

URBAN RAIL TRANSPORT IN THE DE-VERTICALIZATION PROCESS OF ITALIAN RAILWAYS

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Abstract

The de-verticalization process of railways has in last intervened also in Italy. The debate, not only academic, aroused about it has deeply concerned different aspects but that of the role of public transport services in urban areas.

Moreover, the railways de-verticalization process is happening quite simultaneously with the privatisation process of public transport service (both on rails and on wheels).

The paper aims at investigating interrelations between the two processes, reasons to consider desirable a higher degree of competition in both markets, and how Regions – the administrative level responsible for the application of local transport service's principle of privatisation – are facing the new task of planning and programming public transport services, while the service production will belong to private undertakings.

Keywords: Railway de-verticalization; Transport of passengers; Public services

Topic Area: H3 Deregulation, Privatisation and New Institutional Concepts

1. De-verticalization and regionalization

On regional and metropolitan scale railway transport de-verticalization joins up with another big political trend which has imposed itself in recent years both in the communitarian regulations (subsidiarity) and in many countries inside and outside the European Union: federalism and the territorial decentralization of the political choices.

This is a territorial scale in which railway transport enjoys less favour than in the other market sectors. Thanks to the middle-long range long-haul links, in fact, the train has potentially gained competitiveness in the last 20 years: regarding passenger transport mainly through the enlargement of high speed connections (and networks) able to compete with air transport; regarding freight transport thanks to the increasing environmental and infrastructural costs of transport on road and thanks to measures imposing higher restrictions and costs. On regional scale, similarly, the only fundamental competitive field in railway transport seems to be the underground transport, due to the road network overcrowding and the consequent growth in the general costs of road transport.

In this context, the regionalization of a railway transport inclined to de-verticalization outlines a new institutionary picture, combining regulations aimed at effectiveness (separation of infrastructure management from service production in which the competition is promoted) with the skill territorialization, based on subsidiarity, which aims at increasing transport effectiveness through a closer relationship between needs planning and collectivity requirements. In this way the higher competitiveness allows to recover parts of the market belonging to a field – that of short-range metropolitan passenger transport – in which private transport external costs and public transport revenue costs of transport on wheels weigh a lot on the sustainability of the urban socioeconomic system.

This aspect conveys the regional railway transport a much more important role than the present and the past one, because the last decades has seen not only a progressive consciousness of the environmental costs of individual car transport, but unfortunately also

the sunk of group car transport effectiveness (in terms of general costs) and its high revenue cost (the structural deficits of the public transport system)¹. In such way collective transport on its own track, with low or without local environmental impact, and possibly with automatic control, has become the only way of transport able to “force” the trade off among effectiveness, environmental sustainability and “taxing sustainability” which is implied in urban mobility politics. Transport on rails – train or tube – avoids the cumulative effects of overcrowding, maintains a high average speed while the other ways of transport lose it, and the electric traction reduces the localized pollutant emissions, which in urban context are caused by transports for about two thirds; moreover, the high ratio between passengers and the driving staff reduces the staff costs, which represent over 70% out of the management costs in the public transport on wheels. This increases the competitiveness of transport on rails – tramways, people-mover systems and underground in urban context, undergrounds and regional railways in suburban and subregional context – which is nevertheless limited by some restraints: (i) proportionate demand compared with the initial investments amount; (ii) ability to ensure repayments suitable to the huge investments, able to attract private capital through project finance, but adequate even in case of public financing, considered the scarce availability of taxing resources; (iii) suitable planning skill, subsequent to the substantial irreversibility of the realization of railway infrastructures (urban or regional) on the territory, in particular on a valuable and “sensitive” territory as the urban and periurban one.

2. Competition in regional public transport services

2.1. Liberalization, privatization and competition in railway transport

Liberalization and privatization at the present time involve also railway transport replacing a government intervention age with an age of boosts towards competition, which produce new institutional and managerial structures. They allow allocative and dynamic effectiveness growth, but aren't able to solve all the problems, particularly because a liberalized railway transport market doesn't aim automatically at competitive or contestable structures. The government intervention in the sector has a crucial importance because it has to ensure a market functioning able to bring it as close as possible to the competitive market. Inefficiency in the public production system has brought – thanks to the strengthening of the European integration, based on the achievement of competitive principles in the markets – to economic policy trends based on liberalization and on privatization of large economic fields. In this terms it is to be respectively intended the promotion of a free or at least easier access to the market offers, in order to achieve a more competitive market structure, and the undertaking transfer from public to private property, at least partly (as long as the private component effectively holds the capacity to take decision). In the phase backwards to private market and enterprise economic policy reasons are supported by other more contingent reasons: public finances straits (more evident in the Euro area countries due to the restraints imposed by the stability pact) suggest to alienate public undertakings, both the ones yielding profits (for the profits coming from their alienation), and the ones which are subsidized and structurally poor, as in transports, because even if the subsidy persists, privatization is able to minimize or at least reduce the revenue costs.

In such way the proprietary asset passes from mainly public to mainly private or mixed, and thanks to the market access liberalization, the industrial organization passes from a

¹ In Italy the transported volumes have inverted the increasing trend at the end of the '70s, going from 6 millions 150 thousands passengers in 1978 to less than 3 millions and a half in the last years, and in such field there has been a growth of underground passengers and a much more evident sunk in transport on wheels (Musso e Burlando, 1999, cap. 4).

situation of monopoly to a situation of competitive oligopoly or competition (*in* or *for* the market, as explained later on in the paper).

These trends aim at:

- Increasing effectiveness through re-establishing information mechanisms (prices) and proper incentive of the competitive asset;
- Attracting private capital to public undertakings (in the field of transports *capital intensive* innovations make public financing of investments problematic);
- reducing public deficit at different government levels.

In the same way, the main tasks of sector liberalization are:

- promoting market contestability and getting over the present monopoly and possible future monopolies by private operators;
- guaranteeing the service production, characterized by positive externalities, independently by direct profitability of its production and selling;
- limiting negative externalities of metropolitan and short-range transport realized through other means of transport.

The market contestability requires conditions aiming at setting at zero the market access and exit costs. So the access to the production technologies hasn't necessarily to be connected to the production scale, and there haven't to be sunk costs (such as infrastructure costs, marketing costs, R&D, etc.). In this way a contestable market allows, in theory, the same efficiency of perfect competition, since the incumbent will be forced to behave like a competitor in order to prevent "hit-and-run" competition from potential new entrants.

Nevertheless the perfect contestability, as well as the perfect competition, can hardly be found in the real world. A further task for a political decider pursuing the regulations objects will be that of minimizing the inefficiency of a non fully contestable market, through adequate control measures.

