2nd International Conference “Antimonopoly policy: science, education, practice”
“Antitrust in the New Economy”

Tariff Regulation: Can We Learn Something From The French Case

Pierre-Alexandre KOPP
Professor at Panthéon-Sorbonne University
Lawyer at the Paris Bar

December, 6 - 7, 2016
Moscow (Russia), Skolkovo Innovation Center

CONTEXT

- **Infrastructure is far from being “new economy”**
- France and Russia are building new speed trains (Moscow-Kazan (Beijing?)
- Funding: Russian budget + Chinese loan.
- Question:

  - how the trip must be priced?

  - High enough to refund the cost of the project
  - Low enough not to use monopoly power to extract the rent from the users

  - how the contract must be designed?

  - concession ? Public Private Partnership ?

AIM OF THE PRESENTATION

- In France, RFE owns the network and SNCF pays a rent to use it.
- The **amount paid does not cover the total operating cost of RFE**
- This low amount is the result of **political compromises** in order to maintain the price paid by the users low enough
- This amount **is not based on a theoretical approach**.
- EU commission recommend to use the **marginal social cost pricing theory.**
- French experience suggests **it is not the good way to follow.**

MSC PRICING

- MSC says: the price must equal, at the margin the social cost of the ride (private cost plus externalities=price).
- This tariff regulation is supposed to guarantee **the optimal usage of the infrastructure.**
- Three problems
  a) It is true **only if the amount of infrastructure is also optimal**. Imagine a non-efficient infrastructure correctly priced at the MSC. **The whole is not efficient.**
  b) MSC **is too low to refund the fixed cost.**
  c) MSC **is a blurred concept in the field of railways infrastructure**

- either, **the infrastructure is not fully used** (saturation) and the price must be equal to MSC and **equal to zero.**

-either, the infrastructure **is fully used** and then the MSC reflects only the marginal cost of one more user and it is **impossible to calculate**. Who knows the impact of one passenger on the total cost?

ALTERNATIVE TO MSC PRICING

- **Ramsey-Boiteux pricing**. Impossible if you have only one line (Moscow-Kazan)
- **Discriminant pricing**. Rich and poor pay according to their price elasticity's. Only two or three classes (economic, business)
- **Binomial.** Fixed cost = subscription and variable cost= price. Good for electricity not for trains.
- **Full cost**. Better.

FULL ECONOMIC COST PRICING

- What is **the full cost** of the building and maintaining of a train infrastructure?

  Full cost = opportunity cost of the public and private fund

  - public fund: marginal cost of public fund*public fund.

    The welfare cost to raise 100 euros is 120 euros

  - Private fund: total cost of the loan*opportunity cost of private capital (100 is 105)

- **Then users price**. It must be equal to **full cost divided by traffic forecasting**

WHAT IS DONE IN REALITY?

- **Traffic forecast are overestimated** (is there really enough traffic to make as speed train Moscow Kazan profitable?
- **Users price are too low**. It just covers the cost of maintaining the infrastructure
- **In France, users pays only 50% of the economic cost of building and maintaining the railway infrastructure**
- Positive: **good for mobility**
- Bad: **distortion with planes and cars**
- Bad: **current public debt is tomorrow’s raise in taxes**