Landscape after the battle. Post-*Interregio* cases of low-scale on-track passenger rail competition in Poland

Marcin Król (Warsaw School of Economics)
Jakub Taczanowski (Jagiellonian University in Cracow)
Stefan Jarecki (University of Cardinal Stefan Wyszyński in Warsaw, Warsaw School of Information Technology)
Arkadiusz Kołoś (Jagiellonian University in Cracow)

EUROPEAN UNION
European Structural and Investment Funds
Operational Programme Research, Development and Education
MINISTRY OF EDUCATION, YOUTH AND SPORTS

Polish passenger railway market vs. selected European markets

Data for 2016/2017

Country	Total number of rail passengers [million]	Total number of rail pass-km [billion]	Long-distance passengers [million]	Long-distance pass-km [billion]	Total number of passengers of the main rail line [million]
Poland	304	20.3	40 [a]	10.4	1.2 – 1.5 Warsaw-Cracow
Czech Republic	183	9.5	(115) [b]	(8.3) [b]	1.6 Prague-Ostrava
Austria	246	12.6	36	-	-
Germany	2 834	95.2	142	40.4	3.6 Berlin-Munich
Italy	849	38.4	-	19.9	-

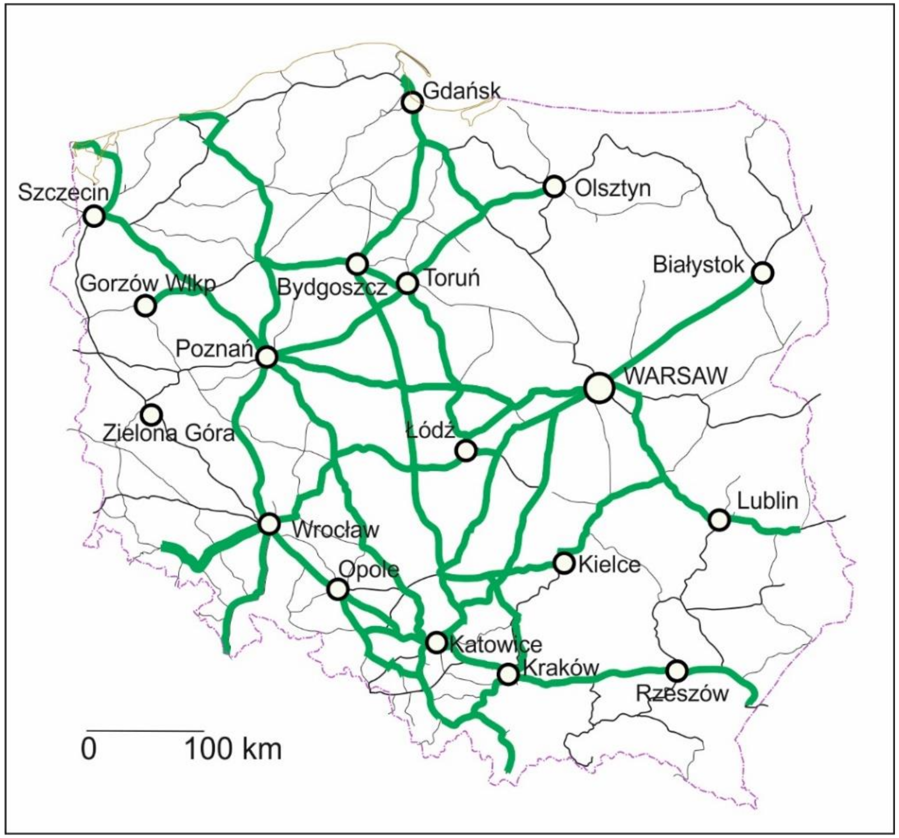
[a] authors' own estimation; [b] passengers transported outside integrated transport systems (IDS)

Source: own elaboration of the authors on the basis of: UTK, Ročenka dopravy 2017 , ÖBB in Zahlen 2017, Statistik Austria, Destatis, Istat, www.forbes.pl, Die Zeit

Starting point of the study:

Król, M., Taczanowski, J. & Kołoś, A. (2018). The rise and fall of Interregio. Extensive open-access passenger rail competition in Poland, *Research in Transportation Economics*, 72, 37-48.

