



## Liberalisation of the long distance passenger market in Great Britain.

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## Outline

- Mode split in Britain
- Deregulation of other modes
- Rail franchising
- Competition in the rail market
- Conclusions



# Mode split by distance (NTS 2012-16)

	Percentage					
Length	Car / van <sup>2</sup>	Bus <sup>3</sup>	Rail <sup>4</sup>	Air	Other transport <sup>5</sup>	Total
50 to under 75 miles	80	3	15	-	2	100
75 to under 100 miles	82	3	13	-	1	100
100 to under 150 miles	79	4	15	-	1	100
150 to under 250 miles	74	5	20	-	1	100
250 to under 350 miles	66	8	22	5	-	100
350 miles and over	46	9	14	30	2	100
All lengths (50+ miles)	79	4	16	-	1	100
Source: National Travel Survey						



## Deregulation of air and coach

- In the 1970s, although all modes of transport were nationalised, encouraged to compete.
- For instance, BA introduced 'shuttle' in 1975; National Express coaches duplicated many rail routes.
- Entry into long distance coach market completely liberalised in 1980; entry of British Midland into domestic air transport 1983.
- British Coachways established to compete with National Express but closed by 1982
- National Express concentrated on motorway running, with faster times between main cities and halved fares



## Coach Deregulation continued

- Coach journey times long and unreliable due to congestion (4.5 hours Leeds and Manchester-London vs 2.25 hours rail)
- Niche coach markets to airports and London-Oxford
- Later entry of Megabus into coach market on the low cost airline model, but specialised in student travel
- First introduced Greyhound UK in 2009; closed 2015



## Impact of competition on rail

- Air shuttle 8% (30-40% on key routes)
- Coach 8-15%
- But rail electrification to Glasgow +17%
- 200kph diesel trains +15-23%

(Fowkes et al, 1985; Owen and Phillips, 1987)



## Rail response

Sector management introduced 1982

Inter City a fully commercial business with its own management and accounts.

Use of yield management - off peak and later advanced purchase tickets

Prime user costing – controlled (and paid for) its own infrastructure



## BR Sector results

## Operating surplus £M1982 prices

	1982	1988/9
Inter City	-196	41
LSE	-310	-98
Provincial	-489	-332
Freight	2	49
Parcels	8	-9
Total	-985	-349



## Snímek 8

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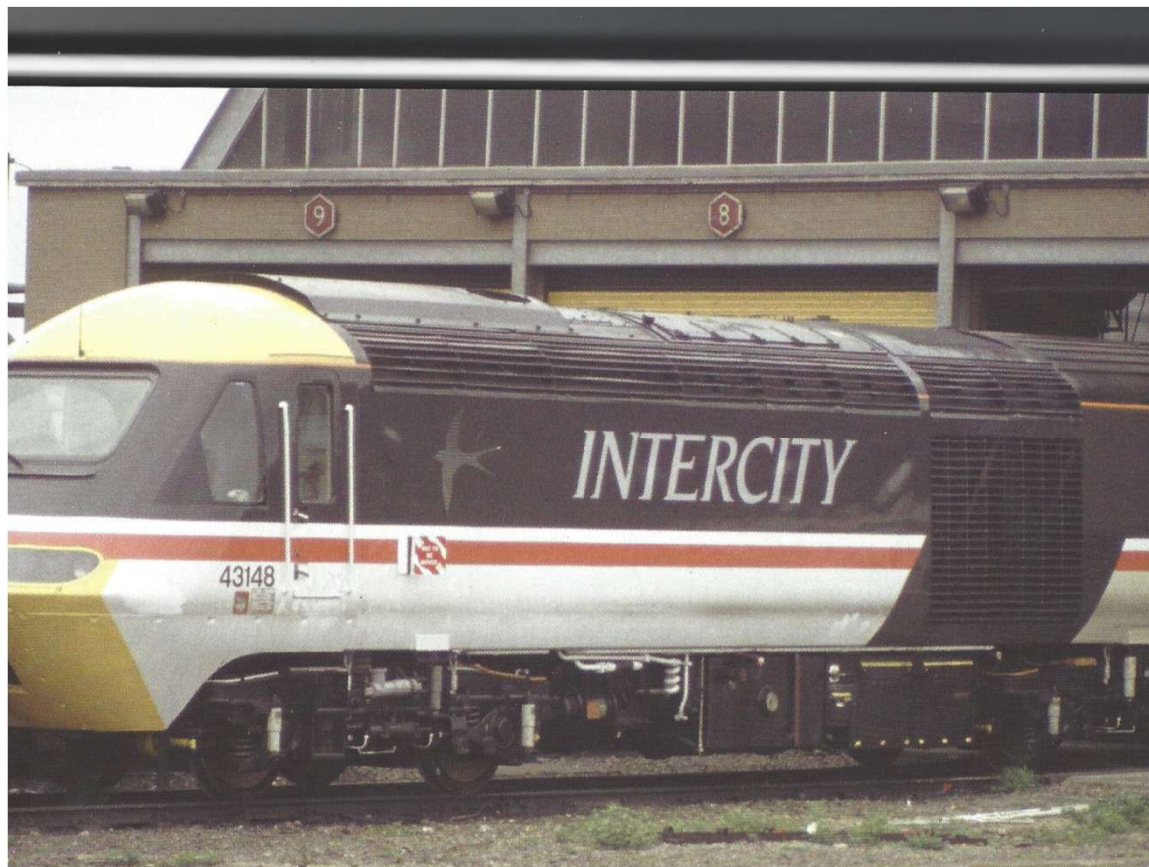
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improvements by a mix of increased revenue and reduced costs

