An update on competition in rail passenger transport in Sweden

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Outline

- Overview of regulatory changes and current organisation
- Experience and effects of reforms
- A closer look at open access competition Stockholm-Gothenburg
- MTR v. SJ in cases of complaints to the Swedish Competition Authority
- Recent Government initiatives

Overview of changes in regulatory structure (passenger rail transport market access)

Part of passenger rail transport market	1988	2021
Regional (non-profitable)	SJ holds monopoly and receives subsidies	Procurement by competitive tendering (competition *for* the tracks); since 1990 Open access (competition *on* the tracks); since 2011
Inter-regional (non-profitable)	SJ holds monopoly and receives subsidies	Procurement by competitive tendering (competition *for* the tracks); since 1993 Open access (competition *on* the tracks); since 2011
Inter-regional (profitable)	SJ holds monopoly	Open access (competition *on* the tracks); implemented step-by-step 2009-2011

Current organisation of Swedish railway sector – some characteristics (1)

- Institutional vertical separation between infrastructure and train operations (since 1988)
- Mixed market access models (competition for and on the tracks)
- National multi-modal authority Trafikverket (Swedish Transport Administration) is the main (80%) rail infrastructure manager, with strong focus on procurement from external contractors
- Trafikverket also handles the annual path allocation, completely independent of any train operating company
- Train operating companies (and other organisers of train services) apply for paths and pay track access charges
- Horizontal separation between passenger and freight operations
- Railway stations owned/managed by several different actors; the most important ones by real-estate company Jernhusen
- Decentralised responsibility for regional passenger train services to 21 county public transport agencies (PTAs, controlled by municipalities and counties with their own taxation power)

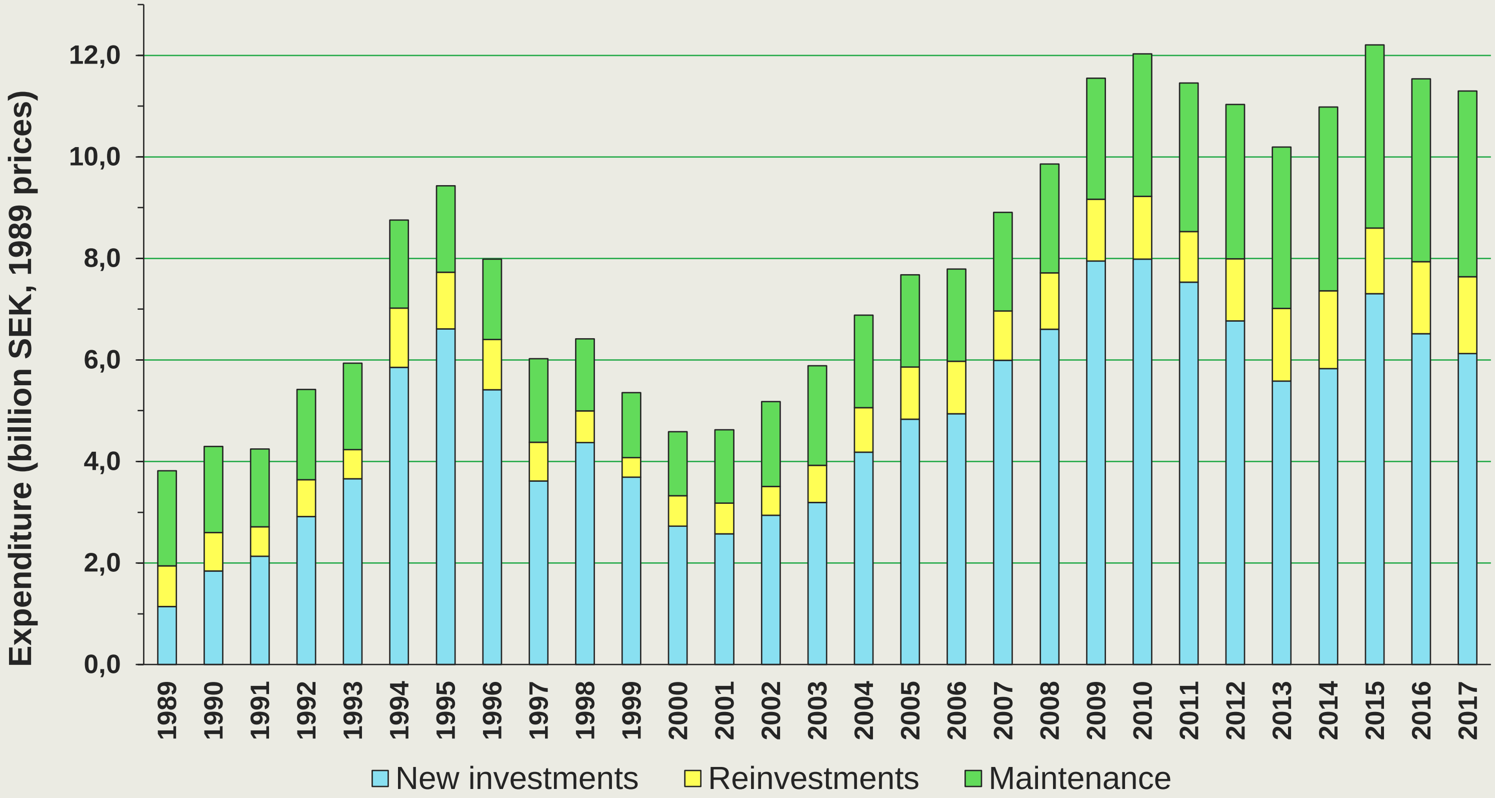
Current organisation of Swedish railway sector – some characteristics (2)