- ❑ The *Interregio* case: the competition that existed in long-distance services in Poland in 2009-2015.
- ❑ Fierce market rivalry between two SOEs answering to different levels of government.
- ❑ Aggressive low-cost entry, exceptional in terms of acquired market share (33%) and territorial reach.
- ❑ *Interregio* connected all main cities, several minor centres and tourist resorts.
- ❑ Served up to 62% of all possible direct connections between the largest cities.
- ❑ Incumbent used a differentiation strategy combined with a strategic use of political.
- ❑ Demise of *Interregio* in 2015.

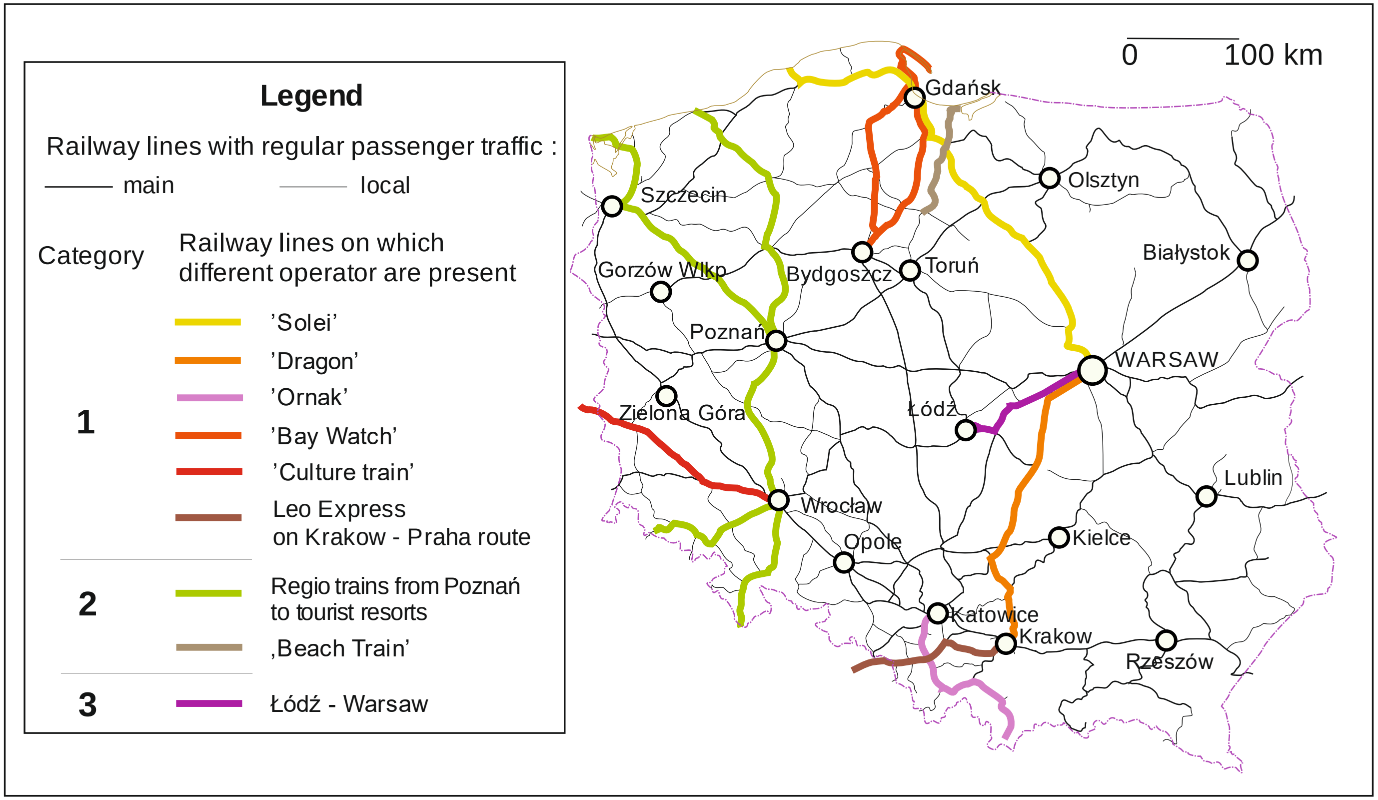


Lines served by Interregio in 2012
Source: authors' own elaboration

Aim of the study:

to identify and analyse <u>new examples</u> of on-track passenger rail competition in Poland

