-type: none"> * Not even limited competition: size of BR has engendered "diseconomies of complexity" * Lack of operational transparency
Sectorisation	Split up BR by business sectors	<ul style="list-style-type: none"> * Avoids problems of operational transparency 	<ul style="list-style-type: none"> * Difficulties with track ownership

OBJECTIVES FOR PRIVATISATION

- * Official objectives were:
 - Provide greater incentives
 - Allow choices through competition
 - Give railway managers the freedom to manage
 - Set clear and enforceable quality standards
 - Reflect regional or local identities
 - Improve efficiency and reduce costs
- * Real objective was desire to use private sector funding and to reduce subsidies
- * Labour's threats to re-nationalise increased risks of investing and led the Government to moderate competition
- * Political necessity made privatisation itself the objective rather than the means

UK RAIL INDUSTRY STRUCTURE, 1997

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SOME WEAKNESSES OF THE PRIVATISATION PROGRAMME

- * There was no framework for strategic planning of the industry as a whole
- * Most franchises were for only seven years, inhibiting long-term planning and investment by operators
- * Performance standards generally were based on low historic standards and failed to look forward to the rising expectations of passengers
- * The industry structure did not anticipate the need for significant investment to cope with sharply increased passenger and freight traffic
- * There were no proper incentives for private companies to invest in expansion

UNANTICIPATED DEMAND

- * Railtrack sold with the expectation that rail traffic would remain constant
- * All 25 franchises forecast improving financial performance over time in their bids
- * As fares were controlled could only come through increase in traffic
- * Lack of co-ordination in bid process
- * Nobody did any work to see whether the aggregate of that growth could be fitted onto the network
- * In the event 21% growth in three years

STRUCTURE OF RAILTRACK

- * Monopoly
 - “Lacks Competition”
 - “Unable to benchmark performance”
- * Overly-regulated
 - “Government intervention through the regulators”
 - “Access charges distort competition, which resulted in over 90% of Railtrack’s income coming from fixed charges, and a lack of customer focus”
- * Poorly incentivised
 - “Not incentivised the right way, eg Railtrack is monitored on punctuality, but as they estimate 1% increase in the amount of trains would lead to 2.5% increase in congestion-related delays, there is little incentive on Railtrack to ease the congestion by adding more trains”

FLAWED REGULATION

- * Privatisation of water involved:
 - Single regulator
 - Investment funded by privatised companies

- * Privatisation of rail far more complex involving
 - Two “Regulators” – ORR and OPRAF and separate bodies for safety
 - Privatised infrastructure monopoly
 - Privatised TOCs
 - Investment funded by both private and public sector

FLAWED REGULATION

* ORR

- created to regulate a privatised monopoly – Railtrack
- controls what Railtrack can charge TOCs
- controls what rate of return Railtrack can earn
- both determinants of what Railtrack can invest on its own account

* OPRAF

- created to manage the franchise process

* Treasury/DETR

- determines what can be invested from public purse

FLAWED REGULATION

- * Government wanted more investment in rail but one of chief investment vehicles (ie Railtrack) was outside its direct control.
- * Railtrack's financial position damaged by ORR's fines and threats
- * If 20 year franchises agreed, TOCs effectively become long-term monopolies which themselves require regulation
- * Support for combining OPRAF and ORR
- * Hatfield exposed enormous fault lines in the process of regulation
- * Railtrack's ability to raise money severely weakened – an ability which the Government was relying on to help finance the forward investment programme

And the lessons for the CEE
Region are?

- * Serious planning required to achieve the right structure for the desired future shape of the business.
- * Achieve alignment between the different parts of the business if they are to be privatised separately.
- * Managing the wheel/rail interface.
- * To PPP or not to PPP?