In the sector of regulations aiming at promoting contestability are to be found the instruments of the competition for the market², which has to choose through an auction procedure the private operator to whom is destined the management of a certain asset or of a service production for a fixed period of time. In such way, even if a competitive market (or competition *in* the market) can't be promoted due to the technical characteristics of the production, usually characterized by strong scale or net economies, it is possible to restore the competitive mechanism through competition *for* entrusting the monopoly for a particular period of time. The target of guaranteeing production of goods/services as public properties, or generating positive externalities, even without a direct profitability stimulating private producers, gives rise to the needs of subsidize these productions. The regulations target is then twofold: on the one hand guaranteeing productive effectiveness of the subsidized production, in order to minimize the revenue costs; on the other hand guaranteeing the quality of the goods/services produced, and the satisfaction of the needs expressed by the demand of those goods or service.

Evidently the competition technique of the market can indifferently be used both in case of entrusting a potentially profit-bearing asset and in case of entrusting through tender a subsidized service, in which the public subject states, for social reasons, that the service has been sold at a lower price than the costs. As it will be said, regional railway transport asset combines a de-verticalization system of the railway sector, keeping apart infrastructure manager from railway service producers, through a regionalization process introducing market competition, because an institutional client (the Region) expresses demand of people railway transport, assigning production to a railway system.

² See Demsetz (1968).

The following paragraphs analyze the introduction ways of the two processes in the Communitarian and Italian set of rules, and propose an investigation of the problems rising from the complex setting up of such a deeply innovative institutional and organizing asset.

2.2. An outline of European regulations and implementation in Italy

The European set of rules is inspired with the main principles about competition in the Rome Treaty³: no agreement, decisions and negotiations which in some way can damage the good functioning of a competitive market, no abusing a commanding position over the market in order to separate its own behaviour and prices from the ones of the competitive market. These trends apply both to the private and to the public undertakings.

The Commission Regulation 68/1017/EEC applies this principle in general terms, but provides a certain number of important exceptions to the prohibitions, only if justified by the chance of technical improvements, links and functional rationalizations, and by the harmonization of the service standards⁴.

The Treaty forbids public aids to the sector undertakings⁵, prohibition provided by Commission Regulation 70/1107/EEC, with exceptions provided by Regulations 69/1191/EEC and 69/1192/EEC, which allow public aids for financing contributions directed to meet expenses deriving from the public service obligation and from the normalisation of the railway undertakings accounts. The “public service obligation” consists of all the engagements the transport undertaking wouldn’t assume if it took only its own economic interests into consideration. It is financed by public subsidies in regard to the services which are considered essential for supplying sufficient transport level. The additional charges destined to the undertakings are used as compensation. Moreover the Commission Regulation 91/1893/EEC introduces the service contract, that’s to say the contract between governmental authorities and transport undertaking for supplying transport services which are adequate to the collectivity. It states also service characteristics, qualitative standard, prices.

Moreover the public aids to the railway systems are allowed when they are useful for clearing them from additional expenses towards the undertakings operating in other transport ways, when the infrastructure costs are charged to them, or when the aids are helpful in order to favour lower-cost solutions for the collectivity.⁶

Both regarding the competition and the prohibition of commanding positions, and regarding the prohibition of public aids, the great amount of exceptions and their enumeration, which sometimes is too vague, brings about that in the railway transport field the exceptions end up by exceeding the rules.

Particularly, in railway transport prevailed a politics of aids and public subsidies in order to oppose two market failures which are particularly important for the modal distribution balance and for the consequent impact on economy:

- the trend towards a natural monopoly due to technological reasons (importance of infrastructure sunk costs) of the railway transport market;
- the lack of balance in the negative environmental externalities, much lower in rail than in road transport, which causes a not efficient modal split.

If we take into consideration even the «historical» positive externalities of the railway accessibility, especially during the great industrialization of the second half of the nineteenth century and of the first decades of the twentieth century, and the investments suitability in the field of keynesian expenditure policies supporting the aggregate demand,

³ See articles 81, 82 e 86.

⁴ See Zucchetti and Ravasio (2001), pp.34-35.

⁵ Artt.87-88-89.

⁶ Commission Regulations 82/1658/EEC, 92/3578/EEC and 97/453/EEC allow temporary aids in other cases in order to a favour the combined transport and in general to favour the intermodal transport development.

we can understand the several exceptions to the principles of the competition and of the free market, characteristic of the communitarian construction, and the consequent prevalence of public aids and subsidies. Eventually this trend has been necessary to the railway transport in order to maintain a certain effectiveness regarding the increasing market requirements, besides a certain (even if decreasing) competition towards the other ways of transport. But at the same time the trend has:

- favoured the rising of the so called “government failures”, requiring, in the end, an intervention in order to re-establish competition and make the service production more efficient;
- created huge financial discrepancy which heavily affected public finances, paying more attention to the financial balance, above all consequent to the monetary unification and to the “stability pact” among the countries members of the E.U..

Since the natural monopoly is actually essentially determined on infrastructures, whereas the railway transport service market is (at least) more, if not fully contestable and since the railway technology progress, particularly in signalling and controlling, has gradually disengaged the infrastructure management from the service one, the liberalization (and in some cases the privatization) have concentrated on the service (with only a few exception, as in the case of the British railways).

In the '90es, in fact, the communitarian trend is based on:

- the economical and functional split between railway service production and infrastructure management;
- the consequent liberalization of the service market, in which several railway systems can operate with their own trains on the same line or infrastructural network;
- the persistence of this infrastructural network in the property or at least under strict public control.

During the attempt to bring back the competitive mechanisms to the service production, the public control on the infrastructure persists, which is the main input to the production, because:

- it requires much more time for being “produced”, and postulates irreversible choices in the usage of the territory, in such way it implies a complex process of anticipation of demand, evaluation of alternative interventions and planning;
- it makes often out a situation of natural monopoly, so that a private undertaking could discharge extraprofits or extracosts on the final price of the service, and above all it could limit the access to an essential input by diverting competition (both through simple exclusions, and through an unfair entrusting of the infrastructure capacity).

According to the regulations, the Council Directive 91/440/CEE introduces the above mentioned separation between infrastructure management and service production, which is compulsory in the financial sector and optional in the organizing one. The Directive underlines (art.4) the exigency of independence between railway undertaking management and public authority and provides that the undertakings are independent from governmental management, that they have their own balance and accounting, that their management is the one of the trading companies. The production of the service offered to the mobility requirements of the collectivity, as evaluated by the political decisor, is imposed to the undertakings through a public service obligation ruled by a proper service contract.

The principle of the access freedom to railway infrastructures is dealt with by the Council Directive 95/19/CE (which is not to apply to railway undertakings operating urban, extraurban or regional services) which delegates government to identify an authority

able to distribute equally the infrastructure skills through entrusting time paths, so that the access cost to the infrastructure, together with the grants-in-aid, guarantees the balance accounts to the infrastructure manager.