- Tendered regional passenger services:
  - The procuring authority typically provides the rolling stock
  - The authority decides on fares and may collect the revenues from fares (depending on contract type)
- Open access passenger services:
  - Train operating companies have their own rolling stock
  - No price regulation, i.e. operators decide on fares and collect all revenues from fares

Experience and effects of reforms in Sweden (in summary)

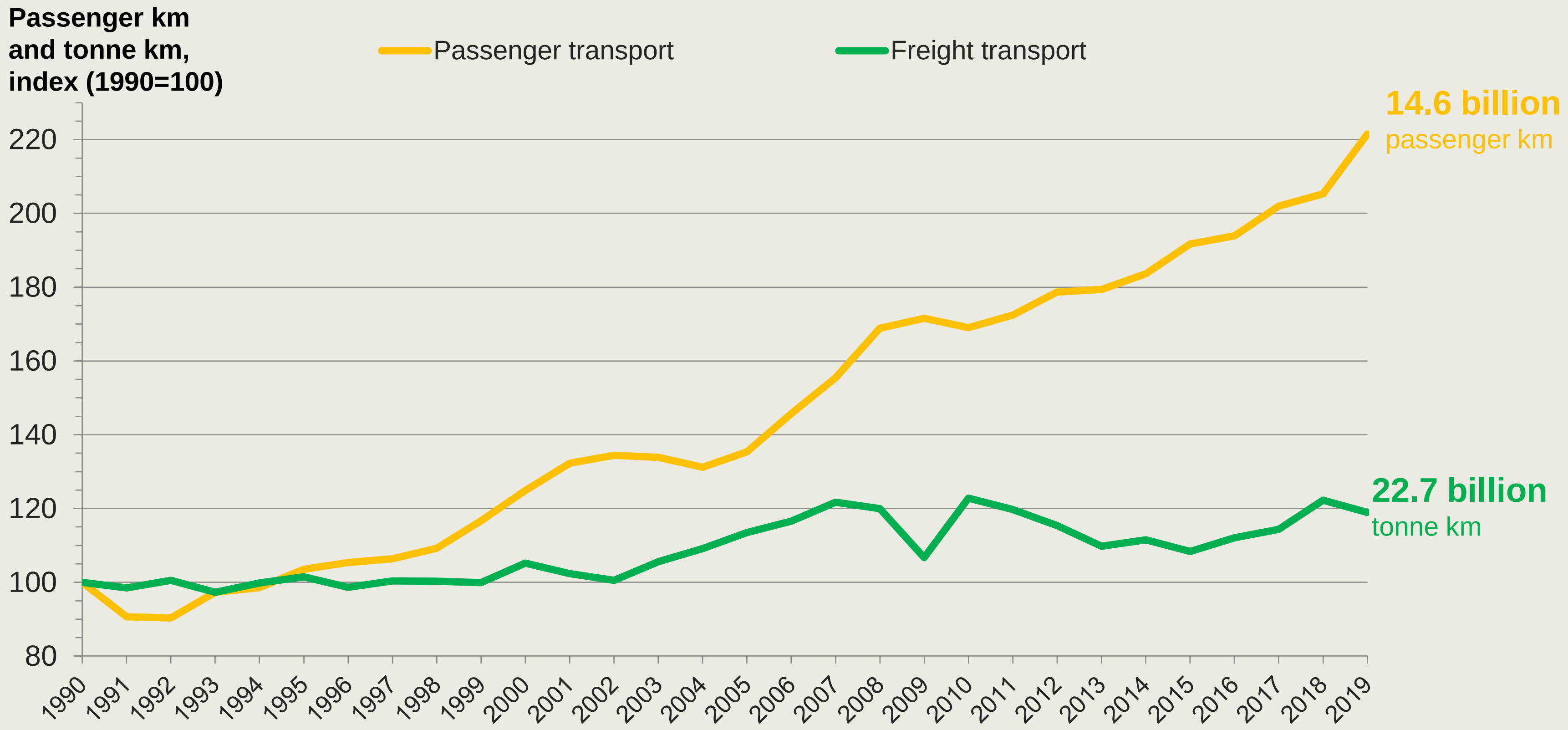
- Increased investments in rail infrastructure
- Strong local and regional commitment to develop the supply of passenger services
- Strong growth in demand (even increasing market share)
- Improvements in productivity
- Appearance of several new entrants, reducing the market share of the incumbents
- Tendering leading to reduced need for operating subsidies (initially 10-25%) but also strategic bidding
- Results in tenders are commonly challenged in court by losing parties
- Innovations, new pricing models (dynamic pricing, yield management)
- Increased supply and falling prices following open access competition
- Punctuality and capacity constraints recurrent issues of concern

