

**Some Experience with  
Vertical Separation  
of Rail Infrastructure in Poland**

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Typical perspective on the vertical separation in network industries:

(Benefit) Prevents the risk of vertical market foreclosure by an incumbent

however

(Cost) Increases the cost of vertical coordination of the production process

## Remark One

Vertical separation isn't the principal factor behind increasing costs of coordination in network industries.

The „loss of coordinated-action-benefit” is a potential effect of introducing competition in network industries.

Does vertical separation aggravate the “loss of coordinated-action-benefit” in comparison to other solutions?

**It depends on the circumstances.**

## Remark Two

The increase of coordination costs and other transaction costs due to vertical separation (in other words: the loss of vertical economies of scope) is **related mainly to the incumbent.**

Importance of the assessment of the **quality of incumbent's coordination channels.**

**Costs. For whom?** Incumbent.

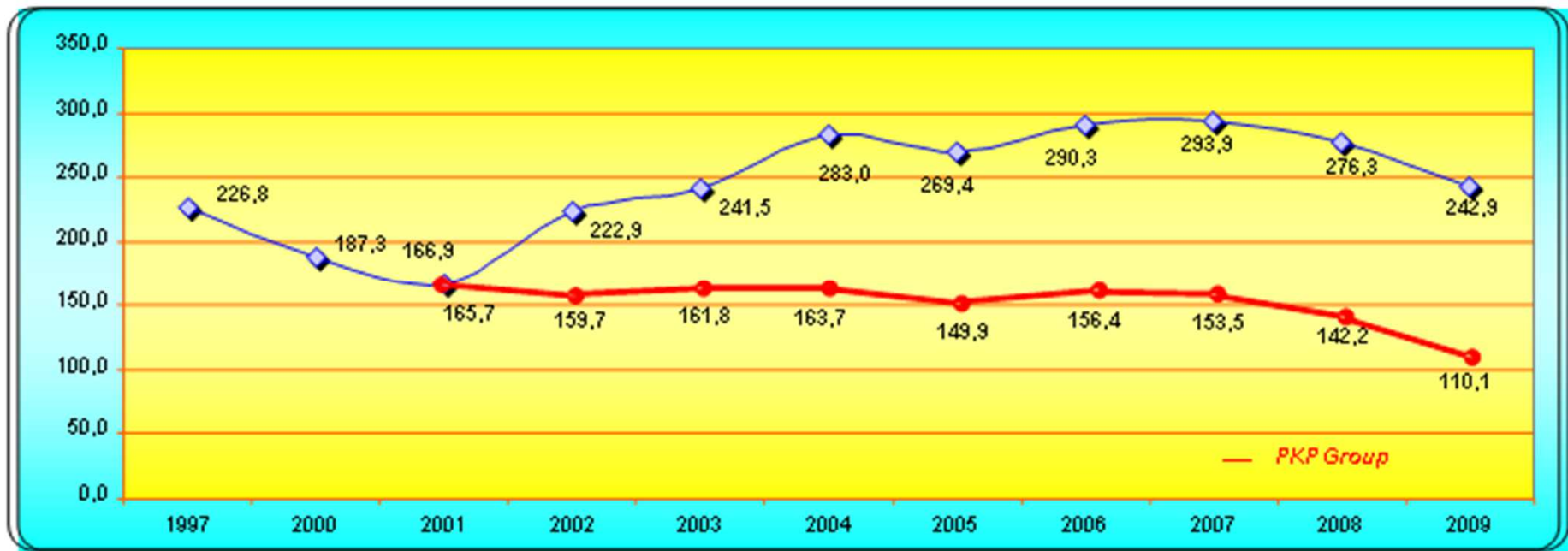
**Benefits. For whom?** Competitors, regulator, incumbent.

Makes it possible to privatize the incumbent .

Makes it possible to build its new organizational culture and management structure.

**Different mixture of costs and benefits for all parties involved is the reason why the final effect of vertical separation may depend largely on the circumstances**

## Increase in rail freight transport volume (mil. tonnes) – total vs. PKP Group



In the Polish case the introduction of vertical separation occurred to be a sufficient condition for the development of the freight market.

Competition has developed with a very passive attitude of the regulator and without any additional incentives from the public authority.

The introduction of vertical separation did not have, however, virtually any effect on the development of competition in the passenger market. It requires much more efforts from public authorities – and active market regulator – which failed in Poland.

An active, strong regulator is also needed to take care of the cost-efficiency of infrastructure manager.

No problems with capacity allocation occurred in Poland.

Some problems with vertical coordination of the production process.