Italy has adapted itself to the communitarian rules about these points through the D.P.R. 8/7/1998 n.277 and 16/3/1999 n.146, which establish financial and organizing separation between infrastructure and service, the granting of railway permissions to new subjects, the distribution of the railway skills (entrusting time paths) and the different ways to determine and collect the time paths utilization fees⁷. Consequently, the Ferrovie dello Stato have re-organized themselves on the base of four departments (infrastructure, local and regional transport, passengers' transport, freight transport). The first department has become the new society Rete Ferroviaria Italiana (RFI), under control of FS, whereas the other three departments have converged into Trenitalia, destined to compete with other railway operators⁸ as the communitarian trend has foreseen.

2.3. Regionalization and de-verticalization

To this context of reorganization and deep institutional and managerial transformation of the railways belongs the complex of rules, which are known as "Bassanini Reform". These are inspired to subsidiarity (as it is recognized and promoted by the European Community) and are aimed to decentralize important government competence to the regions, by transferring the resources (and, but up to now only partially, the taxing capacity) concerning them.

The reform delegates local public transport to the programmatic, legislative and financial responsibility of Regions and local authorities, aiming to an increased correspondence to the needs of administered collectivities, an increased local devolvement of responsibility in the use of resources and to an easier concertation between territorial authorities. At the same time it accepts the other big strategical orientation - the "de-verticalization" and liberalization of transport - planning for competitive procedures for the selection of service suppliers. This complex of rules is based on the so-called "Bassanini laws" (law 15/3/1997, n.59, modified by law 15/5/1997, n.127, the so-called "Bassanini bis" and by law 16/6/1998, n.191, the so-called "Bassanini ter"), on the subsequent implementing legislative-decrees (D.lgs. 31/3/1998 n.112, D.lgs. 22/9/1998 n.345, D.lgs. 20/9/1999 n.400) and on the regional laws which implement the guidelines established by the reform. The new order, then, implements subsidiarity, delegating to local authorities those public functions which do not need a unitary national management. Legislative-decree 19/11/1997, n.422 (the so-called "Burlando decree") implements the Bassanini reform in the field of local public transport and delegates to the Regions the competence for public transport on rails (and for the programming) which do not need an unitary state management. The Burlando decree (later modified by the above-mentioned D.lgs. 20/9/1999 n.400) sets some principles as far as regional competence is concerned. First of all, the Regions, which are competent for the programming of regional and local public transport requirement, must arrange Regional Plans for Transport and Mobility, as well as Triennial Service Plans, define the traffic areas (which have already been arranged by law 10/4/1981 n.151) as well as the minimum service standards which are necessary for the mobility needs of the socioeconomic regional system. According to the programming, they must identify transport service manager by means of competitive procedures (conforming to the Community's position as stated by Regulation 93/38/CE, implemented by D.lgs. 17/3/1995 n.158) and sign with these manager service contracts which, inter alia, regulate

⁷ The fees, calculated on costs base (circulation, energy, general expenses and indirect expenses), has to grant the balance account to the infrastructure manager (see Zucchetti e Ravasio, 2001, p.52).

⁸ The first new operators have obtained permission in 2001.

quality and quantity of the service, exercise program, rates, managers' remuneration by the public administration, relations to employees... Competitive procedures, managers' choice and service contracts must promote the improvement of the price-earnings ratio which since 2000 should be at least 0.35. Transports' strong "social" connotation remains in the concept of "minimum service standard". This is defined as adequate to satisfy the citizens' request for mobility and represents the public service obligation whose cost is borne by regional budget.

While for transport on wheels the Burlando decree covers the possibility of a further delegation from Regions to local authorities (provinces and municipalities, according to whether the services are in the territory of a single municipality or not), transport on rails, such as that on water, is directly under the competence of the Regions which replace the State as "institutional client" in the relation with the infrastructure manager and The railway companies by delegating transport on rails and signing the service contracts relating to it⁹.

3. De-verticalization on regional level: an opportunity and many risks

As you see, institutional and organizational order is deeply changed: two "Copernican revolutions" are taking place in the organization of railway transport which was historically based - with the exception of the pioneer era of the XIX century - on the self-production by a single or largely dominating public operator which usually was in a monopoly situation except for few exception (such as, in Italy, railways in concession). Against this pre-existing condition, which denies any possibility of competition and deprives the management of any incentive to an increase in the efficiency and/or the quality of the produced service, there are two different policies: de-verticalization, with the separation between infrastructure manager and service producers and the introduction of competition for the market, and regionalization which is inspired by subsidiarity.

In fact the situation which has come about historically is one of the main causes of the slow and constant decline of railway transport that can be seen in the increased costs for the user and, consequently, in decreasing segments of the market. Even though this is not the only cause: the different relevance of external costs, particularly, creates a systematic disequilibrium between total costs and costs for the user which, in a decentralized decision system, systematically penalizes railway transport, since it is characterized by minor external costs.

It is, however, difficult to introduce competitive mechanisms in the railway field. For this reason de-verticalization and regionalization could lead to no significant increase of efficacy and efficiency, at least in the short run. This does not mean that this reorganization is not due or that local public transport on rails cannot be improved. The best potentiality is to be found in metropolitan mobility system which has cost much more than it was paid by its users and which is now unsustainable both from the environmental (because of the high level of environmental externalities) and from the financial point of view (because of the high level of subvention of infrastructures and collective public transport).

It is on urban and metropolitan level and, then, within the regionalization we are discussing that we find one of the best "strategical" opportunities for railway transport. In fact it represents, in a highly jammed and polluted system, where public transport has too high tax costs, a (locally) unpolluting means of transport whose infrastructure cannot be used by individual traffic and whose passenger-km costs are largely lower than those for transport on wheels (on condition that there are adequate scale minima).

⁹ Being regional implementation rules quite different, regional railway management includes different disciplines such as the creation of regional societies and the call for bids and, in some cases, regional laws do not arrange mechanisms for entrusting the service (see also Zucchetti and Ravasio, 2001).

From this point of view, it is fundamental to delegate to the Regions the programming of regional mobility, which, as mentioned in the previous paragraph, is articulated in different moments:

- arrangement of planning documents;
- quantitative and typological definition of minimum service standards;
- possibility of distributing state transfers among the various means of transport;
- possibility of stimulating the efficiency of transport producers by means of a competition for the market, that is to say the competitive procedures to assign the service and the service contract between Region (or delegated local authority) and service manager.

Actually, these potential strengths seem to meet more than one problem.

As far as planning is concerned, many Regions neither have arranged nor are arranging Regional Plans for Transport and other planning documents, for they are considered useless or uselessly tying.

As far as the definition of minimum service standards is concerned, regulations present a concept, which, although theoretically and logically clear, when practically applied, can easily be distorted.