Rail infrastructure investments and maintenance



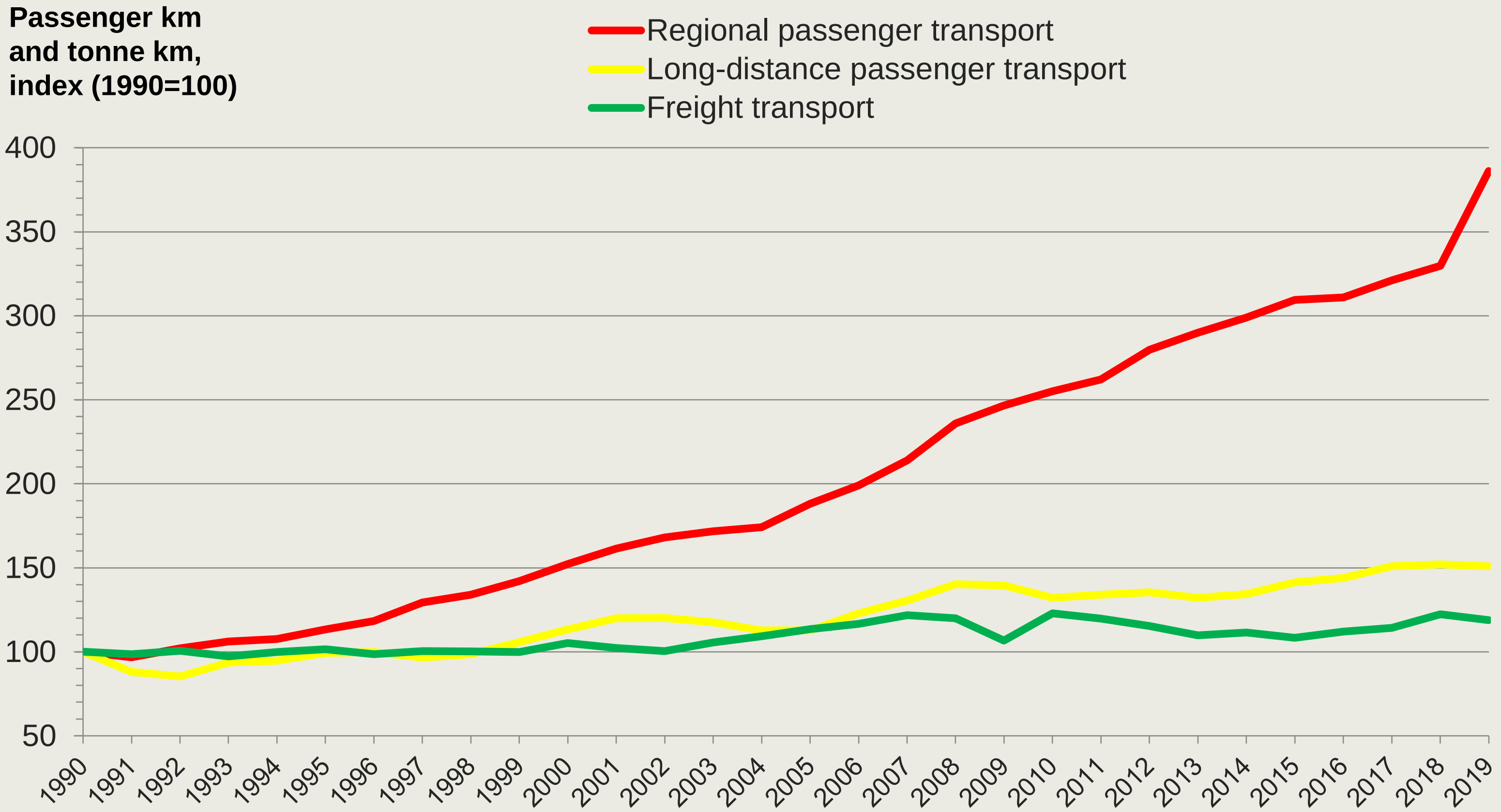
Source: Trafikverket

Development of demand (1)



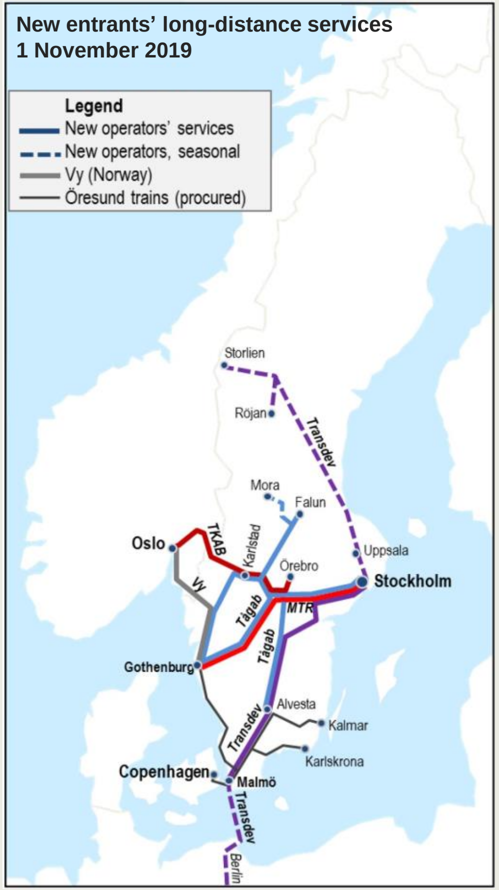
Source: Trafikanalys

Development of demand (2)



