

IMPACT OF MARKET LIBERALIZATION TO THE PASSENGERS TRANSPORTATION BY RAILWAY IN LITHUANIA

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1. SUMMARY ON EXPERIENCE OF FOREIGN STATES

On March 15, 2001, three directives (2001/12/EC, 2001/13/EB, 2001/14/EB), covering development of the railway transport sector and liberalization of the market, came into force.

National railways must move from the self-regulative railway management model towards the more transparent one, i.e. by refusing monopolistic management system and changing over to the commercial system, existing already in all other transport sectors.

Passenger transport in the European Union countries on the average is increasing by 2 % yearly, and transportation by railway – by 0,5 %. Meanwhile, in the Central and East European countries passenger transportation by railway has been decreasing since 1989. From 1993 up to the year of 2003, passenger transportation in these countries decreased by 2,5 times. In Lithuania passenger transportation by railways decreased by almost 5 times within the mentioned period.

During the latter two decades a share of the passenger transport market has considerably dropped in all Europe. In short-distance routes the railway transport was replaced by the car and bus transport, and in long-distance routes it was replaced by the air and bus transport.

Technologies of passenger transport organization were greatly influenced by the Council Regulation (EEC) No 1191/69, later replaced by the Council Regulation (EEC) No 1893/91, based on which the principles of social services rendered by railways were established.

A public service shall be provided not by means of the compensation principle, but based on the purchase of a service, by concluding a commercial agreement between the state and the service supplier, i.e. the railway. Thus, the European states, in the process of reorganization of their railways, were to follow these principles. Currently, neither of 17 European states finances passenger transportation from their own income. Allowances for some services are offered by 8 states, i.e. Austria, Finland, Germany, Italy, Holland, Sweden, Switzerland and the Great Britain. General subsidies are extended by 6 states – Belgium, Denmark, France, Greece, Portugal and Spain.

Therefore, in order to establish clear economical conditions, it is essential to negotiate contracts on application of the public service undertakings and conclude them. Railway enterprises are not engaged in both – economical management and ordering uneconomical services, without covering losses incurred. In future, this attitude should be followed not only in the European Union, but in Lithuania as well.

When forming the Lithuanian railway sector policy, the principal regulations of policy on fee-paying for infrastructure and on passenger transportation financing, applied in Swedish, French, German and British railways, could be followed. In these countries the main function of the infrastructure fee-mechanism is to ensure that all the infrastructure managing operational costs and all the infrastructure technical maintenance costs would be covered. In the said countries the investment infrastructure costs are a prerogative of budget of those states. Taxation consists of two main parts – a constant fixed fee on a specific term for a licence to use the infrastructure and a rotational fee, depending upon the extent of transportation.

2. POSSIBILITIES AND ALTERNATIVES OF SOLVING PROBLEMS CONCERNING THE PASSENGER TRANSPORTATION FINANCING

The joint-stock company “Lietuvos geležinkeliai” (Lithuanian Railways) shall carry out the state undertakings that are loss making and yearly make up over 30 mill. Euro. Almost the whole profit of cost-effective activities is designated to finance the loss-making passenger transportation activity, i.e. cross financing.

Currently, the joint-stock company “Lietuvos geležinkeliai” is not able to reject the cross passenger transportation financing, as it would mean a bankrupt of the passenger transportation subdivision. Cross financing is inevitable when the state and municipalities are not capable of completely covering losses of the public service undertakings.

Cross sponsorship may be reduced gradually, i.e. through the yearly increase of allowances, payable by the state and the municipality, to cover all the expenses related with passenger transportation by railways, also by auditing passenger transportation services, provided according to contracts, or replacing them by alternative means of communication.

Whereas the loss-making passenger transportation activity is presently financed by profit, earned from cargo transportation, an independent passenger transportation enterprise would lose such a source of financing. Therefore, it is essential to immediately move towards a purchase of service, related with local passenger transportation by railways, by concluding a commercial contract between the state and the supplier of a service.

Firstly, all local routes, which would cover all trips, should be examined; furthermore, it should be established how many and what kind of routes are needed for the Republic of Lithuania. Later, a contract between the Government and the joint-stock company “Lietuvos geležinkeliai” should be concluded. The joint-stock company “Lietuvos geležinkeliai” would obligate itself to transport passengers on the established routes by trains of a certain size, and the Government would partly finance this transportation. That would be a compensation (for non-received income on passengers, who are legally entitled to receive the railway transport privileges) and a subsidy (designated to cover passenger transportation losses that are not covered by the income incurred from passengers, including compensations, when, due to social reasons, it is not possible to establish such prices of passenger tickets that would cover transportation costs to the profit extent, established under the contract between the railway and the state).