Firstly the distribution of state contribution between the Regions is not based on objective criteria expressing the potential mobility request of different areas and/or their supply of infrastructure in proportion to the population, the productive fabric or the surface. On the contrary, it seems to be based on a projection of historical trends which are scarcely apt to evaluate the changes brought about by time and which can be influenced more by electoral reasons than by objective valuations.

Secondly the budgetary constraints represented by state transfers constitute, in the event, the criterium for the definition of minimum service standards. In this way they become not those which are considered necessary for the mobility needs of the population, but those which can be financed with a certain amount of state transfers. Since there is no regional transport planning, the definition is limited to the mere quantitative aspect (a certain amount of kilometers or of places-kilometer), does not turn out in an effective programming of regional mobility system and does not define qualitatively and typologically the “minimum” service standards. And, since there are different elements which endanger the efficiency of the system of auction and competition for the market as it is presented by the reform, the real risk is represented by the “jamming” of liberalization on regional (for railway transport) and/or on subordinate territorial level (for transport on wheels and tramways)¹⁰.

More or less for the same reasons, the possibility of freely distributing state contributions among the various means of transport is, in the event, paralyzed by the need to maintain, in every means of transport, production standards which are fit to justify productive and occupational standards and, then, transfers equal or proportional to those historically achieved.

Lastly, as far as the introduction of competitive mechanisms is concerned, we must remember that a tender system à la Demsetz¹¹ is efficient if:

- competitors can get the inputs in competitive conditions;

¹⁰ In parallel, the transposition of the same mechanism between Region and local authorities, as far as municipal and provincial transport on wheels is concerned, lets “minimum service standards” correspond to regional subventions, which, usually, correspond to a service standard that is much lower than the present one and create serious financial difficulties to local authorities. Theoretically the could integrate regional subventions in order to enhance their service standard with regard to the minimum one, but almost always they cannot do that because of their financial situation. In this way public transport companies risk to be overmanned with regard to the service quantity which is possible to tender. This stresses labour opposition and risks to make calls for bids meaningless.

¹¹ See also Demsetz (1968).

- collusion is impossible or not convenient;
- incumbent position creates no advantages (informative, technological, etc.);
- after the assignment there is a subject which is able to enforce the contract or to sanction the assignee (or to revoke the assignment).

These conditions are not likely to occur in the situation we are examining.

In detail the first of them implies:

- the absolute equality of access to the network for Trenitalia and for the other operators. This circumstance in its turn requires the existence of a non colluded regulator (certainly not a society of the same group) during the assignment of train paths as well as the preventive knowledge of the possible rate for this access;
- the equality of access to the rolling-stock, with regard to which the question of property is still controversial; an “English” solution would be desirable, a solution with rolling-stock delegated to third societies (not necessarily private and, if public, also regional) which grant its usage to the private winner of the tender against prearranged rates¹².

As far as the second condition (impossibility or not convenience of collusion) is concerned, there appears at least suspicious the tendency of many Regions to create, during the regional implementation of the Burlando decree, mixed societies between Regions (and possibly local authorities), Trenitalia and other existing railway companies. In this way they limit the competition standard and give the incumbent a strong advantage over potential new competitors.

Even without coming to this borderline situation, where owner and competitor coincide, the risk of labour and social conflicts can easily make the buyer become not indifferent to suppliers and let fade his real wish to acquire the service on a really competitive market. Even the third and the fourth condition do not seem to be completely fulfilled: this is mainly due to many Regions’ incapacity for a real programming and to the (partially consequent) tendency to define the need for transport as a projection of the pre-existing one and/or of the part of it which is allowed by limited resources.

Always about competitive conditions, it is important to notice that there usually are managerial, technological and financial barriers, which prevent the entrance in this field. Many potential competitors do not dispose of necessary assets (as we mentioned before, this is due to the problem of access to infrastructure and rolling-stocks and, in addition to this, to the fact that specialized personnel takes a long time to be trained and that the main trainer continues to be the incumbent itself). In addition to this many potential competitors could not dispose of sufficient financial possibilities mainly with regard to the limits (in terms of production volumes, but also of bonds, guarantees etc.) which have been introduced, also on purpose, in the call for bids.

Moreover, informative asymmetries in favour of the incumbent are very likely to exist, since it is the “historical” depositary of railway competence with regard to both the granting authority and the potential competitors. This implies these difficulties: for the competitors to submit a tender knowing the real technical, financial and risk conditions; for the granting authority to check the respect of the service contract.

For all these reasons, it is possible that only Trenitalia takes part into the auctions for delegating regional service. Then its (public) owner will, however, make its possible losses good. Since competition for the market has been introduced to challenge natural monopoly, the less efficient the market becomes, the more likely the case of a single competitor is.

Then it is clear that in the present situation –that is to say in presence of a public owned incumbent – the auction will have the expected result, only if the tendered service allow

¹² Even existing rolling-stocks should be given to these societies in order to avoid any advantage for the incumbent.

management efficiency: that is to say if they guarantee – as stated by art. 19, c.1 about service contract of the Burlando decree – the “complete correspondence between service burden and available resources net of tariff revenues”.

This last argument introduces another possible difficulty of the reform, which is linked to the kind of contract signed between the granting authority and the winning company.

In particular, among the most common kinds of contract - *management contract*, *gross cost contract* and *net cost contract* – it has been stressed¹³ that the *net cost* form most stimulates service trustee to operate not only on costs, but also on revenues, since the supply corresponds to the difference between estimated revenues and agreed management costs, so that revenues different (lower or higher) from the estimated ones are enjoyed or carried by the company¹⁴.

Even when tariffs and service quantity are set by the granting authority, the net cost contract still represents an revenue incentive, at least for the increase of service quality (which influences revenues) and for the incentive to fight evasion by passengers. For the same (opposed) reasons a gross cost contract should have worse effects on the service quality standard as well as on evasion rate, while a pure management contract would not stimulate the trustee to make an effort to control costs.

This subject is important, because the formulation of the above-mentioned art.19 c.1. of d.lgs.422/1997 is quite ambiguous. In fact the words “net of tariff revenues” do not imply the implementation of net cost contracts.

Considering the service contract features, also the choice of the mechanism stimulating efficiency improvement, which is mentioned but not specified at c.4 of the same art. 19.

Other problems are represented by the difficulty to maintain and promote functional and tariff integration of services on wheels and on rails. This is due to the implementation of competitive procedures to regional railway transport and local public transport.