- ❑ Our empirical study shows a significant number of **phenomena of on-track co-occurrence** in long-distance services in Poland.
- ❑ 11 of them can be identified as on-track competition.



Spatial range of newly-identified examples on-track passenger rail competition in Poland
Source: authors' own elaboration

Phenomena of on-track co-occurrence in long-distance services in Poland – categorisation

1. New commercial services started from scratch, targeting leisure segment:
   6 examples, made by 5 operators (region-owned operators, *Arriva* and *Leo Express*)

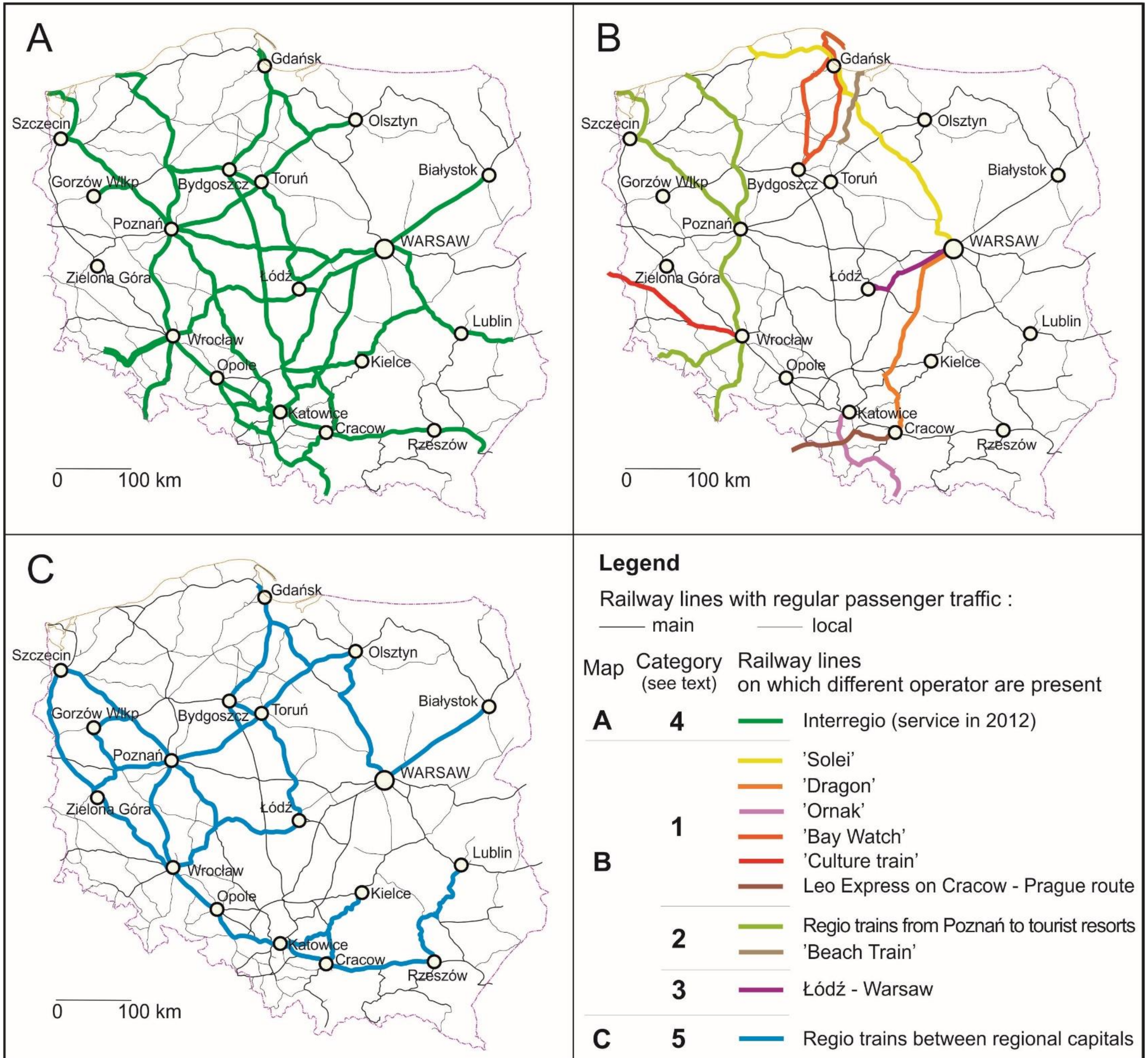
2. New services set up by combining the pre-existing regional services along the route, targeting leisure sector:
   5 examples, made by 2 operators (*PR*, *Arriva*).