Chris Nash; 22. 9. 2017



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See a friend this weekend



**Inter-City makes the going easy**  
(and the coming back)



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## Privatisation under 1993 Railways Act - How was it done?



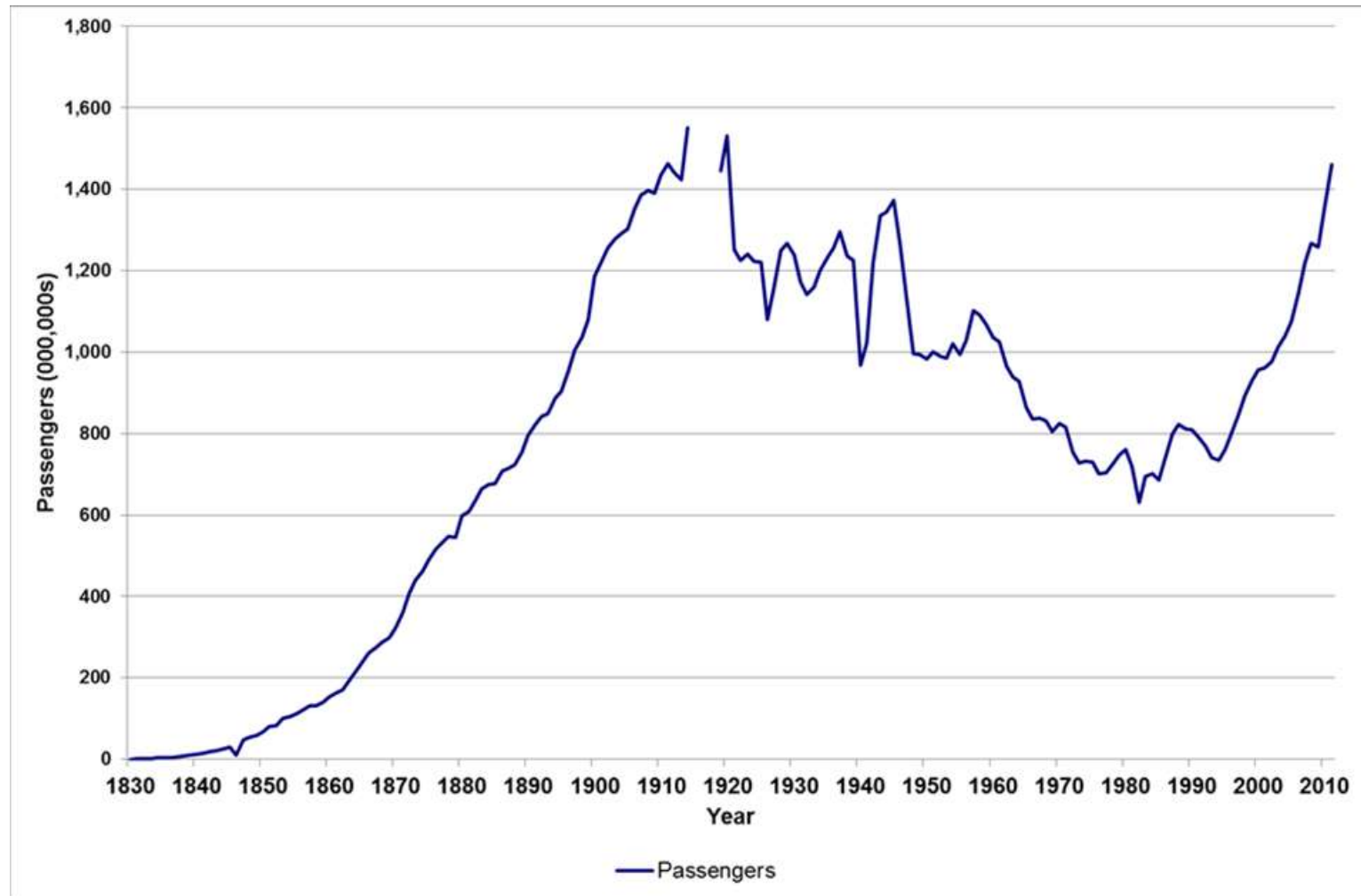
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- Strong pressure from British Rail to keep the Inter City brand, but government wanted to break BR up into smaller units
- Separation of infrastructure from operations so passenger managers lost control of the track
- All passenger services franchised, mainly by national government (DfT)
- 25 separate passenger train operating companies created and franchised out over 1994-7 (now 20) – essentially 5 separate inter companies but they dropped the Inter City brand and associated marketing activity