As we know¹⁵, complementarity of urban networks on wheels, underground and railway network (as well as complementarity with private transport, which can be realized only with adequate interchange facilities) represents one of the benchmarks of the new politics for urban mobility, because the consequent intermodality allows a better dimensioning of vehicles with regard to the volume and the rate of demand territorial scattering. This complementarity is accentuated by an integrated tariff system, which requires an agreement between the different service managers. Public transport tenders have already shown the impossibility for potential new entrants to foresee the economical features of their possible agreements with other manager and, in particular, with the railway manager. This difficulty will be stressed by the introduction of a similar regime also on the railway side, which will make the result of such an integration completely indefinite. At the same time, the possible integration rate between one's own and other managers' service network deeply influences both costs and revenues, but is unknown to competitors. The unpredictability of economical benefits could let people prefer the (minor but definite) benefits of a mere elimination or not consideration of complementarity agreements.

This problem cannot be easily solved and, unfortunately, can lead to an advantage for incumbents and to a tendential maintaining of the status quo, unless the Region (for railway transport) and public authorities (for local public transport) play a more important role in the planning of networks and in the functional and tariff integration of the different kinds of service. In fact, if single competitors are not stimulated to guarantee

¹³ See for example Boitani and Cambini (2002).

¹⁴ In a gross cost contract the supply corresponds to the estimated and agreed management costs, independently from the revenues which are taken by the granting authority.

¹⁵ For a more detailed treatment see Musso and Burlando (1999), chapter 8

complementarity, this must be requested by granting authorities themselves and a regulator must define its economical conditions.

A last theme which should be dealt with - but the question is too specific to be dealt with here - is the possible risk that regulations introducing call for bids to delegate transport service could thwart the use of project financing for the most important infrastructure works (and, in particular for railway ones). This problem can be particularly relevant for underground and so, theoretically, it is beyond the object of this reflection or, however cannot be specifically taken back to it.

4. Local public transport (LPT) on rails and its numbers

Regional railway transport is now assigned to the Regional Transport Division of Trenitalia. This division is set out in 21 Offices (19 regional and 2 provincial) where about 22 thousand employees realize a transport supply of about 170 million train-km per year, that is about 6800 trains-day and more than 65 billion seat-km, which are globally offered by Regional Transport: regional, through and interregional trains.¹⁶ Regional service request is estimated by the company in about 19.5 billion passenger-km, while the average number of transported passengers on a weekday is about a 1,400,000.

In the balance sheet for the year 2002 (see Table 1) revenues from public service contracts with local authorities amounted to more than 1 billion euro, that is fifty times the value registered in 2000. These figures show the increasing role of local authorities in railway LPT. At the same time revenues from public service contract diminished from 1,614 million euro (2000) to 481 million euro (2002).

Table 1 – Value of FS Group production in the year 2002

INCOME STATEMENT (000,000 of Euro)	2002	2001	Var.
A. Value of the production			
1. Revenues of sales and supplies			
Traffic revenues	3,005	2,997	8
Other revenues	448	465	-17
Territorial public authorities	1,274	1,273	1
2. Revenues form State	1,984	2,070	-86
3. Capitalizations and stock variations	920	898	22
Total A - Production value	7,631	7,703	-72
Operating gross margin	733	503	230

Source: Gruppo Ferrovie dello Stato

It has however to be stressed that according to budgetary data the sum of the grants from the public service contract with the State and those from the public service contracts signed with local authorities almost equals the revenues generated by passengers on internal travel. These are the main values involved in the privatization of local public transport on rails introduced by legislative-decree n. 422/97.

5. Regions towards privatization of LPT

As far as LPT is concerned, the transfer of competence from State to Regions has been concluded with the regional laws implementing the reform (see Table 2) and with the first service contracts which public and private subjects consider as a test prior to the tenders which have to be made within 2003.

In consideration of what could happen in the next two years, it is interesting to focus on a survey realized by Federtrasporto (2001) which compares the content of these first documents with a grid of interesting elements.

¹⁶ See also Service Chart 2002.

A first analysis shows that the Regions are more interested in an improvement of the quality standards of the railway transport, than in its economic management. This is demonstrated, for example, by the fact that, with the exception of Liguria, every region has created its Service Chart. The focus on quality standards rather than on economic details could be justified by the fact that, anyway, economic terms will be imposed by the competition during the tender (competition *for* the market), by the pursuit of profit as well as by the creation of *net cost* contracts where commercial risk is taken by those producing the service¹⁷. However, service quality includes many different aspects - traveling times, run frequency, service reliability, air-conditioning and cleanliness of the carriages, staff courtesy, punctuality and accuracy of information, etc. - which are difficult to judge according to one single measure if evaluated before signing a contract. In this way often the only element taken into consideration is the possession of a quality certificate, which is quite restrictive if compared with the different elements listed before.

Table 2 – Regional laws after legislative-decree n. 422/97 of reform implementation¹⁸

Regions	Regional law (R.L.) details
Piemonte	R. L. n. 1 of 4 January 2000 Norme in materia di trasporto pubblico locale, in attuazione del decreto legislativo 19 novembre 1997, n. 422.
Lombardia	R. L. n. 22 of 29 October 1998 Riforma del trasporto pubblico locale in Lombardia
Piemonte	R. L. n. 25 of 30 October 1998 Disciplina ed organizzazione del trasporto pubblico locale
Liguria	R. L. n. 31 of 9 September 1998 Norme in materia di trasporto pubblico locale
Emilia Romagna	R. L. n. 30 of 2 October 1998 Disciplina generale del trasporto pubblico regionale e locale
Toscana	R. L. n. 42 of 31 July 1998 Norme per il trasporto pubblico locale
Umbria	R. L. n. 37 of 12 October 1998 Norme in materia di trasporto pubblico locale in attuazione del decreto legislativo 19 novembre 1997, n. 422.
Marche	R. L. n. 45 of 24 December 1998 Norme per il riordino del trasporto pubblico regionale e locale nelle Marche
Lazio	R. L. n. 30 of 16 July 1998, Disposizioni in materia di trasporto pubblico locale
Abruzzo	R. L. n. 152 of 23 December 1998 Norme per il trasporto pubblico locale
Molise	R. L. n. 19 of 24 March 2000 Norme integrative della disciplina in materia di trasporto pubblico locale
Campania	R. L. n. 3 of 28 March 2002 Riforma del Trasporto Pubblico Locale e Sistemi di Mobilità della Regione Campania
Puglia	R. L. n. 13 of 25 March 1999 Testo unico sulla disciplina del trasporto pubblico di linea
Basilicata	R. L. n. 22 of 27 July 1998 Riforma del trasporto pubblico regionale e locale in attuazione del decreto legislativo del 19-11-1997, n. 422
Calabria	R. L. n. 23 of 7 August 1999 Norme per il trasporto pubblico locale

¹⁷Taking into consideration the subjects charged with industrial risk, that is to say the risk which is linked to management costs, and commercial risk, which, on the contrary, is linked to the revenue trend, literature usually distinguishes: *management contracts*, where the client is charged with the two kinds of risk, *gross cost contracts* where the operator is charged with industrial risk and the client with commercial one, *net cost contracts* where the operator is charged of both the risks.