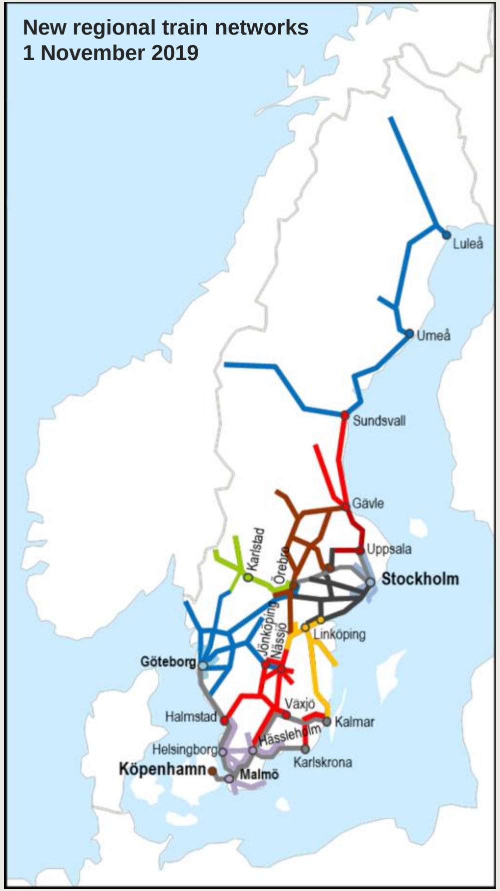
Source: Trafikanalys

Long-distance services

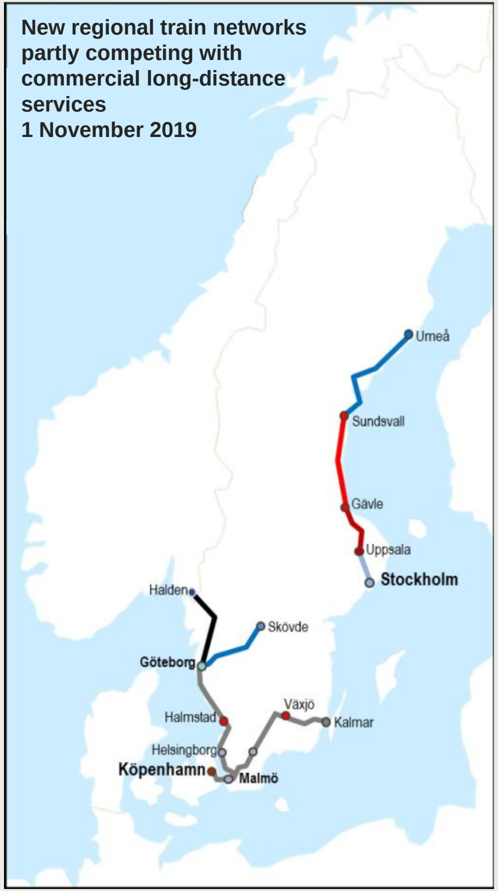


Source: Nelldal, Andersson & Fröidh, KTH (2020)

Regional services



**New regional train networks
1 November 2019**



**New regional train networks partly competing with commercial long-distance services
1 November 2019**

Source: Nelldal, Andersson & Fröidh, KTH (2020)

Market entry in passenger services 1: *Tendered services*

1990	*BK Tåg* new entrant for local/regional train services in Småland and Halland
1995	*Sydtåg* new entrant on single line in Skåne
1998	*Linjebuss* new operator on local line in Stockholm; *CGEA* [later *Connex*, *Veolia*, ***Transdev***] new owner
2000	Break-through for new entrants (*Citypendeln* [later *Keolis*], *BSM Järnväg*, *Tågkompaniet*, *Sydvästen*) following several important tenders
2006	*NSB* [today ***Vy***] new majority owner in *Tågkompaniet*
2007	***Arriva*** new entrant for Pågatågen commuter trains in Skåne
2009	*DSB First* new operator for Öresundstågen (early exit in 2011)
2016	***MTR*** new contractor for Stockholm commuter trains

Companies in **bold** are still operating in 2021

Market entry in passenger services 2: *Open access services*

2008 For a couple of months (June-October), *Unionsexpressen* operates daily services between Stockholm and Oslo

2010 *Veolia* [later ***Transdev/Snälltåget***] starts daily services between Stockholm and Malmö (expansion of 2009 weekend service); later adds seasonal trains to Berlin

2011 *Skandinaviska Jernbanor* starts daily services Uppsala-Stockholm-Gothenburg (safety certificate withdrawn 2016; traffic overtaken by Hector Rail, exit in 2019)

Tågåkeriet starts new direct line between Gothenburg and Dalarna region

2013 *Tågkompaniet* [today ***Vy***] starts weekend service Ludvika-Västerås-Stockholm

2015 ***MTR Express*** starts frequent daily services between Stockholm and Gothenburg, with all-new vehicles

