

4 SUMMARY

4.1 Starting position: matter in question

The Rail System in Austria

The Austrian rail sector is not only part of an efficient transport infrastructure, but at the same time a very important economic factor. Employing about 54,000 people, the rail system in Austria generates an annual turnover of about 8.4 billion Euros. This amounts to a gross value added of about 4.1 billion Euros, which is equivalent to about 1.4 percent of the Austrian gross domestic product (GDP) in 2011. If one also estimates the indirect and induced effects on value added and employment in Austria, the rail system generates a total of domestic value added of about nine billion Euros and secures the jobs of about 128,000 employees in Austria.

Apart from the Austrian Federal Railways (ÖBB), the leading providers in respect of public rail passenger transport also include private railways (Graz-Köflacher Bahn, Salzburger Lokalbahn, Wiener Lokalbahn etc.) as well as a large number of municipal transport services, which form the backbone of local public transport. These regional railways are not only the "lifeline" for the regions, but they are also important for the main lines, to which they feed passenger and freight transport. Attractive regional railways strengthen the regions as economic location, secure daily mobility, transport goods to and from the regions, make local transport environmentally sustainable and are an important part of thinly populated areas in Austria.

A major part of commuter and regional transport in Austria is funded directly by the Federation via the "Public Services Contract". Public Services Contract in rail passenger transport (SPV) are services, whose provisions are in the public interest, but whose cost cannot be covered by tariff revenues alone. As such services are not provided in the free market, co-funding by the public sector is required. Road transport too must be subsidised as, in accordance with Austrian transport cost calculation, the revenue generated only covers a third of the costs.

The Fourth Railway Package of the European Commission

In January 2013, the European Commission has presented the Fourth Railway Package, which aims at the complete liberalisation of the SPV as well as the further structural separation of infrastructure and transport service. Apart from that the European Commission intends to introduce a ban on the currently possible freedom of the responsible authorities to choose between direct award and competitive tendering in rail transport: all forms of transport, which are supported by public funds to be able to fulfil the tasks of providing services of general interest, would then have to be invited to tender throughout the EU.

The European Commission explains these measures with expected savings of up to 30 percent for tendering bodies. The focus is also on rail customers: based on further liberalisation, the European Commission expects an increase in passenger numbers and an improvement in the service quality of public rail passenger transport.

Target of the argumentarium

Based on experiences in European countries, where the liberalisation process is already advanced, the present argumentarium investigates the question as to which extent the savings forecast by the European Commission are realistic or whether there might be a chance that the overall costs, due to long-term undesirable economic developments, could rise. Hence, the key objective of this argumentarium is to put into perspective the claim that liberalisation would lead to savings, given the fact that this would probably incur additional costs for the Austrian economy.

4.2 Economic effects of liberalisation on Railway operators

Effects on the rail system and the economic location

In 2013, the Federation is spending about 592 million Euros for public services provided by Austrian Federal Railways ÖBB. Added to this are services, which states and municipalities order from the ÖBB as well as public services, provided by various private railways. In 2011, for example, a total of 812.5 million Euros, i.e. about 46 percent of the sales revenues of ÖBB-Personenverkehr AG, was generated as a result of fulfilling public contracts. These figures do not only explain the significance of Public Services Contracts for all Austrian rail operators, but also illustrate the risk for these operators, if a ban on the direct awarding of contracts should materialize.

An enterprise, such as the ÖBB is in no position to downsize its company arbitrarily. A corporation requires a certain size in order to achieve synergy effects. Thus, with regard to competitive tendering the ÖBB would have to try to gain as many contracts as possible in order to maintain its size and its business model, even to the extent to make “under-priced” offers in order to be successful.

In 2003, a similar situation in Sweden proved to be very expensive: the insolvency of the national operator Statens Järnvägar (SJ) could only be avoided by high state subsidies (almost 200 Million Euros).

Apart from that, mandatory competitive tendering would mean that the public sector would lose steering competencies as the state would be forced to tender lines, which so far were serviced by using national rail operators - this in turn would mean a weakening of national wealth.

A ban of the currently possible freedom of responsible authorities to choose between awarding contracts directly and competitive tendering in respect of rail transport would confront many Austrian railway operators, but also tendering bodies with great difficulties.

The complete liberalisation (Open Access) of the SPV would also mean that offers will only be made where profits are guaranteed. New providers will restrict themselves to profit-making routes (example WESTbahn). At best, this “cherry picking” will result in a journey on individual trains at certain times becoming actually cheaper. However, the tiny number of travellers benefiting from this has to be compared with the majority of daily commuters from peripheral regions: they suffer in particular in sparsely populated regions and in less active periods.

A Europe-wide study of the Community of European Railway and Infrastructure Companies CER from 2012 comes to the conclusion that the vertical separation of infrastructure operators and transport service providers in the European Union (EU) could lead to additional costs between 5.8 and 14.5 Billion Euros p.a. - depending on the increase of transport services in Europe. Estimates for Austria show that such a separation would incur additional costs between 420 Million Euros p.a. in case of unchanged transport services and up to a billion Euros if current transport services were increased by 50 percent.

International experiences with competitive tendering also show that only the initial wave of tendering will result in savings (cheap provider principle). Due to market adjustment and oligopolization associated with it, prices rise again in the long-term. In addition, competitive tendering also entails a lack of flexibility in respect of changes. Anything, which had not been contractually agreed, has to be renegotiated (e.g. additional services because of higher passenger numbers) and becomes disproportionately expensive. Due to the fact that in most cases renegotiations are less expensive than retendering, competitive tendering provides an incentive for companies to adopt an aggressive price strategy to ensure that as many bids as possible are decided in their favour and to speculate on renegotiations during the term of the contract.