¹⁸ To those referred in the table we must add regional law n. 20 of 7-05-1997 "Disciplina ed organizzazione del trasporto pubblico locale nel Friuli – Venezia Giulia" and regional law for Valle d'Aosta d'Aosta n. 29 del 1-09-1997 "Norme in materia di servizi di trasporto pubblico di linea", which, in many points, anticipate the subsequent legislative decree n. 422. As far as other Regions with a special statute are concerned, we remember the legislative decree for Sicilia n. 296 of 11.09.2000 and the legislative decree for Trentino-Alto Adige n. 174 of 16.03.2001.

Moreover, if calls for bids continue to show its preference for a multiplicity of criteria to identify the "economically" more advantageous offer, there arise the problem of their effectiveness, that is to say the possibility for the authorities of deciding which offer is the most advantageous for the collectivity¹⁹.

It is evident that, in case of informative asymmetry between the subjects taking part into the "game", - we cannot forget that to this day the State was the competent authority for public transport - we can expect that, during the first tenders, the *incumbent's* offers are far from being optimal, so that this inefficiency is included in the public service contract, that is to say the collectivity has to pay for it. This "distance" between the ideal quantity of service feasible with public subsidy and the quantity actually indicated as minimum service standard will, of course, be proportional to the informative asymmetry rate, which is present on the market. In other words public service, namely the definition of minimum service standards, is likely to be measured on the strength of historical results which include an internal inefficiency, risking so to reproduce it even in the future and betraying, in this way, the true spirit of the reform²⁰.

The scarce relevance given to the possibility of increasing the offer of service with respect to the quantity indicated in the service contract as well as the lack of incentives (with the exception of the obvious increase of revenues for the company) for the increased number of passengers speak in favour of this argumentation.

For this reason it would probably be useful to dispose of a great number of surveys and benchmarking studies, in order to pinpoint the efficiency standards of the single operative structures which operate in similar contexts. For local authorities this would imply a great effort also from the point of view of their internal professionalities. After having, for years, had only programming and mainly administrative tasks, these structures should now be reinforced with economical and transport competence. That is why no region has to this day created *yardstick competition* or *price cap* systems which link public service subsidy to the achievement of certain efficiency standards by the company has won the contract.

It is important to notice that regional authorities are very interested in the integrated tariff system of public transport. It is evident that they have a double target: they want to improve the quality of the service letting the passenger use more easily different means of transport managed by different subjects - such as tram, bus, train, underground - that is to say introducing a single ticket and they want to increase the efficiency of each means of transport taking them to the ideal traffic level (for which average costs are minimal). From this point of view, in many regions the creation of a metropolitan railway network allowed a relevant expansion of the services, which are at the citizens' disposal for their displacement within the town without worsening road traffic situation.

The lack of tariff systems recording passengers' real routes (for example with a magnetic card) and of reliable surveys on the employed capacity of the means of transport can lead to conflicts in the management of the revenues from the integrated tariff system between rail and wheel operators (with the possibility of generating forms of cross-subsidy). This is more likely to happen in presence of *net cost* contracts where commercial risk is taken by those producing the service, especially in case of long term contracts and of investment plans which can influence traffic distribution quite differently.

¹⁹ Since so many elements weigh on the evaluation, it is necessary to establish a test specimen among these criteria.

²⁰ As far as LPT on wheels is concerned, in one case the incumbent was forbidden to take part into the tender, in order to diminish the informative asymmetry between competitors and "auctioneer", but this solution cannot be applied to LPT on rails, as we will see later.

6. Privatization of railway system and of LPT

As we mentioned, local public transport is undergoing a double transformation:

- on one hand, the reform of local public transport tends to privatize the production of the service itself, leaving the programming and planning phase to local authorities (Regions or Provinces) which have the task of defining the traffic areas and the so-called minimal services;
- on the other hand, the railway reform according to EEC Directive 440/91, which has taken place also in Italy, provides that transport service is left to private enterprise, while the management of infrastructures (an element which characteristically is a natural monopoly) is delegated to a subject under public control (in Italy: Rete Ferroviaria Italiana - RFI).

This leads to a sharp distinction between the privatization process of local public transport (LPT) on wheels and that on rails, even though both processes are taking place simultaneously.

In the first case market competition involves, in the ideal situation, a great number of operators negotiating with the public subject which can give them the exclusive concession the right to produce transport service, while in the second case a third subject is involved: the infrastructure manager.

Railways undertakings, then, compete for the right to produce LPT service exclusively according to the timetable, the supplementary services, the costs and the public subsidies which, in case of positive result of the tender, will later be negotiated with the infrastructure manager. It is very difficult that railway companies can ask for time paths at the moment of the call for bids; in fact, according to the procedures for assigning railway capacity, if the company does not use the capacity which has been assigned to it, the infrastructure manager must revoke the assignment and, what is more important, confiscates the guarantee which must have been lent in his favour²¹. With regard to this situation Italian present regulations do not consider the possibility for the Regions of "booking" train paths, but this "empasse" should be overcome implementing the Directive 2001/14/CE or creating regional laws on this theme.

In case the request of train paths should get closer and closer or should even exceed the offer, it arises a problem about train paths management, which has to be solved by the Italian infrastructure manager (RFI) who has already made out a complex system of priorities among the requests. If we take into consideration that the transport services mustn't be concentrated over a certain limit in the hands of a unique operator, the regional traffic has priority (in the process of assignment of train paths to the ones who have requested it), together with the high speed services on dedicated infrastructures and the goods services on dedicated lines (first priority level according to President of Republic's decree 146/1999), but in case of incompatibility among same priority services, the regional transport is favoured only in the time band 6.00-9.00 A.M..

The presence of a third subject whose task is to place train paths at disposal for the arrangement of the LPT service on rails has consequences also related to the sanctions provided by most of the service contracts in case of delay or quality decline of the service. In fact there is the concrete possibility that the railway companies are considered responsible for reasons due to the infrastructure manager. This isn't so important for the final responsibilities of the railway companies, because they still have the chance to make up for the possible damages or for the incidental charges caused by the infrastructure

²¹ Whose value is equal to the highest between the 10% of the economical value of the contract and its economical value referred to the month of greatest supply by the infrastructure manager (art. 10 "The Criteria and Operating Procedures for railways capacity allocation" and art. 1 "General Access Conditions" to the railways infrastructure).

manager, as it is important for the suitability of the penalties belonging to the service contracts drawn up by the Regions concerning what provided by the General Access Conditions (Art. 1) to the railway infrastructure.

Thanks to the new knowledge about the Local Public Transport, Regions have set up a series of investments with the purpose of improving the public service both in the quantity and in the quality. The railway industry has taken benefits from these public investments as well as from the investments provided by the present service producer (Trenitalia).