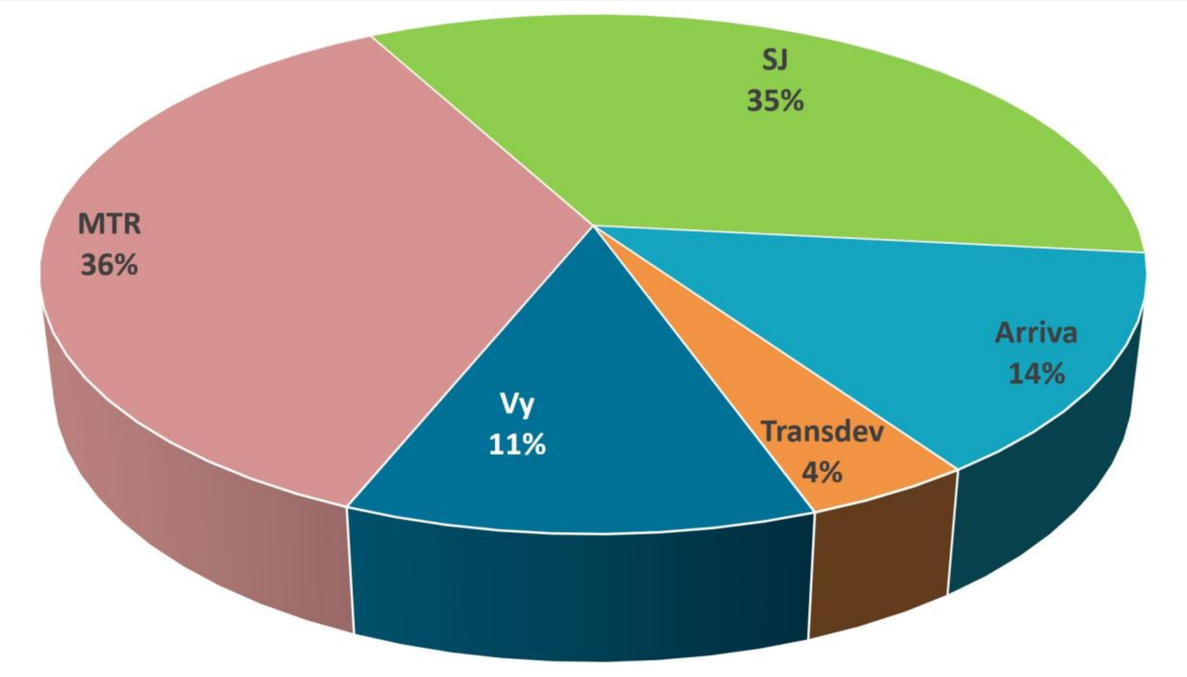
2018 For a couple of months (February-June) *Saga Rail* operated daily services Stockholm-Linköping

2021 ***FlixTrain*** starts daily low-cost services between Stockholm and Gothenburg

Companies in **bold** are still operating in 2021

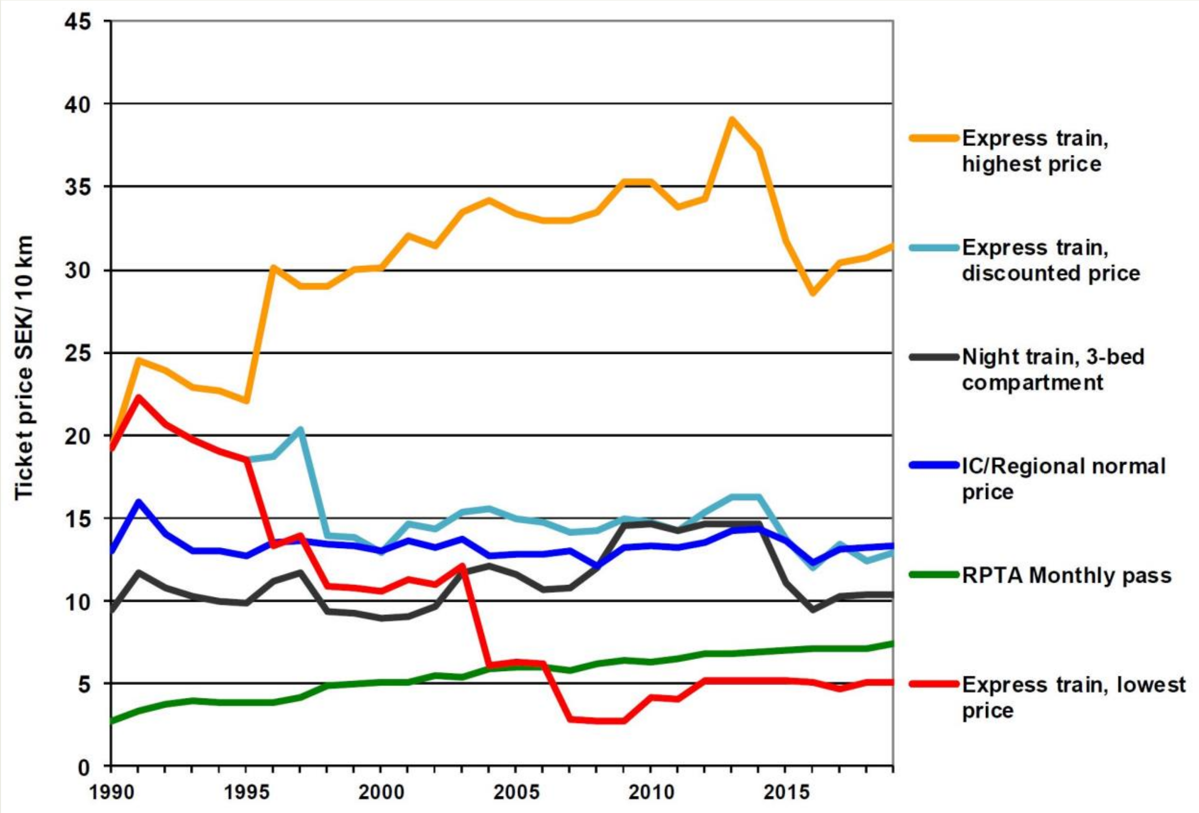
Market shares in tendered train services