   They use regional PSO subsidization to finance (or co-finance) a market entry targeting the long-distance market

3. The last *Interregio* service on Warsaw–Łódź line where *PR* now co-operates with the local (region-owned) company *ŁKA*.

4. The *Interregio* 2009-2015

5. Co-occurrence of PR-operated regional trains and long-distance trains run by PKP Intercity on the routes connecting neighbouring capitals of regions in Poland



Source: own elaboration of the authors

Market evidence in a nutshell (1)

- The newly-analysed examples are <u>numerous but low-scale</u>.

  (the combined market share of the challengers has never exceeded 2%)

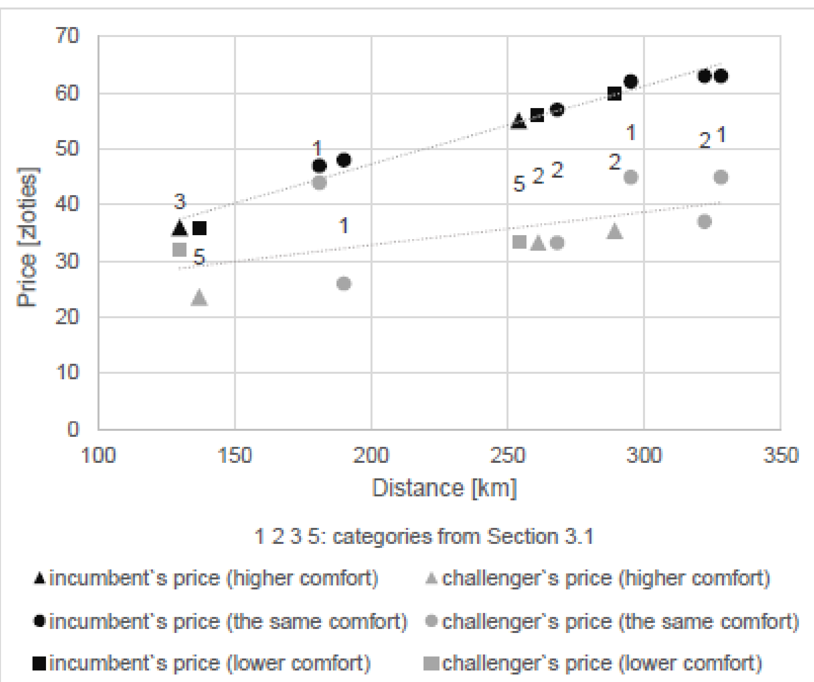
- The newly-analysed examples are strongly differentiated.

- All entries except one (*Leo Express*) were <u>made by railway undertakings already operating in another segment</u> of the passenger rail market (PSO regional services).