Effects on employees

According to the motto “the cheapest wins the bid”, competition is often realised at the expense of the quality of services provided and at the expense of the wage and social standards for employees of transport companies.

Private transport companies in Germany and Great Britain tried to gain a competitive advantage over their public competitors by wage dumping. They achieved this by refusing to comply with collective agreement regulations or by applying their own collective agreements.

The Austrian rail passenger transport sector employs about 10,000 people. If their wages and salaries would be reduced by ten percent, the Austrian gross value added would also be reduced by almost seven Million Euros, which could put the existence of 120 Jobs in economy permanently at risk.

4.3 Economic effects of liberalisation on performance

Effects on quality

In promoting the Fourth Railway Package, the European Commission refers to a recent Eurobarometer survey, according to which only 46 percent of European rail customers are satisfied with national and regional rail transport. The Commission argues that the activity of the railway sector would increase through liberalisation, as the latter would result in increasing the number of passengers and improve service quality.

However, a completely different picture emerges in Austria: according to the Eurobarometer survey, at 66 percent, the level of satisfaction of Austrian passengers with national and regional rail transport ranks in second position in the EU and thereby 20 percentage points above European average. According to a survey conducted by the Austrian research institute SORA in January 2012, the majority of the Austrian population also thinks that in general public services should remain under direct government control. In respect of public transport, 44 percent of interviewees considered this very important and 36 percent rather important. A similar picture emerged within the scope of the Vienna Referendum in March 2013, which revealed that 87 percent want to protect public transport against privatisation.

The comparison of the liberalisation index in SPV 2011 with data of the Eurobarometer on customer satisfaction did not establish any correlation. Hence, there is no connection between the level of liberalisation and the satisfaction of rail passengers in the EU.

Both Great Britain and Sweden experienced immense delays in some cases and train cancellations after the liberalisation.

If one applies the cost-benefit analysis (CBA) to estimate how much regular train delays would cost the Austrian economy, a cumulated delay of 30 minutes per week per commuter would already arrive at an amount of about 70 Million Euros. Having 96.5 percent of its trains running on time, the ÖBB (by its own calculations) is currently the most punctual rail operator in the EU and the second most punctual in Europe (only Swiss Federal Railways SBB is by its own account even more punctual).

Effects on price level and pricing

Another important point in the argumentation for the liberalisation of the rail sector is the alleged savings potential of up to 30 percent for the tendering bodies. Subsequently, these savings shall be passed on to rail passengers in form of lower rail fares.

However, studies in Great Britain and Sweden have shown that rail fares increased significantly after liberalisation.

The impact for Austria would be as follows: a fare increase by ten percent would, due to reduced consumption as a result, lessen the Austrian gross value added by almost 29 million Euros and put the existence of about 500 jobs in the economy at risk. A price increase by thirty percent would reduce the Austrian gross value added by almost 90 million Euros and put the existence of almost 1,500 jobs.

4.4 The motivation of the Fourth Railway Package

Prioritizing rail transport is urgently needed ...

The European transport system in its current form is not sustainable in the long term, in particular because of the negative effects of road transport. In view of the prognoses concerning the growth of transport services in the EU until 2050, it becomes clear that the distribution of transport cannot continue on the same path. If nothing changes, our transport system will still depend to about 90 percent on oil in 2050 and compared to 1990, CO2 emissions will have trebled. The EU recognised this danger and outlined in its 2011 White Paper on Transport not only the concrete targets to shift transport services from road to rail, but also for the first time considered the external costs, which are the result of noise and air pollution caused by traffic.

... however, the motivation of the Fourth Railway Package is probably going into a different direction

However, the Fourth Railway Package does not even mention this conscious prioritization of rail transport. In fact, the argumentarium suggests that the decision for or against the Fourth Railway Package would not be purely economic (let alone ecological), but rather ideological.

The savings targets of up to 30 percent, the increase in the number of passengers as well as the improvement of the service quality, which the European Commission claims would happen, appear to be unrealistic. On the contrary, all the transport systems in Great Britain and Sweden experienced price increases. What is probably behind the thinking of the liberalisation supporters is abolishing the option to award contracts directly and thereby introducing the mandatory tendering for public services contracts in respect of rail passenger transport: Austrian railway operators, which according to the legislative proposals are not obliged to have rolling stock, apply for the licence to operate a certain route for a certain period. During this period, the enterprise, which is awarded the contract

(private or public), is acting as a monopolist. Even in Austria, which is a relatively small country, we are talking about an annual contract volume of almost a billion Euros - a volume, which multinational transport operators do not want to let slip through their fingers.

The ultimate question is who will benefit from the “Public Services Contract” subsidies and what will be the expense for the economy, employees and rail passengers?

Retaining the option of awarding contracts directly makes sense

Overall, awarding contracts directly is a sensible legal instrument to award public transport services. The rail system in its entirety is too complex and the conditions in the individual countries are too different to find a single problem-solving approach for 25 very different countries (only Cyprus and Malta do not have a rail system) in Europe (EU27). Hence, the option to choose between competitive tendering and awarding contracts directly should definitely be retained for the responsible democratically legitimised regional administrative bodies.

However, the proposals of the European Commission on the Fourth Railway Package are heading in the opposite direction.