Estimated shares (turnover) of total market (EUR 700 million) including contracts starting in 2022



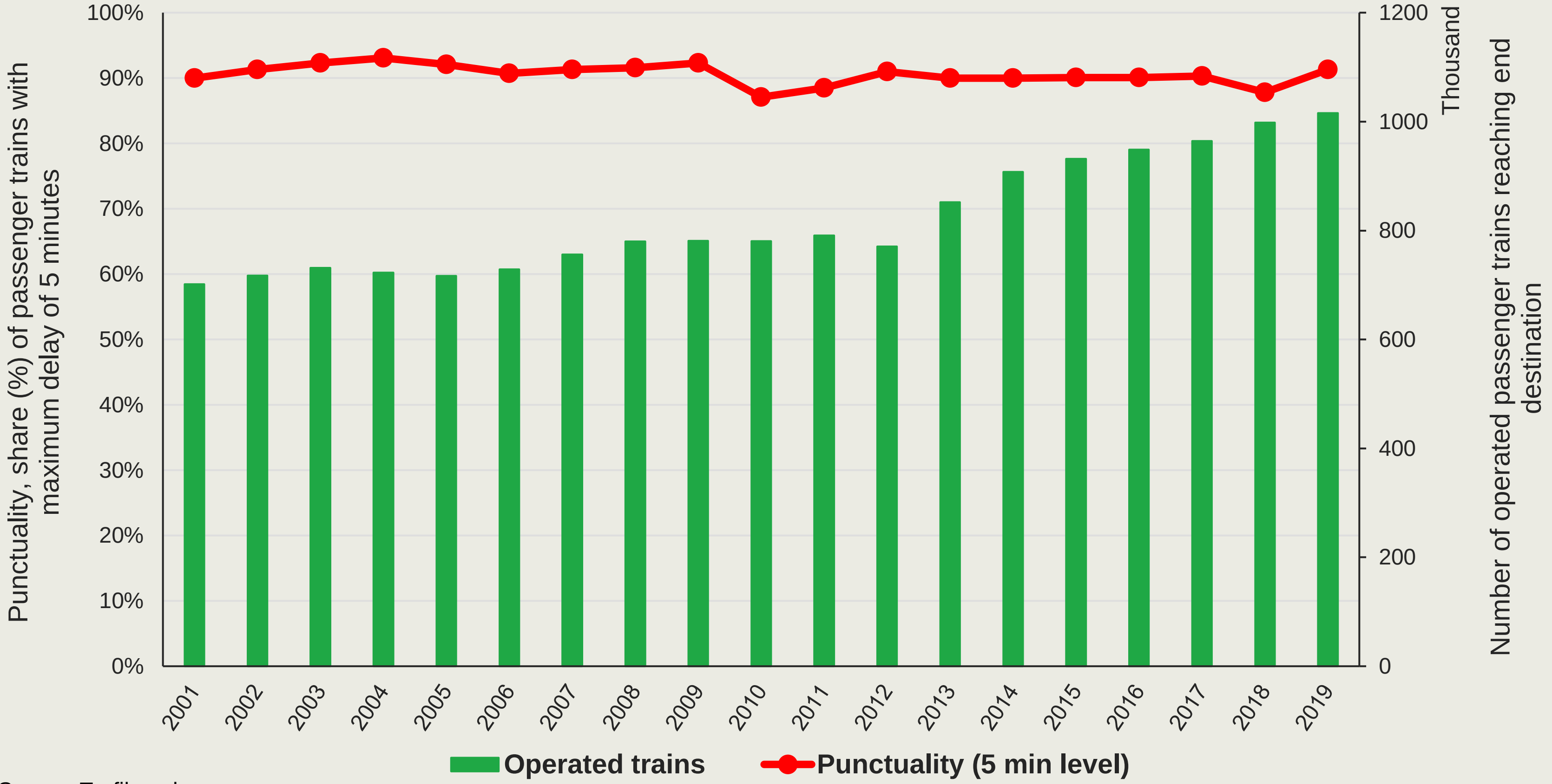
Source: SJ AB

Ticket price development (2019 price level)



Source: Nelldal, Andersson & Fröidh, KTH (2020)

Punctuality and operated trains



Source: Trafikanalys

Open access competition Stockholm-Gothenburg

SJ AB (incumbent)

- 18 daily departures, frequent stops
- Connections with own train services and other public transport
- Refurbished Bombardier X2 tilting trains
- 2 classes and 3 flexibility options
- Travel time: 3 hours

