

## Does the drop in Spanish high-speed train prices constitute an act of unfair competition?

When the owner of the infrastructure and the train operator companies are both managed by the government, the rail infrastructure fee policy set may prompt unfair competition with other transport modes, such as the bus for short routes or the plane for long distances. This could be the case of the Spain's state owned transport company, RENFE, and the railway infrastructure owner, ADIF, as an analysis carried out by a European team of researchers has shown. The prices of "AVE" high-speed train tickets, though they have now increased slightly, have been frozen since the 11% drop in 2013.

SINC

13/3/2017 08:34 CEST



AVE high-speed trains. / [Mikel Ortega](#)

The National Commission on Financial Markets and Competition fined Renfe and the German group, Deutsche Bahn, for hindering the liberalisation of freight movement by rail in Spain, through arranged agreements and practices that limit the competitive pressure of other train companies. RENFE believes the fine, amounting to €75.6 million, to be disproportionate and

unfair.

This may not be the only case of unfair competition attributed to the main railway operator in Spain, according to a study carried out by researchers from the University of Southampton and the Polytechnic University of Madrid. After analysing the effects of the drop in prices applied by Renfe to its AVE tickets in 2013, they detected "that when the owner of the railway infrastructure (ADIF) and the train operating company (Renfe) are both managed by the Government, the railway infrastructure tariff policy can generate unfair competition at the expense of other transport modes".

Specifically, for short routes connecting small and medium-sized towns with large metropolitan areas, the increase in AVE demand hinders other transport modes such as cars and buses, while for long routes connecting large cities, such as Madrid and Barcelona, the increase in AVE passengers is made at the expense of air transport, according to the study published in 'Transportation Research Record: *Journal of the Transportation Research Board*'.

These results are based on an analysis to estimate the price elasticity of demand, a measure used in economic analysis to study how sensitive is the demand when prices change. In this study it was applied to the price of AVE tickets which, although prices did increase slightly this year (around 1%), they had been frozen since the drop of at least 11% implemented four years ago.

As a result of this new pricing scheme, the Spanish high-speed rail service gained 8.3 million passengers between 2013 and 2016, ending with a record 35.2 million passengers using the AVE and long-distance services. The trend has continued in 2017 and over 1.3 million passengers used the AVE in January of this year, representing a 7.5% increase compared with the same month last year.

"The price drop was positive for Renfe, since increased the number of passengers and its revenues too, but it was not so positive for other transport modes, which lost users and believe they have been hit by unfair competition as a result of the price decrease," commented the main author of the study, the Spanish researcher, Alejandro Ortega, from the University of Southampton.

“And in some way these other transport companies are right – he added-, since the annual fee paid to ADIF by Renfe for using the railway infrastructure covers about 50% of total infrastructure costs”. The rest is paid by the Government through subsidies.

The study also highlighted the advantages of the high-speed rail service, such as travel time savings for passengers, the improvement of territorial cohesion, economic development and environmental benefits, but the elevated price elasticity of demand identified suggests that it could harm the rules of fair competition between transport modes. “The main recommendation would be for Renfe, a state owned transport company, to increase its transparency,” concluded Ortega.

#### References:

Ortega, Alejandro; Guzman, Andres Felipe; Preston, John y Vassallo, Jose Manuel. “Price elasticity of demand in high-speed rail lines of Spain: impact of new pricing scheme”. *Transportation Research Record: Journal of the Transportation Research Board* 2597: 90-98, 2016. (<http://dx.doi.org/10.3141/2597-12>).

Copyright: **Creative Commons**

TAGS

AVE | HIGH-SPEED TRAIN | TRAINS | UNFAIR COMPETITION |

Creative Commons 4.0

You can copy, distribute and transform the contents of SINC. [Read the conditions of our license](#)