3. MEASURES TO REDUCE TRANSPORTATION LOSSES

The research showed that, in order to reduce passenger transportation losses, the state together with the joint-stock company “Lietuvos geležinkeliai” must introduce the following measures:

1. To ensure provision of the public railway transport services for the society, it is essential to implement the below indicated regulation: the Government or any institution authorized by the Government shall ensure provision of railway passenger transport services for the society even under commercially unfavourable terms. Financing of transporters shall ensure provision of services.

2. Whereas the local railway transport shall ensure social needs of population, local passenger transportation by railway transport first of all must be treated as a service provided for the society, not as a sphere of profit search.

3. It is essential to legalize the following concept: public-servicing undertakings. The public servicing undertakings include responsibilities assumed by the Government or any other institution authorized by the Government, municipalities and transporters to organize the public service for a salary by local railway routes of such extent and under such terms, as required by the Government or any other institution authorized by the Government and municipalities in accordance with the contracts concluded with transporters.

4. It is essential to consolidate a principle of organizing the public transport service. Provision of the public local railway transport services for the society covers the following undertakings of customers and transporters: customers undertake to organize provision of the public railway transport service and to remunerate transporters for their performance in accordance with the contracts concluded; transporters undertake to ensure implementation of obligations defined by the customer, i.e. to carry out passenger transportation on routes, tariffs and other terms established by the customer.

5. Planning and organization of the public railway transport activity. The following principles shall be implemented:

- When designing full-scale and detailed plans of the country, regions, towns and settlements, a necessity of using the public railway transport and the network of its routes should be taken into consideration;
- Planning and organization of public railway transport activities shall be carried out on basis of the detailed research of the society needs for this transport.

6. Lithuania shall follow the European Community standards, i.e. the equal competitive conditions must be established for both road and railway transport.

7. The attitude towards organization of routes should be radically changed, i.e. a route must be treated as a commodity, which must be sold by the customer – the state, the municipality – to transporters under the most favourable conditions.

8. A successive system of taxation on using the infrastructure shall be implemented, i.e. to establish periodicity, to review the taxation with a certain regard to the market *realia*.

9. In railway transport the following major principles on guarantee of relations between the transport customers and the transporters:

- 1) it is necessary to examine all local railway routes and establish how many and what kind of routes are needed for the Republic of Lithuania;
- 2) in each route, based on the research, it is essential to establish how many routes are needed every day on separate week days, and also what kind of trains (size) should run on these routes;
- 3) it is necessary to conclude the agreement on Public service between the Institution authorized by Government (preferably, Ministry of Communication) and the joint-stock company "Lietuvos geležinkeliai";
- 4) the agreement, the same as in road transport, shall provide financing of passenger transportation by railways and profitability;
- 5) based on the EEC requirements (Commission Regulations (EC) No 1191/69 and (EC) No 1893/91), such agreements may be concluded with individual regions (areas) of the country. Each region (area) should compensate a corresponding part of losses, taking into account the amount of passengers of that region, carried by railway transport.

10. It is essential to establish a foundation for financing the railway infrastructure (except maintenance). The major financing sources should be the following: the deduction from excise duty on diesel fuel and lubricants; the Privatization fund allocations; the State budget funds; the European Community objective funds; the objective funds of international financial institutions; the objective funds of legal and natural persons; other sources of financing.

4. CONCLUSIONS

In summary, the following conclusions may be drawn:

1. One of the biggest railway transport problems is insufficient activity independence from the state politics and regulation, inadequate financing of the activity spheres (rejection of the cross financing and the infrastructure maintenance at the expense of cargo transportation income) and the infrastructure. Due to this, railway competitive terms and effective development of transportation are get more complicated;

2. When reforming railways, it is difficult to *ex-parte* refer to the European countries' experience of today, as liberalization of the market not always gives the best results (experience of the Great Britain). In some cases in those railway enterprises, in which the state capital has remained, policy of prices is much more flexible. This is because they are not required to achieve profitability at any price. Private railways sometimes are seeking profitability even at the expense of traffic security;

3. To ensure provision of the public railway transport services, the following regulation should be consolidated: the Government or any institution authorized by the Government shall ensure provision of railway passenger transport services to the society, even under commercially unprofitable conditions. Financing of transporters shall ensure provision of services.

4. After the reform has been implemented, relations between the joint-stock company "Lietuvos geležinkeliai" and the state will have to be based upon commercial basis, by rejecting the cross passenger financing, by establishing reasonable fees for using public railway services and by ensuring financing of development of the infrastructure. In case of failure to ensure these conditions, a competition in the railway servicing market will be distorted: either exceptional conditions will be created for private carriers, or the public railway maintenance and development will be loaded only on cargo transporters, thus making these services non-profitable and uncompetitive with other types of transport.

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