

Kvizda, Martin

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Competitive Tendering in Public Transport – Opportunities and Risks. Report from the 10th Telč Seminar 2015

Martin Kvizda¹

Now a traditional feature in the Autumn calendar, the 5th and 6th November 2015 saw the 10th annual Telč seminar take place, organized by the Institute for Transport Economics, Geography and Policy (Masaryk University in Brno and Charles University in Prague). The main topic of the seminar was *Competitive Tendering in Public Transport, its opportunities and risks*. The aim of the seminar was to discuss current problems related to public tenders for the provision of passenger rail and bus transport services, both from the contracting authority's perspective and from the point of view of bidding transport providers (ITREGEP 2015). The main problems and questions that some 40 seminar participants looked for answers to related to the tendering criteria and timetable, the length and extent of contracts, experience (both good and bad) with recent tendering processes, the geographical segmentation of tendered services and the economics of tendering procedures. The seminar was prepared by a programme committee: Martin Kvizda, Daniel Seidenglanz, Zdeněk Tomeš (all Masaryk University, Brno) and Tomáš Nigrin (Charles University, Prague) and organizing manager Václav Rederer (Masaryk University).

The first session, entitled "*Transport Providers and the State*" opened with a presentation by Antonín Peltrám (former Minister of Transport of the Czech Republic), *Public Transport Tenders from a Macroeconomic Perspective* (Peltrám 2015), in which he raised the important and so far inadequately answered question of the privatization of national transport providers (incumbents). Josef Gašparík (University of Žilina) followed on from this with his presentation *The Rise of Competition in Long Distance Rail Transport for the Provision of Public Transport Services in the Slovak Republic* (Gábořová – Gašparík 2015). After this, Zdeněk Tomeš (Masaryk University, Brno) analyzed and summarised *International Experience of Competitive Tendering within Railway Industry*. On one hand it appears that experience from Great Britain is of little application in the Czech Republic and/or Slovakia, because the institutional and regulatory settings are rather different. On the other hand, the system of public tendering for German regional rail transport could well be applied in the Czech context; meanwhile Swe-

¹ Department of Economics, Faculty of Economics and Administration, Masaryk University, Lipová 41a, 602 00 Brno, kvizda@econ.muni.cz.

dish experience warns us of the risks of unfulfilled contracts, pressure for contract renegotiation, and anti-competitive behaviour. Jan Hrabáček and Tomáš Pospíšil (both České dráhy – Czech Railways) presented *Czech Railways in the Snares of Tendering*. From the incumbent's perspective there is a problem with the use of price as the only criterion for procurements, as well as with the fact that station and service charges have not been settled, and the dangers of certain competitors using loss-making prices in the tendering (see also Tomeš et al. 2014). The session was brought to a close by Jiří Nálevka (Arriva Transport Česká republika) with a presentation on *Competition in Rail Transport - Opportunity or Risk?* Nálevka sees a franchise system like that used in Great Britain as the best solution, and estimates that the ideal operating size for franchises would be between 5 and 15 million train kilometres per year (requiring 20-30 train units). In connection with this he once again mentioned the question of incumbent's privatization.

The second session entitled "*Uninvolveds' Point of View*" was opened by Tomáš Horáček (Charles University, Prague) presenting *Legislative Procedure of Public Tendering*. He pointed out the need to train the contracting parties in this area, and to establish transparent rules and legal clarity. The legal amendment to public tendering that is currently being drafted will probably enable quality criteria and requirements for the lifespan of vehicles and their transfer between train operating companies to be better enforced. Nevertheless, the establishment of a threshold for loss-making bid prices will likely remain a problem – it is not clear on what basis this could be decided and how it could be specified in the call for tender. However notable improvement could be achieved at least by creating a blacklist of bidders who have been proven in the past not to have met the tender criteria, or who behaved unfairly. Jiří Pohl (Siemens, Prague) deepened our insight into public competition with his presentation *The Influence of Technical Innovations on the Aims and Instruments of Public Transport* (Pohl 2015). In particular, he explained that the train operating company can really only influence about 5 % of the costs of their bid, as the remainder is given by the contract awarder's requirements and specifications. Therefore competition (tendering) does not have a global financial effect for the passenger (ticket price), which is a certain disillusion. Ján Ponický (University of Žilina) presented a detailed criticism *Public Passenger Transport Services in the Context of the Slovak Republic* (Pečený – Ponický – Gašparík 2015); it is interesting that RegioJet, the only private operator involved in public service obligation (PSO), is not integrated into the Bratislava regional integrated transport network, and is not currently considering becoming so. Daniel Seidenglanz (Masaryk University, Brno) examined in detail the *Geographic Delimitation of Procurements*. Good practice in Germany demonstrates that the tendered franchises are rather small in size, usually at most 5 million train kilometres per year (with the exception of the Munich S-Bahn with 25 million train kilometres), and often just 0.5 million train kilometres. Various factors determine the ideal size of the franchise, and these vary from country to country (Seidenglanz et al. 2014, Seidenglanz et al. 2015). The session was brought to a close by Jozef Daniš (University of Žilina) with his presentation *The Current State of Price Regulation in Public Rail Transport in the Slovak Republic* (Dolinayová – Černá – Daniš 2015).