MTRX (entry in 2015)

- 8 daily departures, only a few stops
- No connecting services
- New Stadler Flirt trains
- Single class with 3 flexibility options
- Travel time: 3h 15 min

- MTRX tickets on average 25 % cheaper than SJ
- SJ's prices falling 13 % but passengers increasing 7 %
- MTRX showing steady increase in revenues but not yet profitable

FlixTrain (entry in 2021)

- 2-3 daily departures, only a few stops
- Connections with own bus services
- Refurbished wagons and Siemens locomotives
- Single class with comfort add-ons
- Bike spaces onboard
- Travel time: 3h 30 min

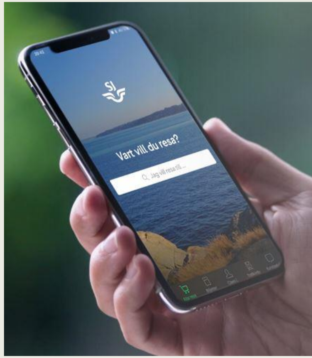
MTR v. SJ in cases of complaints to the Swedish Competition Authority (1)

- MTR early on asked for access to SJ’s online sales channel, at the time primarily represented by the website www.sj.se and a corresponding mobile version
- SJ refused to give access to its online sales channel, but did offer MTR access to the backend booking system Petra (including all rail services and public transport services), provided by its subsidiary Linkon (later acquired by SilverRail, now owned by the Expedia Group)
- MTR filed a first complaint to the Swedish Competition Authority (SCA) in April 2014, arguing that SJ’s online sales channel was an essential facility for entry to the long-distance passenger railway market, and that the refused access would lead to considerable higher investment and marketing costs

- The SCA rejected the complaint in May 2014, after concluding that SJ’s online sales channel could not be considered an essential facility and that there were no technical or legal obstacles for MTR to establish its own sales channel

MTR v. SJ in cases of complaints to the Swedish Competition Authority (2)

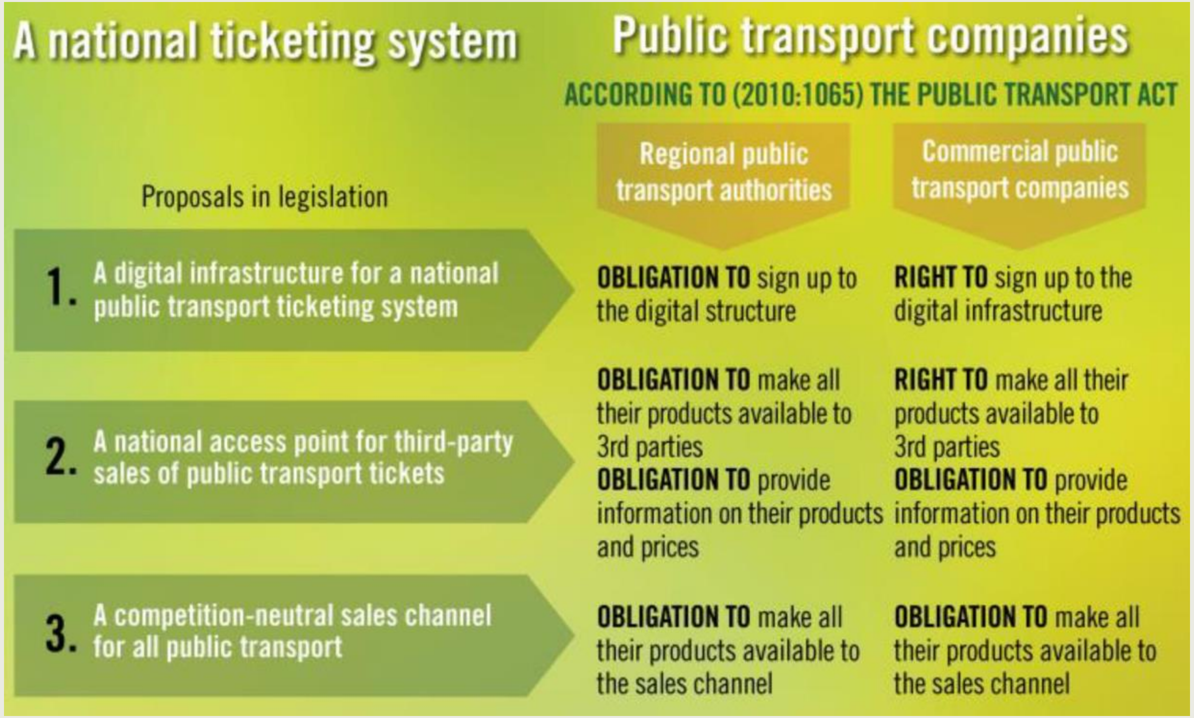
- MTR filed a second complaint to the SCA in April 2018, arguing that:
  - ➢ More information showed the dominance and essential nature of SJ’s online sales channel
  - ➢ Resulting higher costs for marketing etc had severe financial implications for MTR
  - ➢ SJ’s online sales channel had been developed and publicly funded during the period when SJ still had a legal monopoly
- SJ argued e.g. that:
  - ➢ The development of its online sales channel happened after it became a fully commercial company, and thanks to substantial own investments it had been revamped (including a shift of sales to its mobile app) in recent years