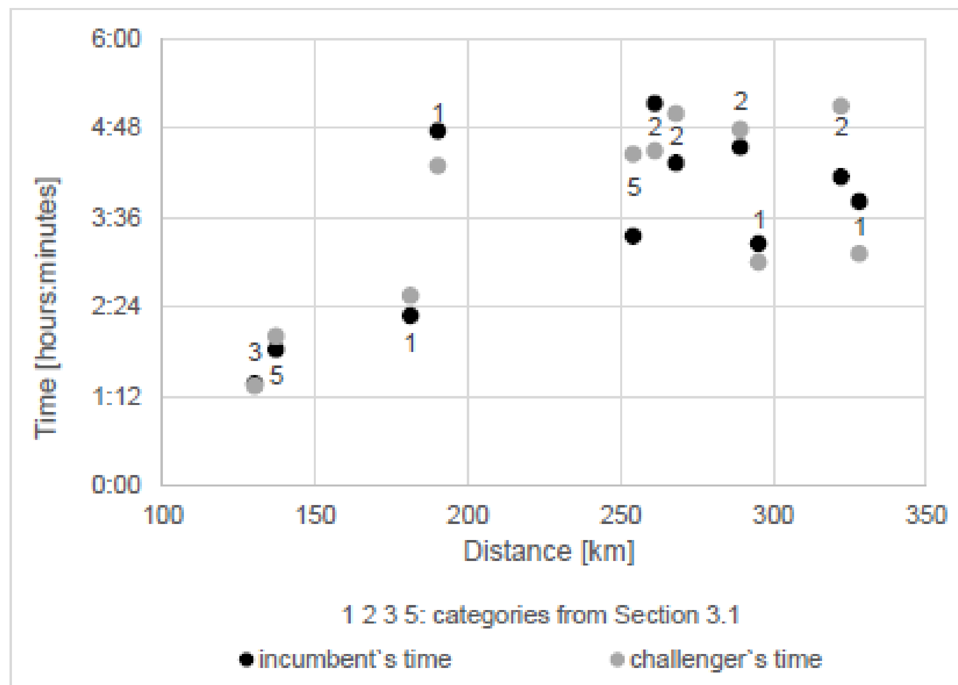
- The majority of these unusual intrusions were <u>made not by the ‘agile’ private operators</u>, but by the state-owned (*PR*) and region-owned (*Mazovian Railways*, *Silesian Railways*, *Lower Silesian Railways*) enterprises that dominate regional services in Poland.

Market evidence in a nutshell (2)

- We have analysed main features of challenger's offers:
- Attractive (or very attractive in category 2 of examples) ticket prices combined with comparable or better comfort of service.
- Travel times comparable or better in category 1 of examples and typically worse in category 2 of examples.



