

Railway Mergers and Alliances: Competition Issues



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“Models” of railways restructuring

- American model: competition among vertically integrated railways
 - North American model: parallel
 - Latin American model: common points
- European model: above-the-rail competition
 - Vertical separation
 - Third party access



Experience: United States

- In 3 decades, 41 Class I railroads down to 7
- Western U.S.: 4 to 3 to 2
 - $BN + ATSF = BNSF$
 - $UP + SP = UPSP$
- Eastern U.S.: 3 to 2
 - $CR / (CSX + NS) = CSX + NS$
- Proposal for transcontinental merger leads to tougher standard
 - $BNSF + CN = !!$



Experience: Mexico

- Traditional loss making, overmanned, state-owned railway
- European model considered, rejected as too complex
- Solution: 3 vertically integrated concessions, competing at common points
- Outcome: End of subsidies, lots of private investment
- BUT not much interlining or track sharing

The Mexican Example





Experience: Europe

- EC Directives: Allow access with *some form of separation*
- Experience: Some entry by non-integrated freight TOCs
 - We have a prize if you can guess the 3 leading countries
- Experience: Some defensive behavior by incumbents
 - Some alleged violations of competition law
- Fear of above-the-rail monopoly



Which policies would be pro-competitive for Europe?

- Consider CFR and DB as examples.
- Is the problem resistance by the incumbent? Then strengthen DB.
- Is the problem a future DB monopoly? Then strengthen CFR.
- Is the problem a future RZhD monopoly? Then strengthen DB *and* CFR – perhaps together.



Academic Literature (I)

- U.S.: Big productivity gains, mostly due to deregulation, some due to mergers
- U.S.: But gains to customers may have peaked in 1990s
- Importance of intermodal competition for some commodities
- Importance of intramodal competition for others



Academic Literature (II)

- Economies of system size exhausted at relatively small level
- Economies of density more persistent
- Some economies of vertical integration



Access Prices

- Key to impact of TPA
- MC vs. FAC vs. Discrimination: each has advantages and disadvantages
- EU directives, Bundeskartellamt case
- Workability of discrimination: TOCs vs. shippers
- Cross-market entry: Fear of competition breaking out
- Standardization problem



Lessons for Other Network Industries?

- Competition among vertically integrated firms as a substitute for TPA or VS
- Competitive restructuring may fail due to strategic behavior by other firms
- Inter-sectoral walls are breaking down
- Network costs must be paid by someone