Trenitalia has foreseen to allocate 2.090 millions euro for the four-year period 2002-2005 (427 millions euro is the allocation for year 2002) which are to be split as following: 862 destined for new rolling stock buying and for restyling or revamping the already operative rolling stock, 146 millions euro for bettering safety on board, 83 millions euro for improving the information service for the passengers and for the electronic collection system, 41 for the expansion and the strengthening of the workshops.

In recent years Italian railway companies are making a big effort in order to improve the transport conditions and the quality of service of the regional transport. In the main urban areas the integrated tickets wheel+rail (bus+train) have been succeeded by the new trains TAF (High frequented train) and the TBF (low frequented trains) which have been intentionally created for the local traffic, there are 67 trains of this kind up to now and other 32 will be added within 2003; other efforts aim to improve travellers' comfort thanks to air-conditioning in the carriages, to a better cleanliness of the trains, inside and outside, to the sound information spreading.

As mentioned before, also the local authorities take part in these efforts, or at least some of them, by allocating capitals for new rolling stock buying or for the signal systems and for the travellers' information at the railway station – as seen in Liguria, Lombardia, Lazio, Toscana, Veneto, Abruzzo, Campania, Emilia Romagna, Marche and Piemonte. The chance for the local authority to invest in the local transport service is provided by the reform implementation (see, for instance, Art. 43 of the law of Regione Campania; Artt. 6 and 20 of the law of Regione Toscana, Art. 10 of the law of Regione Lombardia, Art. 18 of the law of Veneto) on condition that the incumbent of the investments can't transfer them or use them for purposes different from the ones of the local public transport (LPT).

These investments are increased by the ones which follow the drawing up of service contracts with local authorities for levels of service which overcome the minimal ones.

The nature of investments in the railway industry has repercussions on the service contracts length. Investments in equipment as the rolling stock must take into consideration that the useful life of the goods greatly exceeds the contract length, so that it becomes necessary to lay down rules for the incoming of the new concessionaire in the investments management²². The service contracts length provided by the regional laws goes from a 3 years minimum in case of direct entrusting (according to the law of Regione Lombardia) and 5 years in case of entrusting following tender procedures (law of Regione Liguria) up to 9 years maximum as set out by Art. 18 of the legislative decree 422/97.

7. The Italian reform and the European regulations

As affirmed by Boitani-Cambini (2001), the most tricky menace to the deregulation process which has just begun in Italy could come – if the law version of February 2002 should be approved by the European Parliament and by the Council – from the new Community Regulations 2000/0212(COD) regarding public services duties and service

²² It is evident that the lack of chances for the new concessionaire to succeed in the financial management of rolling stock and equipment leads the railway industry towards insuperable barriers in the entry and in the exit in and from the market.

public contracts in the field of passengers' transport on rails, on wheels and on inland waters.

Another theme purposely faced in the Regulations is that of the controlled competition instead of deregulation or privatization of the local public transport (LPT) service as an instrument for making the public transports more efficient and attractive, but what is most important is that the regulations give large discretion to local authorities about the market opening to competition and about the nature of the subject which will carry out the local public transport service.

The last version of the Regulations has risen (art. 7) the maximum threshold standard value "de minimis" on the base of which the local authority can entrust the service without tendering, bringing the threshold from an annual average value of 400 thousands euro to one million euro in case of entrusting more services and from 800 thousands euro to 3 millions euro in case of entrusting a whole network service. In these cases the public authority has to inform in advance that it isn't going to call for tenders, in order to give anybody the chance to present different proposals about the realization of the same public service. In this way the authority forces the public subject to value them and to express the reasons for the possible acceptance or rejection, but it must be considered that in this way the small urban centres could be completely excluded from every competition, probably the ones that have economically undersized company activities and which are less equipped (because of their size) for making comparative valuations on inhomogeneous basis (differently from what it would happen if they would call for public tenders).

Moreover, the new Art. 8 gives the local authorities the direct possibility to supply the local public transport service, taking in this way a step backward towards the sharp gap, indicated also in many regional laws, between the moment of the transport service planning and the moment of the public service real production. Besides a conflicting interests will come out between regulated and regulators, so that in many cases they would end up coinciding.

The solution provided by Art. 9 seems to be quite odd, as it would impose to subcontract part of the services if the public tender winner should concentrate prominent market shares in itself. It is clear that the community legislator considers valid a certain level of competition only by a minimal number of operators rather than by the possibility of "hit and run" behaviours acted by the new possible elements, so the market contention increases, rather than the number of operators.

In order to amortize investments the art. 6 finally provides a maximum limit for contracts length of public services, for transport on rails, higher than what is normally indicated by the regional laws: 15 years. Such a large time could produce the risk of opportunistic behaviours from the transport system management which could reflect on the ability of the reform to affect the costs of transport services and the services level offered to the citizens.

8. Prospects and problems

Even if the terms foreseen for the tenders beginning are quite close to each other, there are two Regions in Italy, according to a survey conducted in the first half of 2002, which are closer to the announcement of the tenders. The two are Liguria and Lombardia, which have chosen different ways to carry out the service privatization. Liguria, in fact, is going to call for only one tender for the whole regional railway service, whereas Lombardia has "broken" the railway network in different basins which will be entrusted through tenders during the period 2004-2008.

The choice of Lombardia is based on the fact that the times to achieve a complete rolling stock, differently than in the TPL on wheels, are extremely long²³; moreover we have to consider that, following the TPL reform in Italy, the railway industry can acquire the rolling stock property even if it has been financed by the State or by the Regions (or other local authorities), so we can't do anything but retain difficult that other subjects, which are not the incumbents, can take part in the tenders, unless the tenders are announced in advance (years before). This problem is reduced in case of non-electrified railway lines because the delivery time of diesel trains and tractors are shorter (so the times for the birth of new railway industries are reduced) and because the lack of an electrified railway line with the same voltage remains one of the main barriers for the entrance of foreign railway systems.²⁴ These facts point out that one of the obstacles to the realization TPL targets reform is the lack (up to now?) of an independent subject (an agency for instance²⁵) to whom it is possible to entrust the property of the rolling stock with the subsequent exclusive task to give the management, by means of leasing contracts, to public service concessionaire railway systems. All this lets us think that the first tender session should end up with the confirmation of the present service transport managers, but this doesn't mean that there won't be improvement in the service quality and in its cheapness.

The tenders should set off as a consequence a new interest in enterprises which already have the railway licence and the safety certificate, that's to say the ones which manage the railway lines in administrative concession and which could be soon interested in acquisitions, joint-ventures, copartnerships. A still open question is the one regarding the future chance of having multimodal public transport services. This solution would allow to make real tariff coordination for the different transport modalities involved, avoiding the possible competition among different transport systems²⁶. It is an idea which seems to be feasible in some Regions – such as Lombardia, where it will be probably applied to the Brescia-Edolo line – whereas it isn't considered as a valid solution in other Italian Regions.

