



GUEST COLUMN

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OPEN-ACCESS FAILURE IN THE UK

The past several decades have seen a steady call for the imposition of open access on U.S. railways. For the most part, this has come from users of coal transportation under various acronyms such as CURE and ARC.

Absent from the discussion is any rigorous analysis other than a general desire on the part of rail customers to see rail carriers' profit margins reduced through the imposition of pervasive rail-on-rail competition.

I am therefore surprised that the USA's open access advocates have ignored what is now a full decade of experience in the UK.

Those interested in this subject should therefore find a news release of interest, courtesy of the UK's Rail Freight Group (www.rfg.org.uk) and dated July 2005.

It reports a "huge rise" in freight moved by rail in 2004-2005 compared to 2003-2004, using data from the Strategic Rail Authority's National Rail Trends Yearbook:

http://www.sra.gov.uk/pubs2/performance_statistics/Nat_trends_yearbook/Nat_Year.pdf

"Overall traffic was up 9.5 percent to 20.7 billion net ton kilometers, the highest total since 1977, and marking 60 percent growth since 1995.

The greatest commodity increase was for coal, which jumped a massive 27.5 percent. There was also a substantial rise in domestic intermodal traffic, which increased by 14.5 percent to 4 billion net ton kilometers, the highest level ever recorded in National Rail Trends."

However, pp. 28-30 of the yearbook tell a much different story. While ton kilometers are up dramatically, tons originated are flat, and non-coal actually declined.

Net ton kilometers:

1995-1996 13.3 billion (3.6 billion was coal)
2004-2005 20.7 billion (7.0 billion was coal)

Net Tons:

1995-1996 100.7 million (45.2 million was coal)
2004-2005 101.9 million (51.7 million was coal)

In fact, the main driver of growth in ton kilometers was the collapse of the UK's domestic coal industry, as the length of haul for imported coal from ports to power plants is on the average greater than it was from domestic mines to power plants.

But even this does not reveal the most important conclusions, which are that:

- For the coal business, open access has driven prices down to the most aggressive freight operator's perception of variable costs. (Rail costing is an art, not a science, so there is usually a diversity of assumptions as to what constitutes variable costs.)
- For other business, especially new business to rail, on a capacity-constrained system no one has the economic motivation to pay for capacity improvements – not the passenger-oriented and renationalized infrastructure company; not freight operators exploring new markets; and certainly not customers.
- Adding to the disincentives is that new business, if successfully identified and developed, becomes an easy target for cannibalization by other competing freight operators.

The implications of the above for the USA are, by my mind, quite clear: namely, that the economic effect of open access will be the conversion of bulk traffic from the rail industry's highest margin business into its lowest margin business, with a catastrophic impact on the industry's ability to fund its infrastructure.

Policy makers are therefore well served to study the UK experience before any debate on the subject can be considered serious.

And rail users need to be very, very careful what they ask for.

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For his 1995 prediction of the results of Open Access in the UK, see "[Britain's Rail Freight Privatization—An Investor's View.](#)" [PDF 58k](#) | [View HTML](#)