# Long run trend in rail passenger traffic in Great Britain



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## Rail traffic elasticities in Britain

	London	Non London
GDP	1.15	0.30
Car journey time	0.30	0.30
Car cost	0.22	0.27
Car ownership	0.42	0.60
Post 1995 trend	0.12	0.03

Also favourable trends due to land use (growth of cities), employment type, technology

See: Wardman, M. (2006); ITS, Leigh/Fisher, Rand Europe and Systra (2016) Rail Demand Forecasting Estimation

Final Report

Profitability of inter city franchises 2016-7  
£m



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	Revenue	Track access	Premium
Cross Country	514	61	65
East Coast	819	117	272
East Midlands	422	43	69
Great Western	998	96	132
West Coast	1163	191	212

Source: ORR



## Competition between rail and coach

### Miles travelled per person

	1996/7	2014	% change
Surface Rail	341	540	+58
Local bus (excl London)	203	199	-2
Nonlocal bus	94	50	-47

Source: NTS





## Competition between rail and air

### b Passenger km

	Long distance rail	Domestic air
2000	12.1	8
2016	21.9	9

Source: ORR, TSGB



## Open access competition in the rail market

- In Britain, open access competition only permitted where 'not primarily abstractive' from franchised operators.
- Currently only two open access operators both on the East Coast Main line.
- Further extensions authorised and the Competition and Markets Authority advocates a major extension of open access competition.



## Impacts of open access competition

- Lower fares
- Improved services
- Reduced costs?

But

Less well integrated timetables

Poorer use of scarce capacity

Reduced profitability (lower premium payments to government)

## Issue of track access charges and open access for passenger services



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- OAO operators only pay the variable charge, not a share of the fixed charge
- But how to ensure that the fixed charges and premium paid by franchisees is not eroded?
- ORR proposes to replace (part of) the fixed charge on franchisees by variable charges payable by all operators
- Suggested PSO levy dropped for the time being

## Impact of higher track access charges for passenger services



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- For franchised services, some fares regulated and minimum service levels specified
- Where not regulated, little on track competition so fares presumably set to maximise revenue
- So increased track access charges will have little impact on fares levels
- Impact will be withdrawal of less profitable trains unless these are required as part of a franchise agreement (possibility of long run adjustment of franchised service requirements, especially where regional authorities responsible for franchising)

## CEPA study of margin between revenue and train operating cost - conclusions



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Two types of service can bear mark-ups

- Core inter city services
- Long distance commuter services
- Typically could bear a mark-up of €4-5 per train km

But

- Margin must vary by time of day
- Removing some trains may add revenue to others, so this may understate incentive to cut services



## Conclusions

1. Deregulation of coach and air services has led to improved services and lower fares.
2. Rail in Britain has succeeded against air and coach because of:
  - High quality rail services
  - Success of cities
  - Congested motorways and airports
2. Deregulation of entry into commercial rail has some disadvantages especially if combined with higher variable track access charges