Railway liberalisation in Sweden

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The Swedish railway reform in brief

• 1988 – Separation of track (Banverket) and operation (SJ) to increase transparency, financial stability and commercialisation of rail transport
• 1990 – Creation of a railway safety body
• 1990 – (Competitive) tendering of regional/local rail passenger transport
• 1993 – (Competitive) tendering of inter-regional rail passenger transport PSC’s
The Swedish railway reform in brief

• 1996 – Capacity allocation, traffic control and time-tabling functions transferred from incumbent SJ to an independent unit within the infrastructure manager
• 1996 – Opening of the domestic railway freight market
• 2001 – Division of SJ into seven different companies
• 2004 – Creation of a rail regulator (and safety body) and EU harmonisation (new railway act)
• 2010 – Full open access on rail passenger transport services
• Separation of track and operations has had a positive effect on the development of the Swedish railway sector
• The presence of competitive tendering has decreased costs
• Ticket prices increased faster than consumer prices
  • Reduced subsidies in local and regional services
  • Introduction of the high-speed train concept
• The control of essential functions within the incumbent has had a negative effect on the market
Effects of the railway reform

• Local and regional transport
  • Minor competition effects in the beginning
  • Not all transport authorities used the possibility of competitive tendering, but when tendering was used, few bidders (2-3 on average)
  • Still, cost reductions by some 20 percent in those cases, sometimes used to increase supply
  • Increased financial support for and focus on rail solutions, but low cost recovery rate
  • Conflicts between the former monopolist and new entrants due to lack of competitive neutral access to essential functions
  • Over time, local and regional transport authorities got control of the rolling stock supply and were authorised to apply for capacity
Effects of the railway reform

• Inter-regional rail transport PSC’s
  • Five years until a new entrant on the market – went out of business almost immediately
  • Incumbent lost some contracts, but regained some later
  • Lost in court in one case due to predatory pricing and exploiting dominating position on the market
  • Lack of competitive-neutral access to essential functions proved important here as well
Effects of the railway reform

- Inter-regional commercial passenger transport
  - No major effects so far as a result of the opening of competition in 2010
  - Öresundståg (ÖT) started traffic between Gothenburg and Malmö/Copenhagen in 2009. Competition with SJ. 50% increase in departures. Segmentation between SJ and ÖT (price, comfort, frequency). SJ cancelled all traffic on the line in April 2012 due to traffic being non-profitable
Effects of the railway reform

- Learning process for all stakeholders – operators, infrastructure manager, regulator, government
- The incumbent has learned to be a player on the market
- No direct signs of decreased safety over the years
- A more varied and increased supply (prices, quality)
- Increase in train- and passenger-kilometres by 50-60 percent between 1995 and 2010, mainly regional traffic
- No major new entrant on the passenger market (or on the freight market either)
Regulatory challenges

• Make sure that vital market information is produced and available for analysis
• Keep a long-term perspective on market monitoring
• Monitor monopoly power of infrastructure managers (c.f. capacity allocation principles and charges)
  • Recent signs of reduced service quality
  • Monitor the trade-off between supply increase and overall performance
• Monitor market dominance by former government-owned incumbents
• Monitor the potential barriers of entry and exit
What will happen?

- Entry and exit will take place
- It will be a slow process
- We will not have a herd of new entrants, but the presence of competition will encourage all parts to be efficient
- We, as a regulator, must work hard on the efficiency analysis
- Still some challenges ahead, but going back is not an option