

Break up Railtrack

Michael Schabas says the company's national monopoly is the cause of its problems. It should be split into regional businesses

Critics often blame fragmentation of Britain's railway system for the industry's present problems. But it is the fragmented parts, the 25 train operating companies, three rolling stock companies and dozens of support and engineering companies that emerged from British Rail, that *are* working. More trains are running, faster and more frequently and on more routes. Overall, fares are falling.

The part of the system that is failing is Railtrack, the one element that was not broken up. The solution is to divide this single national company into independent regional companies. Timetabling and safety rules would remain nationally organised, of course, but ownership, maintenance and development of the networks and stations should be the responsibility of local management with separate owners.

This structure works fairly well in the water and elec-

tricity industries. The regional utilities remain monopolies but the regulator can compare their performance and give reasonable penalties or rewards. In extreme cases, the regulator can force a complete change of ownership or management – indeed, several of the water and electricity networks have already been bought and sold.

With a single Railtrack this is possible in theory – but in practice the risks are just too high, for both business and government. Will the regulator dare to force national Railtrack into bankruptcy? Who would be an acceptable buyer for the national rail network? And who would be brave enough to be the new owner, in effect the sole company being regulated by a specialised regulator?

Break up Railtrack and many of these problems melt away. The baby Railtracks could be bought by larger utility or engineering companies, which would bring



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management skills and capital. They could establish a dialogue with the regulator separately and together. Problems such as cracked rails might occasionally arise but they would be regional issues – it is unlikely that all of the separate regional companies would be stupid enough to cut corners on maintenance in the same way.

It is arguable that Railtrack's national monopoly is also the cause of its own problems. Railtrack is a monopsony – ie it is a sole buyer – as well as a monopoly. Its monopoly aspects are recognised and regulated. Its monopsonist characteristics are less widely recognised and not regulated.

For anyone involved in the supply of rail infrastructure – and this includes track and signal maintainers, sup-

pliers, consultants and even Railtrack's own staff – Railtrack is the only game in town. This may result in keen pricing and focus on delivery but it also makes suppliers and contractors reluctant to be critical of Railtrack or to point out shortcomings.

It would be quite simple to split Railtrack into pieces. Each of the half dozen Railtrack zones would become a separate company. Existing shareholders would each receive shares in each of the baby Railtracks, which would be traded separately. This is how American Telephone & Telegraph, the US telephone monopoly, was split up in the early 1980s. The Baby Bells are now flourishing, with their shares worth many times the value of the old AT&T.

Existing Railtrack con-

tracts would be split between the new companies – a horizontal, not vertical, separation. It would not significantly increase the number of contract interfaces. While some train operators would have contracts with two or more baby Railtracks, each of them would have fewer contracts to manage than the national Railtrack.

The baby Railtracks could collaborate on research, technical standards and contracting procedures, just as the regional water companies do, but this would be standardisation from below rather than from above.

They would also need to meet jointly, to produce a national timetable. Railtrack is already spinning off its safety function as a separate company.

With Railtrack's monopsony broken, there would be a much more open and dynamic rail infrastructure industry. Suppliers and the regulator could compare performance and demand best practice. There would be

positive differences between the baby Railtracks and a healthy movement of senior staff within the infrastructure side of the industry. The one impossible job, which national Railtrack has failed at so dismally over the past seven years, would be divided into five or six still extremely difficult jobs that the new baby Railtracks might be just capable of doing well.

Rather than fight a losing battle to hold the empire together, Railtrack's new chairman could beat the regulator to the punch, splitting up the company into separate businesses that could flourish in a way the single monopsony never could. If the experience of AT&T is anything to go by, such a move would give his shareholders the value they want and the nation the rail network it needs.

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