9. Conclusions

Railway transport is experiencing a difficult transition from public production and centralization in planning and management of service and infrastructure to market-opened service management and regionalization of a great part of transport planning (that is to say everything which is not considered of national or international interest, implementing subsidiarity). In Italy - but there are significant analogies with France and Germany and, partially, also with the United Kingdom - the first feature of this new order is based on the implementation of the EU regulations which aim to separate infrastructure management and service production (de-verticalization) and on the contemporary liberalization of the latter by means of concurrence for the market. The second feature is obtained by delegating to the Regions (Bassanini reform) the planning of regional and local public transport (regional plan for transport, triennial program for local public transport service), the definition of transport service in order to satisfy citizens' request for mobility (minimum service standard), the regulating function by means of the choice of service manager (as mentioned, by means of competitive procedures), the control on manager's activity (by means of the service contract).

²³ The Regione Lombardia has esteemed that the average time between the order and the delivery of a train is about three years.

²⁴ It is known that the EU countries have electrified lines with different voltages, so the interchangeability is guaranteed only thanks to tractors able to adapt themselves to different voltages (much more expensive than the ones used in the single national lines).

²⁵ Regarding independent authorities in the transport field, see also Boitani (2000).

²⁶ Regarding competition among alternative transport modalities see also Marchese (2000).

This system, based on the principles of liberalization (and potential liberalization) and regionalization seems to be apt, at least theoretically, to increase both production, by reintroducing competitive and free market mechanisms, and service efficiency with regard to the needs of the local community, by empowering regional government.

Consequently, railway transport is going to play an important role, as far as urban and metropolitan mobility is concerned. In particular, it is fundamental for government strategies of big metropolitan areas, because it allows increasing contemporarily efficacy, efficiency and sustainability of transport, while other kinds of strategies present some trade-offs for the achievement of the different goals. However, if we consider the liberalization processes, which have been taking place in transport field for about twenty-five years, as a complex, the introduction of competitive principles met more difficulties in local transport. Avoiding any consideration on de-verticalization in general (the question has already been examined in other chapters of this book), the possible dangers for the implementation of the global project for regional railway transport represent, at the same time, the items at the agenda of policy makers. They can be defined in this way:

1. Role confusion and consequent conflicts or collusion. The outlined scenario presents a complex system with many actors. For this reason it is fundamental that the roles of the Region (regional mobility planner and institutional service claimant), of the infrastructure manager and of the service manager are well defined. The complexity of the situation and the attempt to protect pre-existing interests can, on the contrary, lead to a partial clash of functions, as we have seen for the constitution of regional railway companies. This leads to many possible conflicts of interests and/or collusion, as we have already mentioned: between Region and tender winner, between infrastructure manager and railway transport companies (for train tracks²⁷) or between Region and incumbent, in case the latter is the favorite service trustee for political, social or labour reasons.
2. Advantages for the incumbent. They derive from the potentially different access to the inputs (the mentioned problems concerning the assignment of tracks, the property of rolling stocks, the training of personal), from the dimension of other operators (if the pre-existing operators are too few or too little), from political and labour pressure (as partially mentioned in point 1, which are caused by the preference to maintain the status quo).
3. Planning difficulties. In addition to a frequent technical insufficiency in need planning by regional authorities, the more important aspect is the real definition of minimum service standards. In fact, they risk coinciding with those, which can be obtained with the existing state transfers that are "historically" determined. This would thwart the concept of the reform as far as the responsiveness of regional request to the real needs of the users is concerned.
4. Difficulties connected with competitive procedures. The problems mentioned, particularly in § 3, can let tenders become tenders for management, maintaining unchanged the situation rents, the entity and the cost of personal, the existing service, thwarting the possibility of increasing service efficiency and efficacy.
5. Difficulties connected with service contract. There are many problems deriving from the implementation of the service contracts between Regions and railway companies. In particular they are due to:

²⁷ It is necessary to mention that another difficulty could be arise from a recent EU attitude tending to divide the use of the network in "nodes" and "arches", in order to let pay more the use of the former with regard to the latter. For local transport, which is based on nodes, this would mean that it should pay the most of the use of infrastructure network.

- the definition of the kind of contract (art.19 c.1 of decree n.422/1997) and, in particular, the opportunity to sign net cost contracts, in order to stimulate service trustee not only to reduce costs, but also to increase revenues;
 - the definition of the kind of incentive for the improvement of efficiency by the service manager(art.19 c.4 of decree n.422/1997);
 - the evaluation by the Region of the real fulfillment of contract commitments and the real possibility of punishing possible breaches;
 - the evaluation of service quality standards;
 - the difficulty to have a feed-back as far as the fulfillment of the goals and the final request needs by the service producer are concerned;
6. Difficulties deriving from the generalized use of competitive procedures, in order to increase functional and tariff integration with the transport on wheels and, in general, with the urban and metropolitan transport, which is produced by other companies;
 7. Difficulties in activating construction and management concessions (project finance), since the service production must be delegated with a competitive procedure;
 8. The insufficient financial and taxing autonomy of the Regions. This is a, so to say, "transversal" problem which involves many sectors of economy and which influences many of the above-mentioned points.

Apart from the above- synthesized difficulties, this reform could lead to deep changes in regional railway transport and, plausibly, also in the offer (cost reduction, reorganization and rationalization of the network, increased labour unrest), in the market (bilateral monopoly situations where the distinction of roles and a real liberalization, followed by a possible privatization, seem to be fundamental), in the cost for users (increased tariffs, greater attention to the final client by companies which, up to now, were mainly oriented to production). On the other hand, we can say, without exaggerating, that the keeping of regional socioeconomic systems depends by the sustainability of the short-range transport system and that railway transport plays a fundamental role, at least in some kinds of "urban systems". In fact, the suitability of local public transport is strongly linked to the typology of metropolitan growth: railway transport can be the right one in a monocentric radial urban system (cities belonging to the "industrial triangle", but also some big cities of Southern Italy), but even more in polycentric diffuse systems (such as, for example, those of Veneto and Tuscany), while those urban fabrics reproducing ad infinitum the same "module" around elevated service standards are, inevitably, based on individual transport on wheels (but they are not very diffuse in Italy and in Europe).

With regionalization the Region becomes the centre of transport networks, according to a logic which foresees the interconnection between international networks (such as Trans-European Network), national high speed/capacity networks and local transport on rails and on wheels. From this point of view, the regional government of request definition is fundamental in order to optimize the interface with national (railway) transport and with local transport (on wheels, collective and individual).

In this way railway transport planning and management can become one of the linchpins of competition among territorial economic systems and railway transport could get back, at least partially, that role of localizing factor that it had during the industrial revolution, that is to say between the half of the 19th and the first decades of the 20th century, when it was essentially a freight transport.

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