- In June 2019 the SCA again decided not to proceed with further actions, but this time without taking any firm positions on the legal issues at stake
- Instead, the SCA argued that applying the Competition Law would not be the most effective way of handling the perceived problems on the market. For example, forcing SJ to sell MTR’s tickets would only strengthen SJ’s sales channel
- The SCA also recommended the Government to look further into a possible regulation of tickets for commercial train services

Recent Government initiatives (1)

- In August 2019 the Government appointed an investigator to look into what would be required to introduce a national ticketing system for all public transport services in Sweden
- The report, published in April 2020, included 3 main legislative proposals:



Source: SOU (2020:25)

So far, the Government has only initiated the implementation of the first proposal, by means of allocating partial financing

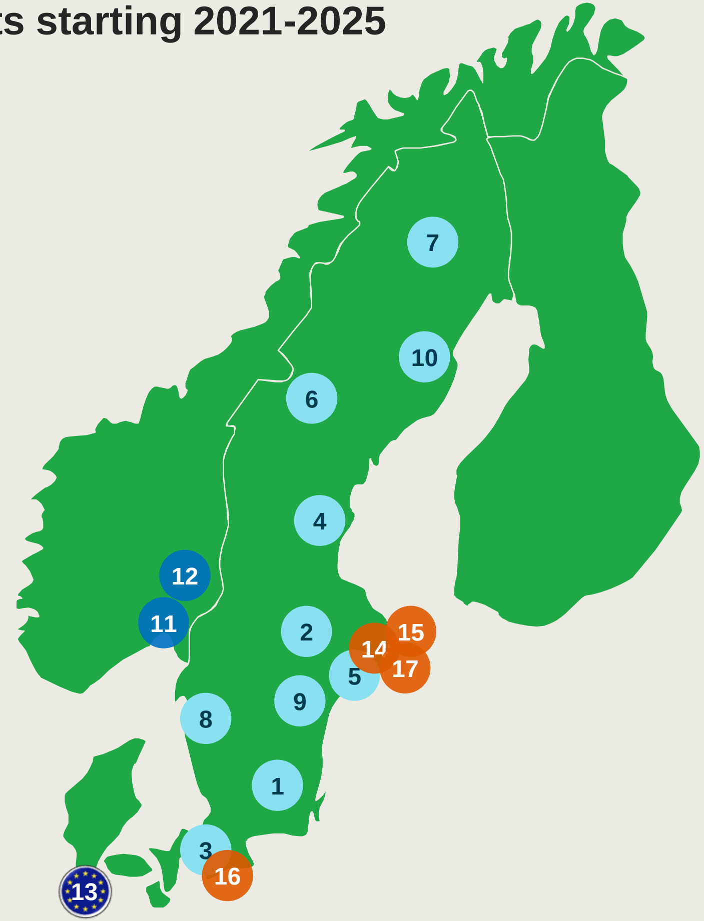
Recent Government initiatives (2)

- Following an investigation in 2019-2020, the Government asked the National Rail Administration (Trafikverket) to make a state procurement of daily night trains from Sweden on two international lines:
  - ➢ Stockholm-Hamburg
  - ➢ Malmö-Brussels
- The procurement was set up as a competitive tender to be followed by a direct award
- In August 2021, SJ was announced as winner on the line Stockholm-Hamburg, while the second line attracted no bids
- Traffic to start in August 2022 with contract lasting 4 (+2 optonal) years
- The PSO only allowed to cover the traffic to the border between Denmark and Germany. From there, the night trains are supposed to run on a commercial basis
- Additional precautions to avoid unfair competition with existing seasonal commercial services

Railway traffic tenders in the Nordic countries – contracts starting 2021-2025

	Tendered traffic	Turnover/ year (MSEK)	Million trips/year	Time of tender	Contract start
1	Krösatågen (incl. Kustpilen)	330	3.5	2020	Dec 2021
2	Mälartåg (incl. Upptåget)	700	14	2019-2020	Dec 2021
3	System 3	110		2022?	Dec 2024
4	X-trafik	80	1	2023	Dec 2024
5	Saltsjöbanan	150	4	2023	Dec 2024
6	Night trains Jämtland	120	0.1	2023	Dec 2024 **
7	Night trains Övre Norrland	460	0.7	2023	Dec 2024 **
8	Västtågen (incl. Kinnekulle)	800	22	2023	Dec 2024 ***
9	Östgötapendeln	130	4	2023-2024	Jun 2025 ****
10	Norrtåg	200	2	2024	Dec 2025
11	Package 4 (Øst+Oslo local trains)	1 300	29	2020-2021	Dec 2023
12	Package 5 (Oslo corridor)	900	31	2022-2023	Dec 2025
13	Night trains to Europe	300-500		2020-2021	Aug 2022
14	Spårväg City & Lidingö	170		2021	Dec 2022****
15	Stockholm Metro	3 800		2021-2022	Nov 2023?**
16	Lund tramway	70		2021	Dec 2023
17	Tvärbanan & Nockebybanan	230		2023	Dec 2024

** 2-year option in current contract
*** 3-year option in current contract
**** 4-year option in current contract



Thank you!

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