

Abstract

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ECONOMY OF INFRASTRUCTURE MANAGEMENT AND COMPETITION IN THE RAIL NETWORK

The Finnish Rail Administration's key task is to make investments in the rail network and order work and to take care of asset management. The central question in this audit was how well the Finnish Rail Administration has performed its task in its first years of operation from the viewpoint of economy. A second question was how well officials have succeeded in utilizing investments in the rail network from the viewpoint of economy and competition. Competitive tendering was considered positive in promoting economy and its expediency was not questioned.

In recent years the gross costs of rail infrastructure management have totalled around FIM 2.5 billion a year. Replacement investments have amounted to about FIM 1 billion, maintenance and operating costs about FIM 650 million and development about FIM 200 million - FIM 500 million a year. These were key items for the audit. Orders totalled about FIM 2 billion, with VR-Track receiving roughly 75% and other contractors roughly 25%.

Forming an overall picture of the degree of competition for procurements and related development is difficult. The Finnish Rail Administration does not have a uniform monitoring system in active use for this purpose. The above breakdown of orders does not tell very much about the degree of competition. The Finnish Rail Administration has ordered some work from other contractors without competitive tendering. On the other hand VR-Track's share includes orders which it has won on the basis of tenders. In any case the Finnish Rail Administration still makes a considerable share of procurements without competitive tendering.

From the viewpoint of the state economy, orders won by VR-Track on the basis of tenders should be taken into account in the share which is open to competition. Most of the share which is now ordered directly by the Finnish Rail Administration was previously put out to tender by VR-Track.

In the performance objectives which the Ministry of Transport and Communications has set for the Finnish Rail Administration, economy has been directed by the objective of lowering unit costs. Monitoring of this objective has covered only the unit costs of basic track maintenance. This includes only a small part of total procurements, however. In the opinion of the State Audit Office, an economy objective which only covers basic track maintenance is not sufficient to direct operations.

The State Audit Office believes that the economy of infrastructure management can be improved by increasing competitive tendering for the Finnish Rail Administration's procurements and by promoting the creation of an efficient market. These goals can be advanced by making the degree of competition a key performance objective and means to direct the Finnish Rail Administration's internal management and practical operations.

The creation of an efficient market requires potential bidders' confidence in the market and advance information on future demand. The tendering strategy which is now being prepared must be able to respond to this challenge, and special attention should be devoted to marketing this strategy.

The investment costs of special equipment and related expertise appear to form a significant barrier to the creation of an efficient market. The goal should be that equipment is in independent hands from the viewpoint of individual actors. Qualification for infrastructure management tasks should be open to all actors on equal conditions.

Since the creation of an efficient market requires an increase in supply, an effort should be made to take advantage of potential foreign supply.

The present situation, which has a long history, can be regarded as a transition to a new culture. Structures do not need to be dismantled hastily, and the availability of resources with the necessary expertise must be ensured. In developing competitive tendering, attention must be paid to quality control. Work on the rail network must be coordinated regardless of who supplies it.

In addition to the rail network, the European Union has also focused attention on rail operators. A white paper published by the Commission considers the use of market forces one way to improve railways' competitiveness.

Under Finnish legislation, VR Limited has a monopoly on rail passenger traffic and domestic freight traffic. Officials have for some time prepared proposals to allow competition on the rail network. In the freight sector this has included a model in which rail capacity is divided among operators and in commuter traffic a model in which services would be purchased on the basis of tenders.

From the viewpoint of the owner, represented by the Finnish Rail Administration, competition in the rail network according to the present approach can only have the advantage that competition increases traffic and therefore track fees.

As the main principle the rail network should be open to all operators on equal terms. The distinction between rail network operations and traffic operations should also be clarified.

An effective and efficient transport system based on well-grounded solutions which are as economical as possible should be the guiding principle.

A rail network which is built and maintained with the help of an efficient market and whose capacity is available to operators in an efficient market is the way in which the Finnish Rail Administration could minimize the costs of the rail network to the state.