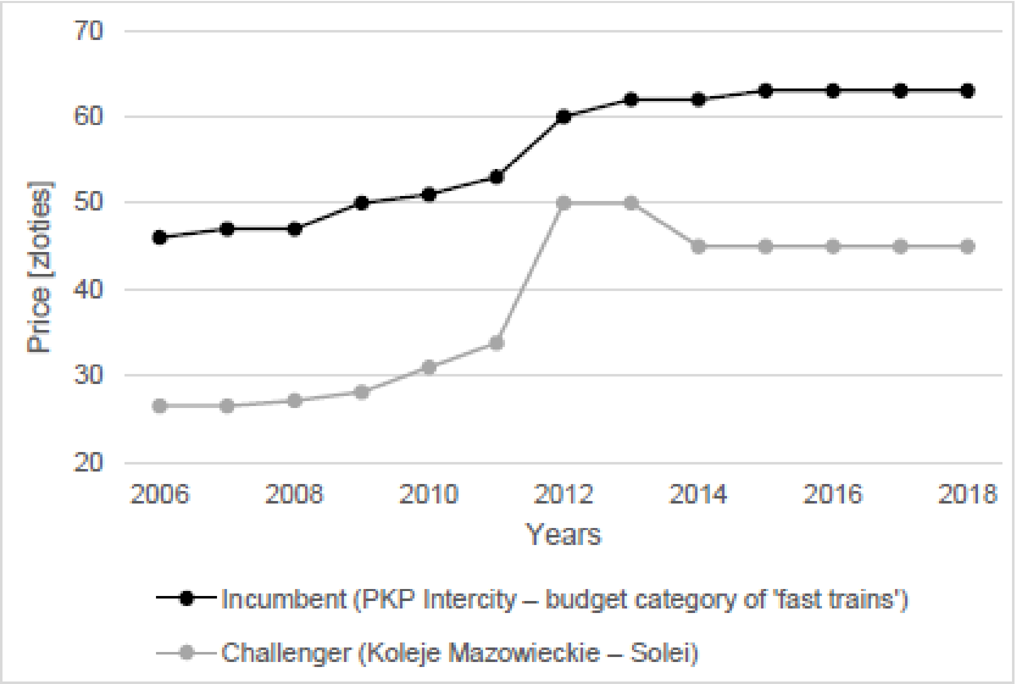
Ticket prices and comfort for the analysed services in 2018



Average travel times for the analysed services in 2018

Market evidence in a nutshell (3)

- ❑ No serious threats to the incumbent so its reactions were very moderate.
- ❑ No responsive price cutting in any of the analysed cases.
- ❑ Offer adjustments (e.g. implementing services in at a similar time slot).



Ticket prices on Warsaw-Gdańsk in 2006-2018

Market evidence in a nutshell (4)

- We have observed interest in full-scale entries in Poland in a few recent years, especially on the ‚flagship' Warsaw-Cracow route, however the regulatory body denied applications.

- These decisions were discretionary and controversial.

Table 2. Open-access decisions issued by regulatory body in Poland

	All decisions	of which decisions denying an application	Average time of processing an application
Total	55	4	-
of which			
decisions issued for the incumbent	35	0	96 days
decisions issued for challengers	19	4	203 days
other decisions	1[a]	0	
of which decisions issued for challengers for important routes served by the incumbent	8	4	374 days[b]

Source: authors' database.

[a] – decision concerning heritage steam services (issued for PKP Cargo);

[b] – number of days for decisions denying an application.

- In addition, the applications made by *Leo Express* (Warsaw-Cracow) have been withdrawn (prior to the decision of regulatory body).

Discussion and conclusions (1)

- Sample profile (the small scale of entry) is a limitation of the study.
  (e.g. due to limited effects of competition, our results will certainly not help to answer fundamental questions about 'the effectiveness of open-access competition as a way of improving the efficiency of passenger rail services' (Johnson and Nash, 2012)

- Four entries to long-distance commercial services (category (1) of examples) have been made by region-owned enterprises set-up to operate in a different segment of the market (PSO regional services). A similar situation took place in the prior case of *Interregio.*

- Commercial services perceived by them as a 'natural' line of growth of their railway businesses.

- Not only ‚new' open-access operators challenge incumbents.

- <u>Confining the 'on-track competition' to the activity of the 'new' open-access operators is fallacious</u>.

- A <u>bipolar regulatory approach</u> (intentionally pro-competitive) that involves an unequal treatment of 'old' and 'new' operators <u>can in fact hamper competition.</u>

  (e.g. allowing only 'new' operators to finance rolling stock from European funds – Proposal for a regulation)

Discussion and conclusions (2)

- The difference between market shares acquired by *Interregio* only a few years ago (33% in 2012) and by the entrants in the newly-analysed (up to 2% in 2018) is striking.
- Ironically, our analysis shows that this may be partly result of a new legislation that has pre-empted the 4th railway package.

  (i.e. introducing a ‘consideration’ of open-access applications by a regulatory body)

- Possibly, the new legislation has been used to engineer market foreclosures.

