Public/Private Partnerships in Railways:
Can We Make Competitive Tendering Work?
(or is State ownership and operation our only option?)

ECMT Discussion
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First Question: Why do anything?

- Today’s railway is broken
- Reduced budget outlays/income to budget
- Mobilize private investment
- Improve operational or construction efficiency
- Better use of national resources
- Better market development
- Enhanced social equity
- Effective environmental protection
- Clarify objectives and target spending
Second Question:
What is the structural framework?

- The form?
  - Monolith
  - Tenant operators
  - Separated infrastructure
  - Separated operators
  - Holding company

Information often defines and drives choices
How: A Spectrum of Approaches Available

- Traditional public management
  - Public construction and operation
  - Contracting out or Management contracts

- Public/private partnerships
  - Franchising/concession (types)
    - Gross cost
    - Commercial risk

- Privatizations
  - Divestitures to private operators
  - Private supply and operation
A Spectrum of Approaches: Not just a single choice

<table>
<thead>
<tr>
<th>Type of Function</th>
<th>Traditional Public Roles</th>
<th>Franchising/Concessions</th>
<th>Privatization</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public Ownership and Mgt</td>
<td>Gross Cost</td>
<td>Commercial Risk</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Freight</td>
<td>X</td>
<td></td>
<td>?</td>
</tr>
<tr>
<td>Passenger</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Speed</td>
<td>X</td>
<td></td>
<td>X</td>
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<tr>
<td>Conv. Intercity</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Rural/regional</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Suburban</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
What: Franchising or Concessioning in Railways

- Government defines and grants rights to a company
- Agreement details objectives, allocates risks
- Government retains or can receive ownership of infrastructure and equipment at end of term
- Operator provides services, some facilities, and carries appropriate commercial or financial risk
- Agreement has a defined term (5 to 50 years)
- Privatization can have unlimited term
- With infrastructure separation, especially, mixed arrangements possible
Example Location of Rights, Assets and Investments

<table>
<thead>
<tr>
<th></th>
<th>Public</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Argentina</strong></td>
<td><strong>UK</strong></td>
<td><strong>Argentina</strong></td>
</tr>
<tr>
<td><strong>Infrastructure Assets</strong></td>
<td>Ownership retained</td>
<td>Sold</td>
</tr>
<tr>
<td><strong>Infrastructure Use</strong></td>
<td></td>
<td>Exclusive concession</td>
</tr>
<tr>
<td><strong>Freight Assets</strong></td>
<td>Leased</td>
<td>Sold</td>
</tr>
<tr>
<td><strong>Freight Services</strong></td>
<td>Exclusive concession</td>
<td>Open access, no exclusivity</td>
</tr>
<tr>
<td><strong>Passenger Assets</strong></td>
<td>Sold to ROSCOs</td>
<td>Old leased, new purchased</td>
</tr>
<tr>
<td><strong>Passenger Services</strong></td>
<td>Leased</td>
<td>Exclusive concession</td>
</tr>
</tbody>
</table>

What would your railway system look like?
# Dimensions of Franchises or Concessions

- Package size/division of responsibility
- Term
- Who owns or finances what (sources of investment expected)
- Service specification (quantity, quality and price)
- Tariff authority
- Payments (to/from)
- Renegotiation conditions
The Special Case of Privatization: 
Back to the Future?

- Integral privatization (some multiple use)
  - Canada, Japan, US
- Infrastructure separation permits sale or franchising of operations, & some new operators
  - UK freight, Romania proposal, Chile, many EU railways, Estonia, Australia, Russia (many models)
- Mixtures of public, franchising and privatization are possible (and often best)
Options For Awarding

- Negotiations, auction, sealed bid
  - Best offer
  - Vickery auction
- Single bid versus prequalification with multi-stage bidding
- “Weighting formula” (Beauty Contest) vs. best offer
- Flexibility vs comparability
- Government decides award criteria:
  - minimum tariff or maximum payment to Government
  - minimum operating support with fixed tariff
  - minimum capital contribution
  - NPV-based combinations.
Critical Issues and Lessons

- Vital social function versus market-driven commercial role
- Interaction with system structure (infrastructure access)
- Risk allocation (investment or commercial)
- Regulation (safety, economic, anti-monopoly), agreement oversight, competition objectives
- Environmental/social constraints
- Investment versus time frame objectives
- Competition objectives (for or in the market)
- Aligning incentives
- Realistic bidding
- What to sell: going concern or only assets
- Time passes quickly
### An initial synthesis?

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<th>Commercial Risk</th>
<th>Divestiture</th>
<th>New Private Entry</th>
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<tr>
<td>Infrastructure</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>?</td>
<td>(Railtrack?)</td>
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We are here today
Long-term option
Potential step or interim option