The third, final session, "*Experience from the Regions*" focused on a discussion of experiences from tendering in bus transport and the lessons to be learned from them for rails. The discussion was opened by Lumír Pečený (University of Žilina) with a presentation

Assessing the Fulfilment of Quality Standards in Regional Passenger Rail Transport in the Slovak Republic (Meško – Chovancová 2015). It emerged from the discussion that in the Czech Republic, ROPID and Prague city transport have very good and useful quality standards. Marcela Benediktová (POVED, Plzeň) presented *Experience with Procurements for Bus Transport in the Plzeň Region*. The experience from Plzeň is based on eight relatively small franchises in the region based on net-cost contracts integrating only prepaid season tickets, not single journey tickets. A key fact to note is that the Czech Office for the Protection of Competition decides entirely formally in the event of a challenge to a tender, which means (among other things) that incomparability of contracts is a reason for the procurement to be cancelled - which is why setting any specifications for the evaluation of bids other than price becomes a problem. Kamil Novák (KORDIS, Brno) then presented *Procurements for Bus Transport Providers in the South Moravian Integrated Public Transport System*. During the discussion, it became clear that the only possible solution for the integrated system with full tariff integration is to use gross-cost contracts. It is important to note that it is not possible to effectively set up tendering procedure where there is unstable infrastructure. The first day of the seminar drew to a close with Jakub Jeřábek's presentation *Experience with Procurements for Bus Transport in the Ústí Region* which in brief explained that the basis for a successful tendering is the precise formulation of requirements (including technical details), objective data and knowledge of the economy of performance.

On the second day, the programme proceeded with a panel discussion on the topic of "*The Influence of High Speed Lines on Regional Development*", chaired by Martin Kvizda (Masaryk University, Brno). The panellists included Marcel Horňák (Comenius University, Bratislava), Jiří Pohl (Siemens, Prague), Petr Pšenička (Railway Infrastructure Administration, Prague) and Daniel Seidenglanz (Masaryk University, Brno), who also raised several key questions in his opening presentation, which became the focus of a very lively discussion not only among the panellists but also the other seminar participants:

- Should high speed lines only link core metropolis regions, or also internal/outlying peripheries?
- How can the regional economic benefits of a high speed line be estimated?
- Do high speed lines cause reterritorialization?
- How can we estimate the overall regional effects of high speed lines in the Czech Republic?

The discussion led to several conclusions, which are particularly important at this time when the construction of the first high speed lines in the Czech Republic is being considered.

1. It is clear that speed is a very important factor influencing the competitiveness of rail transport, and precisely for this reason it makes sense to consider constructing high speed rails in the Czech Republic. Even so, high speed rails only makes sense in network segments where there is the potential for extremely high transport density, and where the overall benefits from saving passengers' time, freeing up capacity on congested segments of the conventional rail network, and reducing environmental costs by shifting transportation from road to rail can be maximised. However, so far the Czech

Republic lacks the relevant evidence to back up a factually based expert argument for the beginning of real planning and the preparation of financing for the constructing of high speed rails. Explicit national transport policy priorities have to be set out: a conceptual plan for transport operations and their long term financing, empirical data mapping the current demand for transport and enabling variants for its potential future development to be modelled (viz Horňák – Kraft 2015, Horňák et al. 2015). The current transport models also insufficiently reflect the question of future mobility: high speed rails are built for a traffic situation fifteen or more years from now, and it is therefore essential to accurately model future transport trends. All models (even in the long term) are nevertheless based on current technologies and thus do not take into account new mobility trends that may emerge among the population (Muliček et al. 2015).

2. There are three essential conceptions of high speed rails – the Japanese (in which high speed lines form an independent segment of the network and of transport provision), the French (high speed rails form a transport backbone, from which branches connect to conventional lines) and the German (similar to the French, and enabling freight transport on some sections). For the Czech Republic, the French model would be acceptable, i.e. using a potential high speed rail as a basic axis, providing essential national as well as international services. It would not be sufficient to consider limiting it only to a connection between national metropolises; it is always necessary to consider a more complex transport flows, even if it is true that the transport flows between national centres are many times greater than those to international destinations. Outlying regions could be served by modernized conventional rails.

3. The construction of high speed lines must be devised in such a way as to ensure that their ongoing running and maintenance costs are as low as possible (using ERTMS without signals, with as few stations and passing loops, etc.) – however this adds to the technical requirements for the rolling stock. The French model, whereby lines branch, using high speed on parts of their route and continuing on conventional tracks, may make services less economic. This is related to the question of the overall approach and organization of performance: will transport service provision on the high speed rails be according to an open access model, a franchise, a public tender or directly assigned? Does the state, or the regions affected, foresee that they will subsidise passenger transport on the high speed lines? What will the pricing policy be? So far, there have been no studies at all modelling the effect of high speed rail on individual train operating companies in the Czech Republic.

4. Constructing an entirely new railway track is hugely complicated by land use – the difficulty of obtaining permission to lay the track on the desired route could make the construction of a high speed track very complex. Without legislative intervention it is practically impossible to stick to any timetable for such construction or its financing.

Without answers to these basic questions it is not possible to seriously begin preparations for the construction of high speed rail in the Czech Republic. These important questions will be addressed once more at the 11th Telč seminar in 2016.

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