References:

- Bergantino, A. S. (2015). Incumbents and new entrants, [in], Finger, M. & Messulam, P. (ed.), Rail economics, Policy and Regulation in Europe, Edward Elgar, Cheltenham, Northampton,171-209.
- Beria, P., Redondi, R. & Malighetti, P. (2016). The effect of open access competition on average rail prices. The case of Milan – Ancona. Journal of Rail Transport Planning & Management, 6, 271-283.
- Beria, P., Quinet, E., de Rus, G. & Schulz C. (2012). A comparison of rail liberalisation levels across four European countries. Research in Transportation Economics, 36, 110-120.
- Finger, M. & Messulam, P. (2015). Rail economics and regulation [in], Finger, M. & Messulam, P. (ed.), Rail economics, Policy and Regulation in Europe, Edward Elgar, Cheltenham, Northampton, 1-21.
- Finger, M. & Rosa, A. (2012). Governance of Competition in the Swiss and European Railway Sector. Final research report to the SBB lab, University of St.Gallen, Firenze: European University Institute/Florence School of Regulation.
- Fröidh, O., & Nelldal, B-L. (2015). The impact of market opening on the supply of interregional train services. Journal of Transport Geography, 46, 189-200.
- Johnson, D. & Nash, Ch. (2012). Competition and the provision of rail passenger services: A simulation exercise. Journal of Rail Transport Planning & Management, 2, 14-22.
- Feuerstein, L., Busacker, T. & Xu, J. (2018). Factors influencing open access competition in the European long-distance passenger rail transport — A Delphi study. Research in Transportation Economics, 69, 300-309.
- Król, M., Taczanowski, J. & Kołoś, A. (2018). The rise and fall of Interregio. Extensive open-access passenger rail competition in Poland. Research in Transportation Economics, 72, 37-48.
- Nilsson, J-E. (2002). Restructuring Sweden's railways: The unintentional deregulation. Swedish Economic Policy Review, 9, 229-254.
- Temple, S., (2015). Open Access Long Distance Passenger Rail Services in the United Kingdom: The Grand Central Experience. Transportation Research Procedia, 8, 114 – 124.
- Tomeš, Z. & Jandová, M. (2018). Open access passenger rail services in Central Europe. Research in Transportation Economics, 72, 74-81.
- Tomeš, Z., Kvizda, M., Jandová, M. & Rederer, V. (2016). Open access passenger rail competition in the Czech Republic. Transport Policy, 47, 203-211.
- Van der Velde, D. (2015). European railway reform: unbundling and the need for coordination [in], Finger, M. & Messulam, P. (ed.), Rail economics, Policy and Regulation in Europe, Edward Elgar, Cheltenham, Northampton, 52-88.

Sources of pictures:

Jakub Taczanowski; https://bielskobiala.beskidy.news; https://dozer.kolej.org.pl; www.inforail.pl; http://katowice.wyborcza.pl; www.mazowieckie.com.pl , www.facebook.com/KolejBeskidzka/photos

Thank you for your attention!

The average distance in kilometres that passengers travel by rail in one year

Country	2013	Difference between 2000 and 2013
Poland	475	- 24.2%
Czech Republic	640	- 8.0%
Slovakia	450	- 15.5%
Hungary	785	- 19.5%
Austria	1330	+ 25.3%
Germany	1040	+ 12.7%
Switzerland	2450	+ 54.3%

Source: Verkehrsclub Österreich.

Soleil train

- A new connection form Warsaw via the Tricity to the Baltic sea coastal resorts
- Service introduced in 2005
- Very attractive ticket price:
  45 zloties against 63 of the incumbent PKP Intercity's fast trains and 147 of its express train
- Very short travel time:
  3h07min against 3h49min of fast train (express train 2h53min)
- High comfort – modern air conditioned push-pull double deckers against mainly old style carriages of PKP Intercity fast trains

EUROPEAN UNION
European Structural and Investment Funds
Operational Programme Research, Development and Education

MINISTRY OF EDUCATION, YOUTH AND SPORTS